



# **BRISTOL CITY COUNCIL**

## **AUDIT COMMITTEE**

### **ANNUAL REPORT 2017-18**

## 1. Introduction:

- 1.1 This is the annual report of the Audit Committee and covers the financial year 2017/18. The format of the report has been developed to enable the reader to form a view about the effectiveness of the Committee's activities during the year and its oversight of the Assurance and Risk Management Frameworks within which Bristol City Council operates.

## 2. Role of the Committee:

- 2.1 The Committee's approved Terms of Reference for 2017/18, which are detailed on the Bristol City Council website ( [Audit Committee Terms of Reference.pdf](#) ), can be summarised as providing independent assurance to the Council in relation to the:
- Effectiveness of the Council's governance arrangements, risk management framework and internal control environment;
  - Overseeing of the work of Internal and External Audit;
  - Effectiveness of the Council's financial and non-financial performance to the extent it affects exposure to risk and poor internal control;
  - Reviewing of the Annual Statement of Accounts and the Annual Governance Statement.
- 2.2 A commentary on the Committee's work during 2017/18 is set out in section 4 below.
- 2.3 The Audit Committee is the primary means by which Full Council obtains assurance that governance, risk management and control systems are in place and effective. It ensures that these are regularly reviewed and reflect regularity and propriety. The Audit Committee's responsibilities are additional and supportive to those of the Section 151 Officer.

## 3. Membership and Meetings of the Committee:

- 3.1 The Committee was chaired during 2017/18 by Councillor Jos Clarke. Up until December 2017, the Committee comprised of seven members - the Chair and Councillors Clive Stevens (Vice Chair), Liz Radford, Olly Mead, Barry Clarke, Steve Pearce and Azfal Shah.
- 3.2 In January 2018, the Committee were pleased to welcome two new independent members, Adebola Adebayo and Simon Cookson, to bring additional subject matter expertise in support of the Committee's work. The role of such members on the Committee is also to enhance the independence of the Committee and reinforce its political neutrality in the consideration of the governance, risk and control arrangements of the Council.
- 3.3 The Committee met formally on six occasions during 2017/18, with an additional extraordinary meeting held in May 2018 to consider relevant aspects of the Constitution prior to Full Council consideration in May 2018. All meetings were quorate.

Table 1- Audit Committee Attendance 2017/18:

Member	No. of Meetings Held	No. of Meetings Attended	% of Meetings Attended(sub)
Jos Clarke - Chair	7	7	100%
Clive Stevens – Vice Chair	7	6 (1 sub)	100%
Olly Mead	7	7	100%
Steve Pearce	7	6 (1 sub)	100%
Barry Clarke	7	4 (1 sub)	71%
Liz Radford	7	5 (1 sub)	86%
Azfal Shah	7	4	57%
Adebola Adebayo	3	2	67%

Simon Cookson	3	3	100%
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- 3.4 Only one declaration of a non-pecuniary interest was declared during the municipal year, and the relevant Committee member did not take part in the discussions appertaining to that interest at any of the relevant meetings.
- 3.5 In addition to the Committee Members, the Section 151 Officer, Interim Chief Internal Auditor, Head of Internal Audit, Monitoring Officer, representatives from External Audit (BDO LLP) and other officers, as appropriate, attended Committee meetings.
- 3.6 A total of forty six reports were considered during the year, the details of which are provided in Appendix 1. Additionally, at each meeting of the Committee, their work programme was reviewed for continued relevance and progress against actions required by the Committee were monitored.

#### 4. The Work and Activity of the Audit Committee in 2017/18:

- 4.1 The specific objectives of the Committee relate to overseeing the following arrangements. Papers received by the Committee to enable them to provide that oversight are recorded below:

*Table 1 - Audit Committee Key Oversight:*

Area	Papers Considered to Enable Oversight
Internal Control Environment	<ul style="list-style-type: none"> <li>Internal Audit Activity Reports. These were provided throughout the year and included enhanced summary information regarding individual audit reviews and details of the control environments.</li> <li>Internal Audit Annual Report, including annual opinion on governance, risk management and internal control.</li> <li>Local Government Ombudsman Report</li> </ul>
Corporate Risk Management	<ul style="list-style-type: none"> <li>Risk Management Policy Review.</li> <li>Corporate Risk Register Review – Progress Monitoring</li> <li>Corporate Risk Register.</li> </ul>
Regulatory Framework	<ul style="list-style-type: none"> <li>Code of Governance and Annual Governance Statement.</li> <li>Bundred Report Actions and Annual Governance Statement Tracker.</li> <li>External Auditor Appointment Process – Progress Reports.</li> <li>Constitution Updates</li> <li>Business Cases/Plans – Outside of formal meetings, members of the Committee have reviewed 'offline', the quality of business cases and plans put forward for decision making.</li> </ul>
Internal Audit	<ul style="list-style-type: none"> <li>Internal Audit Charter, Terms of Reference and Strategic Statement.</li> <li>Internal Audit Plan 2017/18. Amendments to the Plan.</li> <li>Internal Audit Activity and Performance Reports.</li> <li>Internal Audit Peer Review – Terms of Reference and Results.</li> <li>Internal Audit Quality Assurance and Improvement Programme.</li> </ul>
External Audit	<ul style="list-style-type: none"> <li>External Audit Planning and Update Reports</li> </ul>
Financial Reporting	<ul style="list-style-type: none"> <li>Annual Statement of Accounts – Draft and Final</li> <li>Unspent returned grants.</li> <li>External Audit ISA 260 Report.</li> <li>External Audit Grants Report.</li> </ul>
Treasury Management	<ul style="list-style-type: none"> <li>Treasury Management Annual Report</li> <li>Treasury Management Half Year Update Report</li> </ul>
Members Conduct	<ul style="list-style-type: none"> <li>DBS Check Requirement for Members</li> <li>Budget Dispensations</li> <li>Complaints about Councillors</li> </ul>
Anti-Fraud Arrangements	Internal Audit – Counter- fraud reports and Internal Audit Activity Reports. Whistleblowing Annual Review.

## **Key Messages from the work of the Committee:**

### Internal Control Environment:

- 4.2 The Committee received an Annual Report from Internal Audit, in line with best practice in the CIPFA Public Sector Internal Audit Standards (PSIAS) at the start of the municipal year. This drew attention to the continued reduction in the control environment for areas reviewed by Internal Audit. Additionally, of particular concern was that internal audit recommendations to improve control processes were not actioned in a timely way once agreed.
- 4.3 The Committee has continued to emphasise the importance of implementing Internal Audit's recommendations and has supported Internal Audit in its work to ensure control weaknesses are effectively dealt with. The Committee has received regular updates on the status of outstanding recommendations, and where appropriate has requested further information from the relevant responsible officers.
- 4.4 Internal Audit activity reports received by the Committee throughout the year continue to identify areas where control environment improvement is identified upon audit, however the Committee has received assurance that the rate of recommendation implementation has considerably improved as the year has progressed.

### Corporate Risk Management:

- 4.5 The Committee oversaw revision to the Council's Risk Management Policy and reviewed the Corporate Risk Register only once during the year as 'refresh' work was being undertaken to the register. Committee members remain concerned regarding scrutiny of Directorate Risk Registers to ensure this element of strategic risk management arrangements is effective.
- 4.6 This is being kept under review by officers and a dedicated resource to assist with embedding risk management across the Council has now been sourced which should improve assurances the Committee are able to give in respect of risk management arrangements going forward.

### Regulatory Framework/Financial Reporting:

- 4.7 The final Annual Governance Statement (AGS) and the final Statement of Accounts for 2016/17 were considered prior to their production, in addition to considering the related External Auditor's reports. The AGS identified significant governance issues, as did an external governance review report.
- 4.8 The Committee has been pleased to receive updates on the progress of the Governance improvement action plan, which incorporated both the recommendations from the external governance review, and the proposed actions to address the significant issues as identified in the 2016/17 AGS, at each of its meetings, requesting further insight into the application of the mitigations that have been recorded as implemented. Monitoring of improvement actions will need to continue into 2018/19.
- 4.9 In their Annual Report for 2016/17, the external auditors issued an unmodified true and fair opinion on the financial statements. It also made an adverse conclusion on the Council's arrangements in place for securing economy, effectiveness and efficiency in its use of resources.

#### Audit Arrangements:

- 4.10 The Committee received regular reports from both the internal and external auditors to enable them to monitor performance and effectiveness of the Council's audit arrangements.
- 4.11 In respect of Internal Audit, the Committee received assurance from an external peer review that the Internal Audit team generally conforms to professional standards. Some improvement actions were recommended and the Committee continues to monitor implementation of those.
- 4.12 An Interim Chief Internal Auditor joined the team at the start of the year to provide increased strategic support to the s 151 Officer at a time when many high profile and complex reviews were required by senior management.
- 4.13 The Audit Committee wish to highlight to the Council the importance of the work undertaken by the Internal Audit team and express concern that the team requires sufficient resources at all times. Noting that the team have coped with many vacancies during 2017/18, at the November meeting the Audit Committee approved amendments to the Internal Audit plan, reducing coverage, to reflect both reduced resources and additional work required of the team.
- 4.14 The Audit Committee have also monitored external audit provision by way of update reports from the external auditor and updates from officers concerning appointment of new external auditors once the current arrangement expires.

#### Counter Fraud Arrangements:

- 4.15 The Committee received regular updates on the counter-fraud work undertaken by Internal Audit and noted the continued good results concerning proactive fraud identification work. An assessment against CIPFA's best practice framework for counter fraud arrangements has provided assurance that many aspects of best practice are in place at the Council. Some improvements could be made and an improvement plan has drafted to address these areas. The Committee will monitor improvement progress.

#### Summary:

- 4.16 In summary, the Committee has generally met its existing terms of reference in this municipal year. It was, however, determined that the terms of reference need to be more robust going forward to support enhanced effectiveness of the Committee. As such, more comprehensive terms of reference have been drafted which were agreed by the Committee in May 2018 and which are to be considered by Full Council in 2018.
- 4.17 In order for the Committee to be effective, its members must remain apolitical and objective. To enhance arrangements, two new independent members were appointed to the Committee and attended their first meeting in January 2018. The Committee continues to strive to maintain an apolitical forum, both during its meeting and when speaking on the Committee's behalf outside of the meetings.
- 4.18 The Committee has been presented with a wide range of issues during the year, adding value by providing scrutiny of the governance within the Council. Outlined below are examples of where the Committee has contributed to improved governance of the Council:
- Implementation of improvement recommendations. Following receipt of updates from Internal Audit on the level of implementation of their recommendations, the Committee as well as

expressing dissatisfaction has, where appropriate, called officers to meetings to explain progress towards implementation of recommendations. Examples include receiving updates in relation to GDPR implementation.

- The Committee has received updates on the progress of actions resulting from both the AGS in 2016/17 and the governance review carried out in the same year, considering reports at every meeting.
- The Committee has required officers to review controls around monitoring grant expenditure to avoid the need for repayment of grants going forward.

## **5. Training and Develop Activity to Support the Committee.**

5.1 A key requirement of an effective Audit Committee is a well-informed membership who has substantial experience of the key areas to be considered by the Committee. The training plan for 2017/18 was aimed at assisting members to improve their knowledge and understanding of some of the complex issues they consider. A training/workshop session was provided for Committee members prior to each Committee meeting throughout the year as follows:

- June 2017 Local Authority Accounts, Corporate Governance and Internal Control
- July 2017 Improving Audit Committee Effectiveness
- September 2017 Risk Management
- November 2017 The differing roles of Internal and External Audit
- January 2018 Commissioning Framework Governance
- March 2018 Audit Committee Effectiveness Workshop

5.2 The Committee has considered its effectiveness in 2017/18 against the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on Audit Committees' 'Good Practice' checklist to ensure it operated in line with generally accepted practices. The results from the assessment will be used to inform the Committee's training strategy going forward as well as its work programme. A copy of the checklist is attached to this report for information at Appendix 2.

5.3 Each member of the Committee was asked to complete the good practice checklist. An average of the scores (from 1 to 5) was taken which is detailed in Appendix 2. Overall the assessment scores average 2.75 out of 5 for the returns received which indicates a mixed experience of reporting improvement.

5.4 Whilst Committee members considered that the Committee made a strong contribution to counter-fraud arrangements and development of effective control environments, other areas require further development/attention to assist the Committee becoming more effective going forward. Key areas identified from the self- assessment and how these gaps will be filled are included in the next section of the report – Priorities for 2018/19.

5.5 The Council has an established budget for Member development and training in 2018/19 and this can be accessed to support external trainers or facilitators, or to fund members' attendance on external training programmes where this is considered beneficial.

## **6. Priorities for 2018/19**

- 6.1 Looking forward, the Committee will strive to enhance the assurances it can provide by:
- Reviewing its work programme in line with the Committee's new and more robust terms of reference going forward.
  - Supporting the new independent members to enhance challenge and objectivity of the assurances the Committee can provide.
  - Improving meeting planning and agenda management and considering the need for clearer reporting of the outcomes of Audit Committee work.
  - Continuing a programme of training at each meeting which can be offered to other Members.
  - Reviewing and improving the assurances received regarding the effectiveness of risk management arrangements.
  - Supporting and reviewing progress being made to address the areas of concern identified in section 4 of this report.
  - Understanding the Committee's role in reviewing governance arrangements where the Council works in partnerships.
  - Supporting the mapping of assurances with a view to streamlining assurance reporting when appropriate.
  - Understanding the assurance arrangements in place for major projects and programmes and performance management generally.

## **7. CONCLUSION**

- 7.1 The Committee's primary contribution to the Council's objectives is to ensure that Governance, Control, Risk Management and Audit systems which underpin the work of the Council are sound, reliable, robust and secure.
- 7.2 This review gives an overview of the range of work undertaken by the Committee, which has enabled it to conclude that the Council's system of checks and balances are not consistently as robust as required and further improvements are planned going forward.
- 7.3 A review of Committee effectiveness against its terms of reference, taking into consideration the proposed revised terms of reference and the skills required to meet new requirements; opportunities to enhance the effectiveness of the Committee have been identified for implementation in 2018/19. The Committee recognises that the challenges facing the Council are ongoing and as such aims to continue to promote and support good governance throughout the Council.
- 7.4 I would like to thank my fellow Committee members and Officers for their support in enabling the Committee to achieve its objectives in 2017/18.

## **Appendices:**

- Appendix 1 – Reports considered by the Audit Committee in 2017/18
- Appendix 2 - CIPFA 'Good Practice' Self -Assessment Checklist for Audit Committees.