

From: Chair of the Audit and Risk Committee

To: Shareholder Representative – Cllr Cheney

Chair of Bristol City Council’s Audit Committee – Cllr Olly Mead

BCC Chief Internal Auditor

Period

1st April 2018 – 31st March 2019

Members:

Independent Non-Executive member – Alex Wiseman (Chairman)

Council Appointed Non-Executive members – Steve Pearce

Supported by

Member/Role	May 18	Sept18	Dec18	Mar 19
Independent Director	√	√	√	√
Independent Director	√	√	√	√
Councillor Appointed Director		√	√	√
In Attendance				
Managing Director	√	√		
Finance Director	√			
Trading and Commercial Director	√	√	√	√
Head of Regulation	In part	In part	In part	In part
Strategic Programme Director	In part	√	√	√
Head of internal Audit, BCC	√		√	
Interim Managing Director		√	√	√
Head of Finance			√	√
Information Security Manager				In part
Shareholder Representative	√	√	√	√
Chief Information Officer		√	√	

Meeting dates

23rd May 2018 – Completed meeting notes and action logs available on request.

26th September 2018 – Completed meeting notes and action logs available on request.

19th December 2018 – Completed meeting notes and action logs available on request.

27th March 2019 – Completed meeting notes and action logs available on request.

25th June 2019

25th September 2019

18th December 2019

Programme of activity

- Our programme of audit activities for 2018/19 and 2019/20 are attached for your reference
- Meeting notes and action logs are available for review upon request

Finance Review

- We have regular financial reviews in-line with the BE programme of activities as noted above.
- Our 2019 annual financial audit began on the 29th April and a report and action log will be published following this audit review.
- Implementation of actions will follow accordingly.

Risk Management

- BE can confirm that its Risk Register is completed and up-to-date. This is regularly reviewed in-line with the programme of activities.
- Risk Management issues are also regularly reviewed at Board meetings and reported in the minutes and action logs accordingly.
- Key business risks are reviewed at every ARC meeting and logged accordingly.

Actions – across the portfolio

- BE confirms that the company audit and risk logs are appropriately managed at multiple levels, attachment 4.

Whistle blowing policy

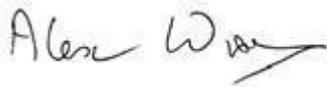
- BE has had a whistleblowing policy in place since March 2017, this is due for review by the Board in May 2019. This enables a clear pathway for communication and escalation of events. In addition, it provides direction for addressing and resolving any event in a timely and effective manner.
- The policy is available upon request.

BE have established a clear framework for the audit and risk committee and its robust governance. We regularly invite both internal and external specialist auditors across a number of the business functions, providing us with independent and impartial information, advice and guidance (IAG).

Our resulting actions plans are “live” and progressively managed at all levels.

As Chairman of the BE audit committee, I believe that our plans represent a clear statement of commitment and, on behalf of BE, I would like to assure our Shareholder of our continued commitment to a robust business audit process and actionable plans.

Yours sincerely

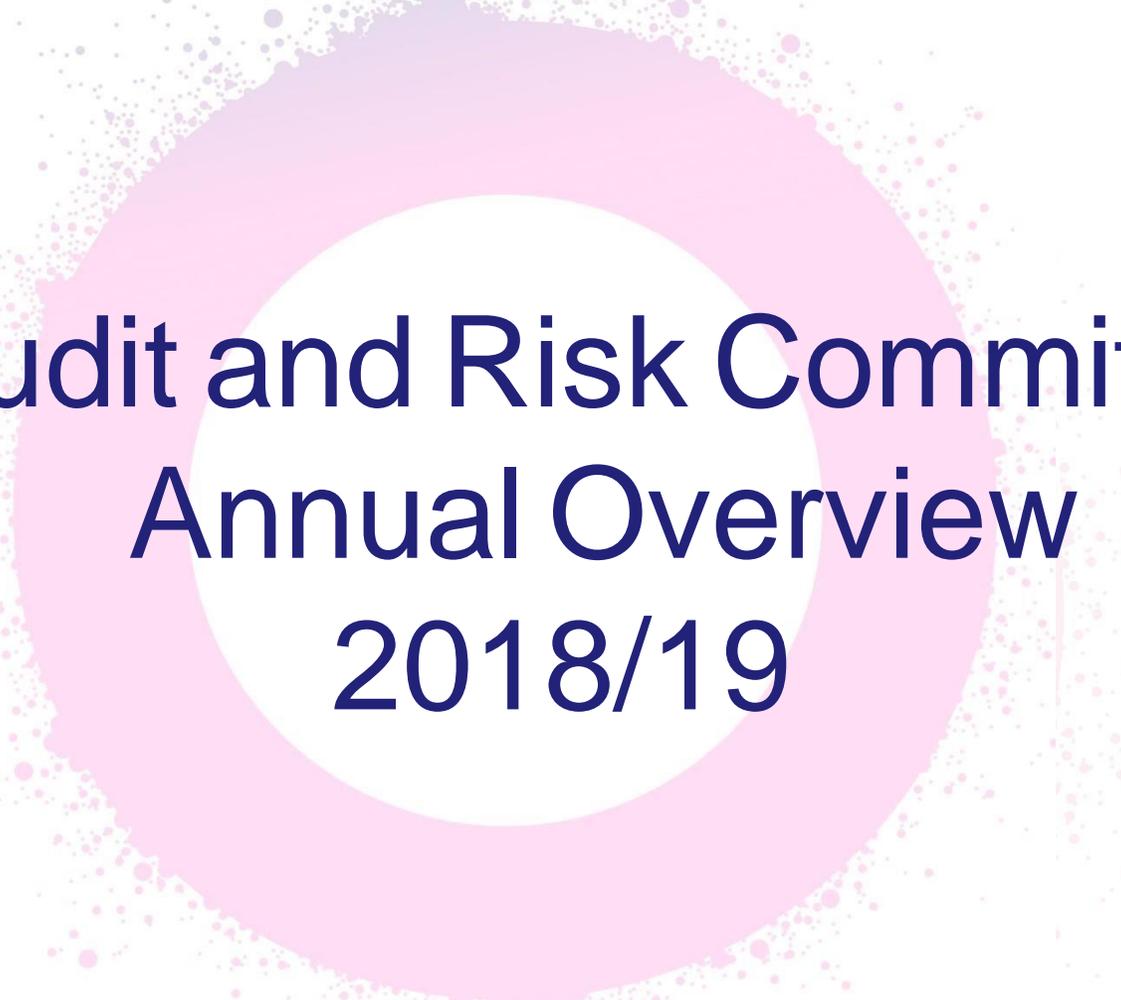


Alex Wiseman

Chair of the Audit and Risk Committee

ATTACHMENTS

1. Internal Audit proposal 2018/19
2. Internal Audit proposal 2018/19
3. Paper 003 from April BE Board, Annual ARC report.
4. Corporate Governance and Risk Management at BE



Audit and Risk Committee Annual Overview 2018/19

Audit and Risk Committee–Membership and Attendance

role	May 18	Sept 18	Dec 18	Mar 19
Independent Director	✓	✓	✓	✓
Independent Director	✓	✓	✓	✓
Councillor Appointed Director		✓	✓	✓
Managing Director	✓	✓		
Finance Director	✓			
Trading and Commercial Director	✓	✓	✓	✓
Head of Regulation	In part	In part	In part	In part
Strategic Programme Director	In part	✓	✓	✓
Head of internal Audit, BCC	✓		✓	
Interim Managing Director		✓	✓	✓
Head of Finance			✓	✓
Information Security Manager				In part
Shareholder Representative	✓	✓	✓	✓
Chief Information Officer		✓	✓	

Areas of Business

Risk Management

- Update provided at each meeting during 18/19
- May 2018 – Enterprise Risk Register review following substantive review by Executive Team and Board, including risk appetite definitions and calibration
- September 2018 – Enterprise Risk Register review – including review of ranges/values for risk impact/probability
- December 2018 Enterprise Risk Management Framework review – structure and reporting
- March 2019 – Enterprise Risk Register review – following substantive review of risks by Senior Leadership Team

Regulation and Compliance

- A full regulatory and compliance report was considered and discussed at each meeting

Trading

- Substantive review of Trading Strategy and Policy in the May 2018 ARC covering:
 - Wholesale trading strategy
 - Customer renewal/loss forecasting
 - Trading software implementation
 - Pricing cost forecast governance
 - Trading audit
- Subsequent review and updates to authorities during the course of the year

Whistleblowing

- Policy last reviewed 29/03/2017
- Annual review of incidents at ARC in September 2018 - no whistleblowing incidents reported in 2018/19.

Year End Financial Reporting

- Year End Financial Reporting was reviewed at the May 2018 ARC, with a focus on Key judgements and issues, Review of statutory accounts, Going concern and Auditor reappointment; process independence
- External audit findings were also presented in May 2018 by PWC covering, Status and feedback on audit, Key judgements and observations and Confirmation of independence

Other Policy Reviews

- Additionally, the Conflict of Interest policy was considered and discussed at the September 2018 ARC

IT/Cyber Security

- Following appointment of interim CIO in August 2018, IT/Cyber Security was discussed at the September ARC
- Report presented on the outcome of the CIO audit at the March 19 ARC

Internal Audit

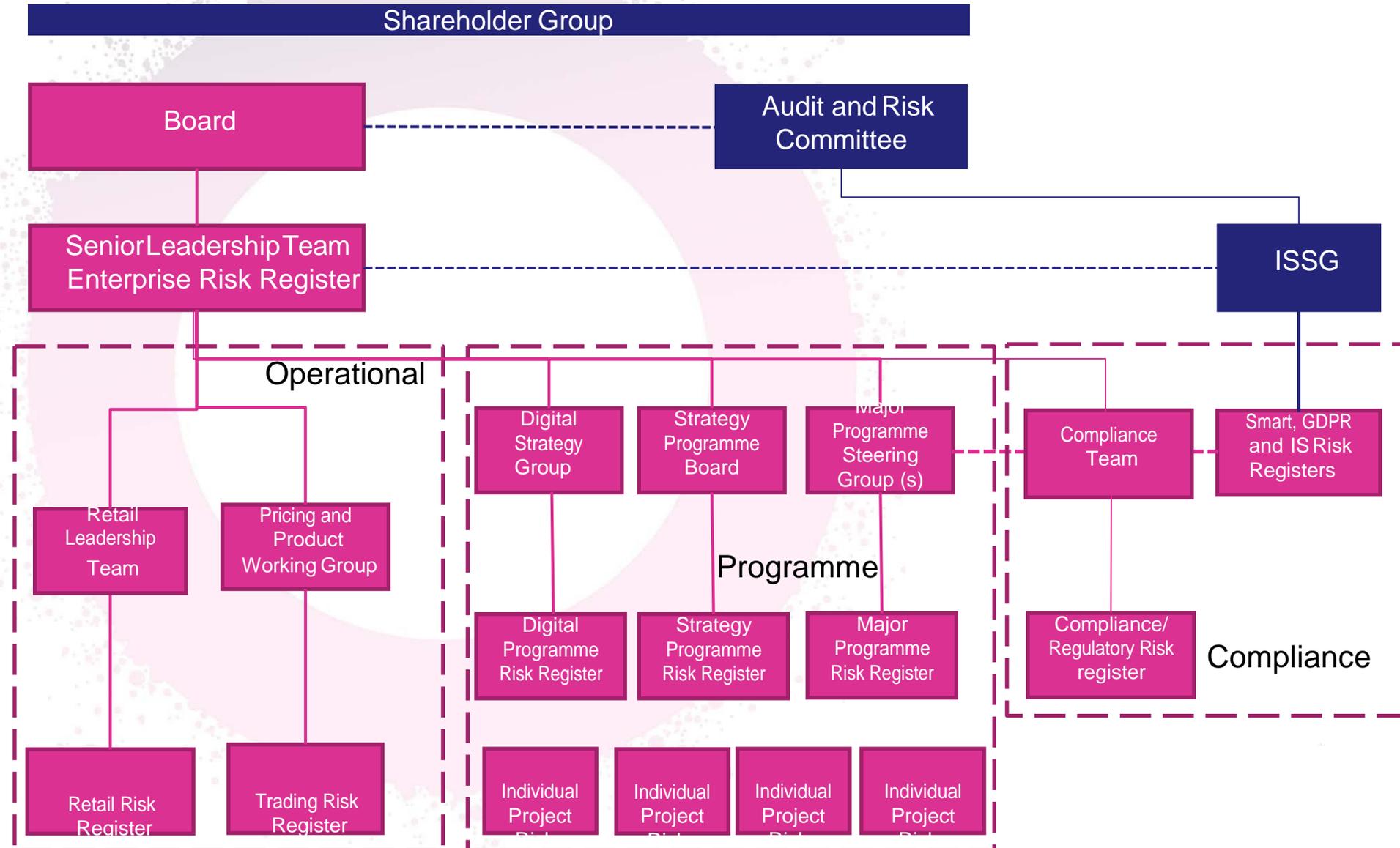
- May 2018 – Internal Audit plan proposed by BCC with seven areas of coverage
- Focus agreed on two key areas for 2018/19 based on risk/value. Progress on these was reported in September 2018, with final reports at ARC in December 2018.
- 2019/20 Internal Audit Plan signed of in December 2018 – combination of BCC and BE internal audit activity, carrying forward some of the remaining areas of the 18/19 plan with some amendments to reflect the current position of the business and capacity to support internal audit.
- Other notable audit activity in the year included the external CIO audit. This was the security assessment required in order for BE to use the DCC - the secure national infrastructure that underpins the roll-out of smart meters across Great Britain. This was successfully completed in November 2018 and reported at ARC in March 2019.

No.	Audit Area	Potential Coverage	Timing	Outcome	Undertaken By
1	Financial Delegations and Approvals	<p>To review whether creditor and contractual payments are made in accordance with the company's agreed financial delegations and approvals with the scope including the following areas:</p> <ul style="list-style-type: none"> • Roles and responsibilities for account payable processes • Purchase order, invoice receipt and authorisation processes • Invoice payment process • New supplier setting. 	COMPLETED Sep - Dec 2018	PASSED	BCC
2	HR Processes and Procedures	<p>Evaluate the adequacy of processes to address the key HR system risks in respect of the following processes:</p> <ul style="list-style-type: none"> • Starters • Leavers • Annual Leave and Sickness Recording 	COMPLETED Sep - Dec 2018	PASSED	BCC

Corporate Governance and Risk Management Structure

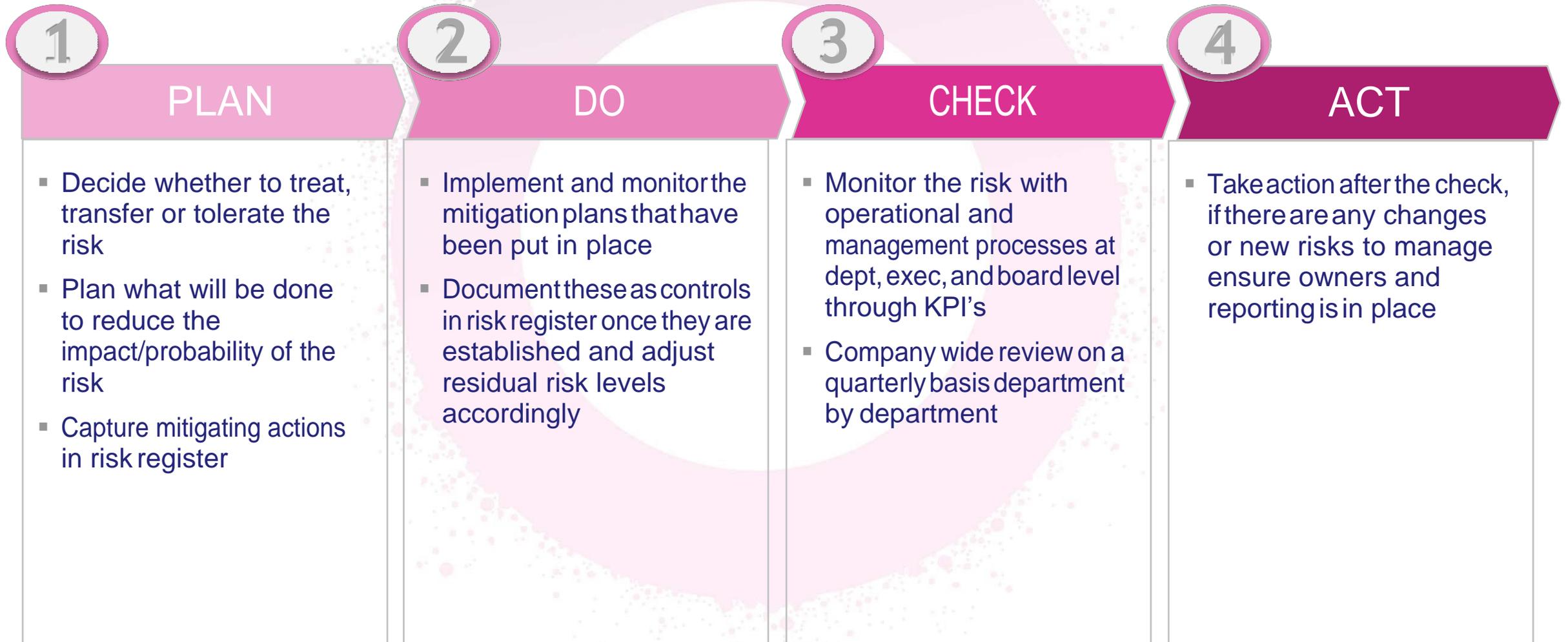
Features

- SLT Ownership of Enterprise risk register and regular reporting to Board and Audit and Risk Committee
- Clear risk definitions, risk appetite review annually at Board level, accountabilities and routes of escalation within a Corporate Risk Management Framework
- Specific focus on Information Security, Smart CIO risk and business continuity planning, Trading Risk, Retail operational risk and compliance/regulatory risk.
- Project and programme specific risk registers owned by project and programme sponsors and scrutinised by Programme Board Steering Groups



Summary of Risk Management Process

Cyclical Process and review



Title:	Consideration of Internal Audit
Date:	15 February 2018
Purpose:	For Consideration
Summary:	To consider a scope for Internal Audit for 2018/19

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1 Overview

- 1.1 Bristol Energy has now been in operation for 2 years, and is nearing completion of its second full year of trading. It is anticipated that revenues will be approximately £51m in the current year and will continue to grow.
- 1.2 As the company has grown, controls and procedures have been put in place and strengthened to create a control environment across the organisation. However, given the complexity and risk associated with the energy industry, the volume of customer data and interaction, as well as the rapid growth of the organisation, consideration has been given to the introduction of an internal audit function, to help challenge and improve the processes and controls in place.
- 1.3 The memorandum below sets out the proposal for the overall structure and approach, as well as initial options with regard to potential scope for the 2018/19 financial year.

2 High level approach

- 2.1 Given the relatively small scale of the company, consideration was given as to the most appropriate model to adopt for Internal audit.
- 2.2 Options could include:
- 2.2.1 Develop internal capability – as a small scale organisation, developing an in-house function is unlikely to be cost effective, particularly given the specific challenges of the processes and systems in place.
- 2.2.2 Outsource capability to third party – this would allow capability to be sourced from a third party with appropriate knowledge, skills and experience, without

the need to recruit staff on a permanent basis in-house. However, there may remain challenges in identifying a value for money capability that also carries energy industry expertise.

- 2.2.3 Outsource capability to Bristol City Council internal audit function—this is likely to be a cost effective model, and utilises shareholder resource that is already available and would understand the objectives and targets of the shareholder. However, energy sector experience would not be available through their resource; specialist knowledge of IT auditing and broad functional experience (Finance, HR, operational/contact centre, etc) is available within their capability.
- 2.2.4 Hybrid model – utilising third party specialist knowledge, coupled with shareholder internal audit function; this could utilise specific experts in particular areas (trading, settlements, energy processes, etc) for specific risk areas, whilst also harnessing the expertise of the BCC internal audit team to focus on core areas of audit, compliance etc.

- 2.3 It is proposed that we adopt the hybrid model, by utilising BCC internal audit for core internal audit provision, with specialists brought in to deal with areas of specialism or expertise.
- 2.4 It is noted that prior to engaging with BCC, a clear service level agreement would need to be in place that had a clear accountability to report to the Audit committee directly. This would be appropriate in the context of the governance structures in place. Despite being a shareholder function, there would be no accountability direct to the shareholder on reports, but rather to the Board of Bristol Energy.

3 Proposed areas of audit for 2018/19

- 3.1 Consideration has been given to potential areas for audit review in 2018/19. This has focussed on two areas:
- 3.1.1 Areas of operational risk
- 3.1.2 Key controls across the organisation that should be reviewed on a regular basis.
- 3.2 Areas of operational risk should be identified based on the risk register and areas of risk and concern. Based on the latest risk register, and those risks most appropriate to be concerned for review, the following are highlighted:
- 3.2.1 **Trading and counter-party risk**– it is noted that an external consultant has performed a review of the trading function and noted a number of actions as a result. It is considered that this review by an external energy trading expert, reflects an appropriate review at this stage, although this will be monitored and re-considered in due course.

- 3.2.2 **Pricing risk**– as above; the cost basis, hedging strategy and impact on competitive pricing was also considered in the external review. This is not therefore considered a matter for immediate attention.
- 3.2.3 **Data security**–a project is underway to ensure compliance with the GDPR regulations. It is proposed that this could be an area whereby advice and support could be obtained from internal audit, including as part of the project operation and progression, to ensure development is in line with good practice. It is likely that BCC internal audit would be able to assist in this regard.
- 3.2.4 **Cash collection processes** – this is identified in the risk register as an area of high operational risk, and could be an area for internal audit review. A scope could be developed to review processes and practices in this area over the course of 2018/19.
- 3.3 In addition, a number of core processes and controls could be reviewed. The following area some areas for consideration:
- 3.3.1 **Adherence to financial delegations and approvals**–audit of basic financial procedures, to ensure robust financial controls over payments and authorization.
- 3.3.2 **HR processes and procedures**, including joiners, leavers, etc – consideration of appropriateness of processes and procedures, including set up and impact of HR system (currently being implemented).
- 3.3.3 **IT access controls and authority levels**–review of access and authority limits in core systems, to ensure that these are appropriately maintained and managed within the operational systems.
- 3.3.4 **Self billing invoices**–there are a number of bills we create for third parties, to bill Bristol Energy; these include payments for third party intermediaries, as well as in respect of renewable energy. The adherence and controls over this process could be reviewed and audited.
- 3.3.5 **Price comparison websites**–significant payments are made in respect of commission payable to price comparison websites. The payments are based on detailed reports of meter points registered; this process could be audited and reviewed to ensure controls are robust.

4 Recommendation

The Committee is requested to APPROVE the approach to internal audit and to APPROVE the further development of a scope of work, associated cost and contractual terms with Bristol City Council internal audit function.

Title: Internal Audit Plan 2019-20

Date: 19 December 2018

Purpose: For Approval

Summary: In recent months two internal audits have successfully been undertaken. The management team now wish to agree the plan for further internal audits over the 2019-20 financial year

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1 Overview

- 1.1 Through the second half of 2018 the BCC Internal Audit team have undertaken two audits on processes within BE, Financial Delegations & Approval and HR Starters & Leavers.
- 1.2 These audits have been considered successful and given assurance that the internal processes are effective and have highlighted control weaknesses. Given this, it is proposed that internal audits are continued into 2019-20 financial year.

2 Audit Plan

- 2.1 Appendix A details the audits proposed and timing. These are an extension of the work undertaken by BCC this year, and a re-presentation of the plan proposed in May 2018 by Jonathan Idle, Head of Internal Audit at BCC.
- 2.2 The original plan has been amended to reflect the current state of the business and reflect the capacity of the business to support internal audit through the coming year.
- 2.3 It is also proposed that in some cases where resources are available internally that these are utilized rather than the BCC internal audit function.

3 Recommendation

- 3.1 The Board are invited to **Approve** this internal audit plan.

Appendix A

No.	Audit Area	Potential Coverage	Indicative Timing	Undertaken By
1	Financial Delegations and Approvals	<p>To review whether creditor and contractual payments are made in accordance with the company's agreed financial delegations and approvals with the scope including the following areas:</p> <ul style="list-style-type: none"> • Roles and responsibilities for account payable processes • Purchase order, invoice receipt and authorisation processes • Invoice payment process • New supplier setting. 	COMPLETED Sep - Dec 2018	BCC
2	HR Processes and Procedures	<p>Evaluate the adequacy of processes to address the key HR system risks in respect of the following processes:</p> <ul style="list-style-type: none"> • Starters • Leavers • Annual Leave and Sickness Recording 	COMPLETED Sep - Dec 2018	BCC
3	IT Access Controls and Authority	<p>To assess and advice upon the adequacy and effectiveness of the management of the following risks:</p> <ul style="list-style-type: none"> • Unauthorised access to core systems • Unauthorised amendment to data held in core systems • Unauthorised amendment of core systems configuration. <p>The core IT systems to be reviewed will be the Finance, Human Resources and the Billing systems.</p>	Jan – Mar 2019	Internal
4	Self – Billing Invoices	<p>To assess compliance with required and agreed process for self-billing invoices with specific coverage of:</p> <ul style="list-style-type: none"> • The adequacy and completeness of self- billing agreements with relevant customers • The accuracy of invoices and audit trail from self-billing agreement and contractual terms to invoice and any other supporting documentation. 	June 2019	BCC

5	Cash Collection Processes	<p>To review the effectiveness of the management of risk associated with cash and income collection with specific emphasis on “payment on receipt of bill” customers. The scope of the assignment will include review of the following areas:</p> <ul style="list-style-type: none"> • Debt collection process including comparison with benchmarking effectiveness to industry standards • Processes relating to where debts are not collected and write off procedures • Agreed Payment Plans • Effectiveness of debt monitoring and performance arrangements • Effectiveness of the use of debt collection agencies by the company. 	Sep 2019	BCC
6	Price Comparison Websites	<p>To review the robustness of controls in place to verify payments to price comparison websites with specific coverage of:</p> <ul style="list-style-type: none"> • Whether payments can be substantiated to supporting documentation • The adequacy and completeness of the reports on meter points • Monitoring, authorising and review arrangements for the payments to price comparison websites. 	Jan 2020	BCC