

Bristol City Council

Minutes of the Audit Committee

18 September 2018 at 2.00 pm



Present:

Councillors: Olly Mead, Anthony Negus, Liz Radford, Afzal Shah, Clive Stevens, Paul Goggin, Jo Sergeant

Independent members: Adebola Adebayo and Simon Cookson

Officers in attendance:

Simon Oliver, Director – Digital Transformation

Ian Gale, ICT Service Manager

Denise Murray, Director – Finance

Jonathan Idle, Interim Chief Internal Auditor

Alison Mullis & Melanie Henchy-McCarthy, Head of Internal Audit (job share)

Chris Holme, Head of Corporate Finance

Tony Whitlock, Finance Manager

Jon Clayton, Principal Accountant, Corporate Finance

Gareth Spencer, Interim Head of Procurement

Ian Hird, Democratic Services

Also in attendance:

Jon Roberts, Engagement Lead, Grant Thornton (external auditor)

Jackson Murray, Engagement Manager, Grant Thornton (external auditor)

1. Apologies and safety information

Apologies were received from Cllrs Brain and Pearce (it was noted that Cllr Sergeant was substituting for Cllr Pearce and Cllr Goggin was substituting for Cllr Brain).

The Chair welcomed everyone to the meeting. He also reminded those present of the safety information as detailed on the agenda.



2. Declarations of interest

None.

3. Exclusion of Press and Public

RESOLVED:

That under section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting in respect of the committee's consideration of the next item of business (item 4 on the agenda) on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of schedule 12A to the Act.

4. IT corporate risks

The committee considered an exempt report from the Director - Digital Transformation providing an update on IT corporate risks and work underway to further improve IT infrastructure and security.

In discussion the following main points were raised/noted/clarified:

- a. In response to questions relating to Corporate Risk CRR 2 (IT infrastructure) and CRR 7 (Cyber-attack threats and implications), the Director - Digital Transformation outlined details of robust actions being taken forward to mitigate these risks as part of the Future State Assessment (FSA), following the approval of the FSA capital bid by the Cabinet on 3 July 2018.
- b. It was suggested that it would be useful to carefully track and assess the degree to which these corporate risks reduce as the FSA progresses through implementation.

RESOLVED –

That the update report and the above information be noted.

Note:

At this point in the meeting, the meeting was opened for public attendance/observance.

At the invitation of the Chair, attendees then introduced themselves.

Jon Roberts and Jackson Murray (from Grant Thornton, the Council's new external auditor) were welcomed to the meeting.

On behalf of the committee, the Chair thanked Ian Hird (Democratic Services, who would shortly be leaving the authority) for his work for the Council and in relation to this committee.



5. Minutes of previous meetings

a. Minutes - Audit Committee – 26 July 2018

RESOLVED:

That the minutes of the meeting of the Audit Committee held on 26 July 2018 be confirmed as a correct record.

b. Minutes - Extraordinary Audit Committee – 31 July 2018

Cllr Negus suggested that the minutes of this meeting should be amended to include the following two additional points:

- i. The committee had noted at the 26 July meeting that BDO personnel had been changed during the year. When questioned, BDO had denied that this had impacted on their ability to meet the deadline for signing off the accounts.
- ii. The committee had noted that a compromise agreement had been referred to by the external auditors in relation to the former Chief Executive at the 26 July and 31 July meetings.

The suggestion was discussed and the second point was not unanimously agreed. The meeting agreed that BDO would be contacted to check inclusion of an additional point to be included in the minutes about the discussion that had taken place in relation to the former CX's employment contract This was done and the minutes have been updated as follows:

“Cllr Stevens had sought clarification about the external auditor view of the ‘compromise agreement’ reached by the Council with the former Chief Executive. The external auditor clarified that there is no compromise agreement and that information was awaited in relation to BCC’s interpretation of the former Chief Executive’s employment contract, specifically in relation to the issue of ‘payment in lieu of notice’.”

Subject to the above additions, it was

RESOLVED:

That the minutes of the extraordinary meeting of the Audit Committee held on 31 July 2018 be confirmed as a correct record.

6. Action sheet

The action sheet (tracking actions agreed at the 26 July meeting of the committee) was noted.

7. Declarations of interest



None.

8. Work programme

The latest update of the work programme was noted.

It was noted that Grant Thornton would also be circulating (later at this meeting) a briefing document setting out the high level outline of their approach to delivering their responsibilities as the Council's external auditor moving forwards, together with an outline reporting timeline.

9. Governance tracking report - AGS tracker 2016-17 and 2017-18

The Director – Finance presented the report, highlighting the following:

- a. In relation to the implementation of actions required from the Bundred review:
 - 75 actions (88%) were now ranked Green (completed and evidenced).
 - 10 actions (12%) were now ranked Amber (in progress with evidence) – further narrative was included in the report on the progress of Amber ranked actions.
 - There were no actions ranked Red (not started/started but not evidenced).
- b. In relation to implementation of actions required from the 2016-17 Annual Governance Statement (AGS):
 - 15 actions (68%) were now ranked Green (completed and evidenced).
 - 7 actions (32%) were now ranked Amber (in progress with evidence).
 - There were no actions ranked Red (not started/started but not evidenced).
- c. Appendix C set out 12 draft areas of improvement identified from the 2017-18 AGS. These remained draft until such time as they were formally endorsed by BDO, the Council's external auditor. A proposed action plan had been prepared in anticipation that these areas of improvement would be confirmed.

In discussion the following main points were raised/noted/clarified:

- a. In relation to performance management of staff (action 12 of appendix C), the My Performance reporting system had been updated for 2018-19 and re-launched in June. A specific corporate project was also underway to reassess the whole approach to performance management at all levels of the organisation. The performance management data / arrangements would also be subject to member scrutiny.
- b. Although not directly related to this progress report, Cllr Negus referred to the ongoing situation where only the statutory minimum notice (i.e. 28 calendar days) was routinely being given via the



Mayor's forward plan of key decisions to be taken at Cabinet. In his view, this this was a major concern in terms of the governance of the authority as it effectively removed any opportunity for pre-decision member scrutiny. In discussion, it was noted that the Forward Plan is kept under review and published monthly. Any changes about the timing of the notification of "key decisions" via the forward plan were essentially Mayoral decisions. The Chair suggested that individual political groups may wish to consider making representations to the Mayor's office on this issue.

- c. It was noted that each of the directorate-focused scrutiny commissions would be receiving regular progress updates on directorate risk registers and performance.
- d. It was noted that Cllr Stevens would discuss separately with officers a number of specific queries.
- e. It was noted that a number of current Amber ranked actions in relation to finance were being addressed through the restructuring of the Council's finance section and the finance improvement plan.
- f. It was noted that a column had been omitted from the detailed tracker making it difficult to reconcile the summary and the detailed schedule. It was agreed that this would be rectified and the report re-circulated with the minutes.

Noting and taking account of the above, it was:

RESOLVED:

That the committee notes the progress made to date against the AGS action plan for 2016-17 and the new, draft proposed action plan for 2017-18 (which is subject to final approval of the 2017-18 Statement of Accounts and AGS by the external auditor).

10. Internal Audit activity report

The committee considered the latest Internal Audit activity report.

Overview:

The Interim Chief Internal Auditor presented the report, highlighting the following key points:

- a. In terms of the Audit Plan, 27% of planned reviews had commenced, with 12% at draft or final report stage.
- b. The Audit team's pro-active fraud work continued to identify a good level of recoverable savings and a number of successes in relation to council tenancies.
- c. 11 grants/certifications with a total value of £10m had been certified to date.



- d. For the 9 concluded follow-up audits in this period, 83% of recommendations were either fully or partially implemented.
- e. Internal Audit resources (see later section of this minute).

Completed summaries:

The Interim Chief Internal Auditor then updated the committee in relation to the summaries of 8 completed audits (reference numbers quoted below relate to those used in the report):

A – CORPORATE

A1 – Executive officer decision making:

After completion of fieldwork, a limited assurance audit opinion was assigned. 6 recommendations for improvement had been agreed for implementation, including clarification of where responsibility lay for the publication of decisions.

A2 – Corporate and IT business continuity planning - follow-up:

The follow-up review had identified that of 8 recommendations from the original review, 4 key areas had not been implemented. Timescales for the implementation of outstanding recommendations were now agreed, including critical systems checks.

A3 – Contract waivers to procurement regulations – follow up:

The follow-up review had identified that whilst most recommendations from the original review had been implemented, there were still some practice issues to be addressed and the number of contract waivers was still too high. Timescales for the implementation of outstanding recommendations were now agreed and would be subject to a further follow-up review in the last quarter of 2018-19.

In discussion, an update was given on the work taking place to register all contracts, including mapping the timescales for contract renewal. It was recognised that despite an improved position, there was a need to instigate a more fundamental “culture change” across the Council in relation to procurement, so that properly planned processes were routinely in place and then followed.

B – ADULTS, CHILDREN AND EDUCATION

B1 – Foster care payments – follow up:

The follow-up review had identified that none of the recommendations from the original review had been fully implemented. Timescales for the implementation of the recommendations were now agreed and would be subject to a further follow-up review in the last quarter of 2018-19.

Whilst noting that the scope of / issues raised by this review were specifically around the payment process, Cllr Negus suggested that the authority needed to be very mindful of the need to recruit more foster parents, not only because this was in the best interests of vulnerable children but because this was



also the best option for the Council in terms of cost effectiveness. Cllr Negus questioned why the report did not refer to this. The Interim Chief Internal Auditor commented that audit subject areas must have parameters to their scope and this review relating to foster care concentrated on the payment process rather than recruitment of foster carers.

C - COMMUNITIES

C1 – Planned maintenance:

After completion of fieldwork, a reasonable assurance audit opinion was assigned, identifying a number of areas of compliance/good practice as well as 12 recommendations for improvement. These recommendations had been agreed for implementation within appropriate timescales.

D – GROWTH AND REGENERATION

D1 – Car parking income:

After completion of fieldwork, a reasonable assurance audit opinion was assigned. One of the particular issues identified had been “out of date” tariffs resulting in income loss. 11 recommendations had been agreed for implementation within appropriate timescales.

In discussion, members noted the ongoing need to ensure rigorous internal control arrangements around cash collection from pay stations.

D2 – Sale and disposal of assets – follow up:

This follow-up review had identified that of 13 recommendations from the original review, 8 had been fully implemented, with 5 further actions in progress. Timescales for the implementation of these recommendations were now agreed and would be subject to a further follow-up review in the last quarter of 2018-19.

E – RESOURCES

E1 Mobile devices – follow up

The follow-up review had been completed at a time when the ICT Future State Assessment had been undertaken; 6 of the original recommendations had been superseded by the ICT improvement plans. Timescales for the implementation of remaining recommendations were now agreed and would be subject to a further follow-up review in the last quarter of 2018-19.

In discussion, Cllr Radford advised that recently, a newly elected councillor had evidently received no training / guidance on the use of Council IT and around information security / GDPR and had only become aware of this through discussion with other councillors. It was noted that this matter would be drawn to the attention of the Council’s Senior Information Risk Officer / statutory data protection officer.

Internal Audit resources:



As identified in the report, the Interim Chief Internal Auditor drew the committee's attention to the current resource position in relation to the Internal Audit team, relating to short and medium term factors, highlighting the following:

- a. The service continued to carry vacancies, and was currently holding vacancies for the equivalent of 4 posts. Over the last year, the service had had to utilise temporary appointments to try to bridge this gap.
- b. Current market conditions are challenging for the recruitment of suitably qualified and experienced audit staff (an issue faced also by neighbouring local authorities).
- c. A proposed skills review of the Internal Audit and Counter Fraud service was dependent on wider Council resource considerations. Consequently, assurance could not be given, with the current level of resource, that the service would have sufficient skill sets or the capacity to deliver the required added value on the very wide range of assurance, governance and counter-fraud matters it is engaged with and to meet the expectations of the service's stakeholders moving forwards.
- d. It was very important to note the context whereby (in comparison with the cost of the Internal Audit and Counter Fraud service), Counter Fraud activity alone had achieved £4.3m of notional and recoverable savings for the authority in 2017-18.

In discussion, members noted the Internal Audit resource position with concern, noting that the allocation of any further resource to the team was a corporate issue for the Council.

It was noted also that measures were being put in place, as part of the finance team restructure, to develop improved training and support packages for individual employees who demonstrated the potential to develop their skill sets, as part of the process of ensuring that all services had the right and appropriate level of officer capability and skills, to encourage the retention of well trained staff and to reduce spend on recruiting temporary external staff. This "right sizing" approach was fundamental to the current review.

In discussion, members suggested that consideration be given to launching a further Internal Audit recruitment campaign this autumn; consideration could perhaps also be given to recruiting graduate trainees, including suitable graduate candidates from the local universities. It was noted that Simon Cookson would share (with the Interim Chief Internal Auditor) details of the recruitment initiatives taken by the NHS Wales audit service.

It was queried whether, given the resource position, there was any risk to the internal audit service being able to provide an overall opinion, at year end, on the overall adequacy and effectiveness of the organisation's governance, risk and control framework. It was noted that this potential risk would be assessed and an update on the assurance level able to be offered by the Internal Audit team in light of the resource situation would be submitted to the next meeting.



Noting and taking the above into account, it was

RESOLVED:

1. That the report and the above information be noted.

2. That an update on the assurance level able to be offered by the Internal Audit team in light of the resource situation be submitted to the next meeting, including an assessment of any potential risk to the team's ability to provide an overall opinion at year end on the overall adequacy and effectiveness of the organisation's governance, risk and control framework.

11. Peer review implementation update

The committee considered a report providing an update on the implementation of the recommendations from the Peer Review.

It was noted that 43% of the recommendations were completed to date, with 46% of actions advanced and in progress, and that it was anticipated that 95% implementation would be achieved by the end of November.

RESOLVED –

That the progress report on the implementation of the recommendations from the Peer Review be noted.

12. Treasury Management annual report 2017-18

The committee considered the Treasury Management annual report 2017-18.

The Head of Corporate Finance presented the report, highlighting the following:

- a. The 2017-22 treasury strategy identified a medium term borrowing requirement of £450m to support the existing and future capital programme. The Council's policy was to defer borrowing while it had significant levels of cash balances (which stood at £64m at March 2018).
- b. The Council's long term debt at 31 March 2018 was £431m with an average annual interest rate of 4.68%
- c. Investments were £64m at 31 March 2018 with an average annual interest rate of 0.44%

RESOLVED:

That the Treasury Management annual report 2017-18 be noted.

13. Updated draft Statement of Accounts 2017-18



The committee was asked to note the update report of the Director - Finance on the draft, unaudited Statement of Accounts 2017-18 (which still remained work in progress but reflected the latest position).

In terms of the issues that BDO had identified in their update report as submitted to the Extraordinary Audit Committee on 31 July 2018, the latest position was as follows:

- Clearance of outstanding issues on the audit queries tracker such as fees and charges had been addressed/completed.
- The issue raised around pension liability assumptions was ongoing; BDO need to speak directly to the actuary.
- Valuation of property – this was an ongoing item – BDO would be including a note to the accounts to take account of the impact of the Cabinet decision on the arena.
- NNDR appeals – this issue had been addressed/completed.
- Clarifications in respect of the exit package for the former Chief Executive – ongoing but it was understood that BDO would be concluding this aspect in the very near future.
- Use of Resources – ongoing but linked to above.

The Director - Finance advised that given the current position, in her view, it was highly unlikely that BDO would sign off the accounts by 30 September 2018. The committee would be kept informed of the position and an Extraordinary meeting of the committee would be arranged as necessary. The committee expressed strongly their disappointment of not achieving the deadline and considered that it was wholly unacceptable to be at this late stage without an indication of a date by which the external audit of the accounts would be concluded.

RESOLVED –

That the update be noted.

Grant Thornton – outline briefing from the Council’s new external auditor:

At this point in the meeting, Jon Roberts, Engagement Lead, Grant Thornton circulated and outlined a briefing document setting out the high level outline of their approach to delivering their responsibilities as the Council’s external auditor moving forwards, together with an outline reporting timeline, in respect of which amendments to the committee’s work programme would be required.

Meeting ended at 4.35 pm

CHAIR _____

