

Bristol City Council Minutes of the Audit Committee



22 March 2021 at 2pm.

Members Present:-

Councillors – Brain (Chair), Kent, Jackson, Mead and Gollop (substitute).

Independent Members – Simon Cookson and Adebola Adebayo.

Officers in Attendance:-

Mike Jackson – Chief Executive (for item 6 only), Denise Murray – Director Finance and Section 151 Officer, Simba Muzarurwi – Chief Internal Auditor, Tim O’Gara – Service Director – Legal and Democratic Services, Alison Mullis – Head of Internal Audit, Michael Pilcher – Chief Accountant, Olga Loucheva – Senior Finance Business Partner, Tony Whitlock – Finance Business Partner, Nancy Rollason – Head of Legal Services, Allison Taylor – Democratic Services

1. Welcome, introductions, apologies and safety information.

Apologies received from Councillors O’Rourke and Radford with Councillor Gollop substituting for Councillor Radford.

2. Declarations of Interest

None declared.

3. Minutes of the last meeting.

The minutes of 23 November 2020 and 25 January 2021 were agreed as a correct record.

Resolved – That both sets of minutes be agreed as a correct record.

4. Action Sheet.

This was noted.

5. Public forum

Questions - Clive Stevens – Item 7 – Work Programme – for Committee to consider Records Retention Policy for the work programme. Clive Stevens reported, as a supplementary point, that the Ombudsman had recommended that the policy be reviewed.



The Chair replied that this would be considered at the Work Programme Item.

The Committee noted that the Chief Executive was in attendance for Item 10 and it was agreed to bring this item forward on the agenda.

6. Draft 2019/20 Annual Governance Statement Summary of progress to date.

The Chief Executive summarised the report as follows:-

1. He welcomed the Chief Internal Auditor's opinion of the positive improvement trajectory of the Council's governance, risk management and internal control arrangements. There was still some way to go but independent validation of the improvement journey was important;
2. It was noted that longstanding audit actions had now been completed;
3. The root cause analysis highlighted a complex and challenging environment which had presented significant challenges for the Council;
4. It was evident that the Council was trying to do too much and there was therefore a continued rationalising of priorities;
5. There was a need to have capacity in the right places based on evidence;
6. An audit exercise identified the need for expert expertise to improve delivery for corporate projects and major schemes and a Strategic Partnership had now been secured for that purpose.

The Committee had no questions and there was no discussion and it was therefore:-

Resolved – That the progress made to date to implement governance improvements and recommendations from the draft 2019/20 Annual Governance Statement (AGS) be noted.

7. Work Programme.

The Chair observed that a new work programme would be considered at the committee's AGM on 27 May. There was some discussion and it was agreed that the following go forward for consideration at that meeting:-

- Records retention;
- Ongoing IT roll out;
- Whistleblowing Policy;
- Governance and decision making processes.

Resolved – That the Work Programme be noted.



8. Grant Thornton ISA 260 Report.

The Committee first heard a statement from Councillor Gollop. The Chair, for the benefit of the Committee, set aside normal procedures and allowed The Chief Accountant to respond to questions within the Statement. The responses were as follows:-

Bristol Beacon

1. Under what fixed asset heading is the Bristol Beacon included?
Response - Land and Buildings under Property Plant and Equipment
2. What is the carrying value of the Bristol Beacon at 31 March 2020?
Response - £20m
3. On what basis is that carrying value arrived at?
Response - Existing Use Value plus the historic cost of works to 31st March 2020 (including Phase I works: New Foyer Building)
4. What do you consider the current valuation of the Bristol Beacon at today's date?
Response - Valuation as at 31st March 2020 plus value of works during 2020/21.
5. Do you not consider any further impairment provision is necessary for the 2020 accounts?
Response - See response to question 6 below regarding timing of impairment.
5. Would you consider any further impairment necessary for the 2021 accounts based on current information?
Response - Once works have been completed in accordance with the latest Cabinet report the site will be revalued. The valuation could result in an increase or decrease in the carrying value on the balance sheet at that time. As this is a capital asset and the decision is to proceed with the project, all costs are fully funded and therefore any potential revaluation loss / impairment will not have a further impact on general fund balances.
6. If not, can you clarify why not?
Response - As above

Bristol Energy

1. I have tried to understand the financial statements and the treatment of Bristol Energy. In particular I cannot understand note 5 on page 89 and 90
Response - Detail with regard to note 5 covered in responses to specific questions below
2. Is the £19.5m impairment the amount necessary to reduce the carrying value to £1.4m?
Response - Yes, this is the total impairment required in 2019/20.
3. Is the £7.3m risk reserve in addition to the £35m of impairment referred to in the note or included within it?
Response - Yes - The £7.3m risk reserve was a general reserve earmarked for risk associated to Bristol Energy trading, collateral & guarantees.



4. The last paragraph of note 5 mentions a number of figures but does not clarify what additional impairment provision will be needed in the 2021 financial statements. What is the current estimate of that figure?

Response - The residual carrying value of Bristol Energy as stated in note 5 is £1.4m, therefore a further £1.4million impairment would be required to reduce this to nil.

5. Why has it not been provided for in the 2020 accounts?

Response - This was an estimate of the value as assessed at the balance sheet date, changes subsequent to the 31 March 2020 may result in differences but these aren't adjusted for in prior years accounts.

6. How was the additional £5.4m in year impairment provision arrived at and why did it increase by £5.4m in the final accounts?

Response - In light of the decision to sell and subsequently Bristol Energy preparing their accounts on a break up basis, the valuation was reviewed and other working capital assets and liabilities included in the valuation and therefore an additional impairment of £5.4m was made from the draft accounts.

In addition as part of the subsequent sales process, the contracts in place to support the trading operation of Bristol Energy, underwritten by parent company guarantees were closed and the liability reduced from £5.4m to nil.

7. Why did it need the audit to identify a post balance sheet event note relating to Bristol Energy, as this issue has been raised at Audit committee since the 2019 accounts were being considered? (page 19 para 7)

Response - A PBSE note was included in the draft accounts presented to Audit Committee in August 2020. However, at the time it was not possible to make a reliable estimate of the full financial implications to its accounts. Since the publication of the draft accounts we are able to make a more detailed estimate of the financial implications of the event and therefore the note has been updated. The contents of the revised note were discussed and agreed with the External Auditor.

8. Can you confirm there was no additional impairment necessary between the signing off of Bristol Energy accounts on 10th November and the signing of Bristol holding accounts on 17th December

Response - The impairment of Bristol Energy relates to the position at the balance sheet date of 31 March 2020. Any changes in position between 10 November and 17 December are non-adjusting events and therefore wouldn't lead to an impairment in the valuation in the 2019/20 accounts.

9. How much interest receivable from Bristol Holding in respect of preference share is written off or provided for in these accounts and in total?

Response - Preference share interest of £4.5m has been provided for on an annual basis in BCC's accounts in line with required accounting standards for treatment of preference shares. However it is important to note the annually approved business plan didn't assume payment of these dividends and they have been provided for in full in the Council's accounts.



10. Are there any other costs to be reflected in the 2021 accounts that are not shown in the table below.

Response - Related party transactions are between the Council and its subsidiaries are detailed in within note 37 on related parties.

11. Councillors and residents are still questioning the total cost of Bristol Energy. If I summarise the information I have available I believe the total excluding costs born directly by the council are as follows. Can you confirm that with the interest figure that is correct

Description	Source of information	£m
Impairment to date	Note 5 second paragraph	31.5
Impairment needed 2021 accounts	Note 5 paragraph 4	1.4
Risk reserve/indemnity	Note 5 paragraph 8	7.3
Interest waived	TBA	
Total		£40.2m

Response - The total investment in Bristol Energy (impaired) is £36.5m and indemnity of up to £7.3m earmarked to finalise the transfer and process towards the orderly wind down of the company and any potential company liabilities(including Renewables Obligation Certificates (ROCs) liabilities) that could arise to end March 2023.

Preference share interest is not a cost and excluded from the total costs calculations.

1. Page 19 para 6ii). The movement of £13.5m from creditors to income is significant, how did this adjustment arise?

Response - This was a Covid 19 LA Support Grant, received in advance at the end of March 2020. As conditions around the classification of the grant were unclear at the time it was classified as a grant received in advance (a creditor) and carried forward on the balance sheet. Following the publication of the draft accounts the accounting treatment became clearer and as there were no specific conditions attached to the grant, it needed to be initially recognised as revenue in 2019/20 then carried forward as an earmarked reserve.

2. which reserve has been increased by this adjustment?

Response - A new statutory ringfenced Covid-19 reserve was created in 19/20 and is contained within the line "Statutory and Ringfenced Reserves" in the Useable Reserves Note 18 in the accounts.

3. why was it not credited to the general reserve?

Response - As above, this is a statutory, ringfenced reserve and not part of the General Fund Strategic Reserve.

4. (Para 6i) did the reduction in investment property valuation relate to retail property in general. Or was it to one specific property?



Response - The Council's Property advisors, CBRE, using their Capital Growth index identified a variation between October 2019 and March 2020 across three sectors, retail (-10.7% / -£8m), Office (-1.2% / -£0.8m) and industrial (-0.6% / -£0.7m)

	Oct-19	Mar-20	Change
Retail - All	£74,842,812	£66,834,637	-£8,008,175
Offices - Rest of UK	£65,173,684	£64,391,600	-£782,084
Industrial	£122,067,429	£121,335,024	-£732,405
Total	£262,083,925	£252,561,261	-£9,522,664

5. It would be reasonable to anticipate a reduction in investment property valuations in the 2021 accounts, given the signing date is within a month of the next year end, would it be appropriate to refer to the potential reduction specifically?

Response - Note 4 provides information regarding uncertainty of estimates and assumptions made in the accounts. This gives specific information regarding the risk around valuation of all property plant and equipment and fair value estimates of investment property and the potential impact of changes if this were to be impacted.

Councillor Gollop thanked Officers for clarifying various points. He had not understood the Post Balance Sheet event note and suggested that it could be presented in a clearer, more open way. He referred to the Bristol Beacon valuation and stated there was no policy for assets under demolition. The Director – Finance replied that it was always anticipated that the interior would be stripped out before being reinstated and therefore it was not a demolition but a construction phase. The GT representative confirmed that it was valuation as of 31 March 20 plus works. This was reflected in the Statement of Accounts accounting date as of 31 March 20 and in the Post Event Balance Sheet event disclosure bringing matters up to date from then.

The Grant Thornton (GT) representatives introduced the report and made the following points:-

1. At the last Audit Committee GT reports on its qualified conclusion regarding value for money (VFM) and this would be the continued opinion as an except for conclusion for the reasons relating to the governance of the companies and in particular Bristol Energy;
2. The accounts opinion was positive and the work had been undertaken and delivered earlier than in recent years and it was proposed that GT were able to sign in March as a qualified audit opinion. The nuance to this was the material uncertainty around the Council's disclosures regarding property evaluations, the impact of Covid and the guidance of the Royal Institute of Chartered Surveyor's report. This was reflected in the audit report and emphasised as an important statement in the accountants. This was therefore an unqualified audit report. The same applied to property valuations for pensions and investments;
3. The report captured the story regarding Bristol Beacon and Bristol Energy in terms of getting the right timing of accounting matters and Post Balance Sheet event disclosures;
4. The report also highlighted the members' interest in the Public Interest report regarding Bristol Energy. There were three elements to this report and the middle part concerning



the factors in selling the company had already been done. The first element concerning the decision making process and documents trail regarding the establishment of the company was almost complete. The third element concerning the public detail of disposal and impairments and the process used to ensure that the disposal achieved the appropriate outcomes had now been completed. However, restructuring colleagues would input regarding assets disposal and the reasonableness of the deal struck. This would be reported back to a Committee in the new municipal year;

5. The significant risks as set out on Page 18 of the supplementary papers were summarised;
6. Page 21 of the supplementary papers highlighted the introduction of a new payroll system in April 2019. Reports analysed some trivial variances that were unresolved but GT was satisfied over the material accuracy and completeness of the data transfer;
7. GT was satisfied that the Council's long term investments were not materially misstated;
8. Page 24 reported that the Council had a cumulative overspend of its Dedicated School's Grant £2.9m at 31 March 2020 due to insufficient government funding. This was shown as negative reserve within its total school reserves which form part of the total General Fund in the Movement in Reserves Statement and the total Useable Reserves within the Balance Sheet. It was GT's view that the overspend should not be shown as a separate negative reserve, but that the overspend should be offset against the Council's General Fund balance. It was reported that the Government had introduced a statutory override which applied to financial statements prepared for the financial years beginning on 1 April 2020, 2021 and 2022 and required that where a local authority has a deficit on its schools budget, the authority must not charge any such deficit to its revenue account;
9. Page 39 set out 5 recommendations identified as a result of the audit and they have been agreed with management and progress on these recommendations would be reported during the course of the 2020/21 audit;
10. Appendix 3 set out the various adjustments to disclosures.

The following points around from discussion:-

1. Councillor Kent reported that a Cabinet resolution in 2015 stated that the set up costs and officer time had to be repaid should it no longer be owned by BCC. He asked if this had been done or whether the policy had changed and whether the matter should be accounted for. The Director of Finance was unaware and agreed to provide a written response back on the matter;
2. Councillor Gollop was reassured regarding the management of journals and suggested that Internal Audit check that the process was working;
3. Councillor Gollop referred to Page 24 and asked for clarity regarding the commentary on consolidated adjustments and was informed that this reflected BE draft accounts and final audited accounts along with £4.5m of additional expenditure adjustments done by PricewaterhouseCoopers;
4. Councillor Gollop referred to Page 39 and expressed surprise that it was not possible to produce a detailed list of entries that make up the year end debtor and creditor figures from the financial ledger. GT explained that the way the ledger was set up meant that it was difficult to identify balances brought forward;
5. Councillor Gollop referred to the valuation of investments and wondered how much was paid for experts to value the Port. GT stated that the principle of experts estimating values, whether real money or not, was an important one and GT would wish for BCC to do this as would the regulator.



Resolved - That the Audit Report for 2019/20 and the action plan agreed by management be noted.

9. Statement of Accounts Year Ended 31 March 2020.

The Chief Accountant summarised the report as follows:-

1. The 19/20 draft accounts were considered by the Committee at its meeting on 27 August and subsequently published. The accounts were now before the Committee for approval and sign off;
2. He referred to some changes to the draft accounts previously circulated and these were set out on Page 19 of the papers;
3. There was an additional post balance sheet event disclosure in respect of the Bristol Beacon which was published as an addendum to the Statement of Accounts supplementary papers. This had been agreed with the Auditor and incorporated into the Statement of Accounts;
4. The Committee needed to consider whether the accounts were a true and fair view of the Council's accounts as at 31 March 2020 and take into account their review of the accounts and what GT had reported in its ISA 260 report.

The following points arose from discussion:-

1. Councillor Gollop stated that officers had done a very good job on what was a very complex set of accounts and that he was satisfied on most matters but in relation to BE he did not think it provided the information he would expect for a user to understand. He would have expected a note explaining the full extent of the write off to the Council and to be true and fair the post balance sheet event note should be reviewed and reworded. The Director – Finance replied that this was consolidated group accounts and the post balance sheet reflected the group and BE had their own audited accounts. Within the note the issues around BE and impairment were expanded. The total position regarding the impairment value of nil and the potential of up to £7.3m indemnity was made at the end. She believed that the accounts were very clear in setting out the risk to March 22/23;
2. Councillor Kent reported that he had not received all the paperwork relating to the ISA 260 and Statement of Accounts (SOA) report and questioned whether he was able to vote on the recommendation. The Director – Legal and Democratic Services advised that the SOA had previously been reported to Committee and the Councillor had heard GT's presentation on the ISA 260 report so was able to vote. The GT representative confirmed that the salient points had been presented.

There was no further discussion and on being put to the vote it was:-

Resolved (3 for, 1 against, 1 abstention) –

1. **That the amendment to the Annual Governance Statement be noted (pages 34 – 65 of the Statement of Accounts);**
2. **That the Statement of Accounts for the year ended 31 March 2020 be approved.**



10. Code of Corporate Governance.

The Director – Legal and Democratic Services introduced the report stating it was a refresh of the Code reviewed in 2018. Appended to the Code was the principles on which the Code was based and how Bristol complied.

There were no questions and on being put to the vote it was:-

Resolved – (4 for, 1 Abstention) – That the Code of Corporate Governance be approved.

11. Council Procedure Rules – Proposed Constitution Updates.

The Director – Legal and Democratic Services summarised the report stating that it proposed updates to the Council Procedure Rules as part of the Monitoring Officer’s ongoing review of the constitution to reflect current practice, remove inconsistencies, and provide clarity.

The following points arose from discussion:-

1. In reference to the proposal to amend Public Forum Statement deadlines to 2 days before Full Council Councillor Gollop believed that this would make it harder for the public to participate and preferred that it remained as 1 day before;
2. The Chair, in contrast, believed that this would allow members more time to consider statements.

There was no further discussion and on being put to the vote it was:-

Resolved – (Unanimous) –

- 1. That the revised Council Procedure Rules be endorsed;**
- 2. That the adoption of the revised Council Procedure Rules coming into force following Annual Council be recommended to Full Council.**

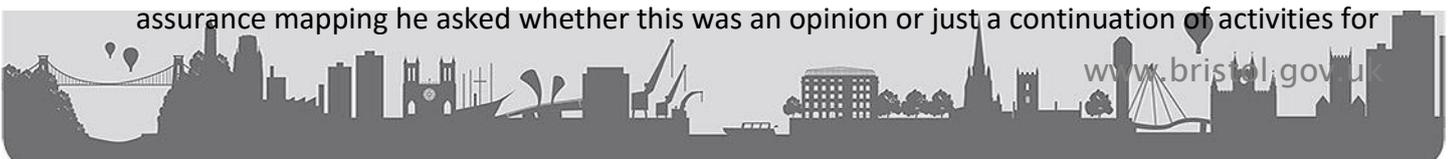
12. Internal Audit Draft Plan 2021/22.

The Chief Internal Auditor reported that colleagues from KPMG, the newly appointed Strategic Partner, were in attendance.

The Committee was asked to consider whether the Plan addressed the Committee’s assurance needs, whether the Plan captured key areas that would be expected and whether there were any significant gaps in the Plan.

The following points arose from discussion:-

1. Adebola Adebayo referred to Page 247 – Internal Audit Plan and Priorities. With reference to assurance mapping he asked whether this was an opinion or just a continuation of activities for



further work and was informed the planned assurance mapping work did not result in an opinion as the objective of the exercise was to understand the various sources of assurance in the second line of defence functions. The outcome of the exercise would then inform future internal audit assurance activities. He also asked for clarification as to why some of the subjects were the same but listed separately and was informed that in relation to capital projects, there were three different engagements; governance, project delivery and embedded assurance for selected key projects. It was further stated that an IT risk assessment will be undertaken to identify the key risks that will be reviewed during the year using the IT assurance provision;

2. Simon Cookson suggested that it would be helpful for the next meeting if there was a rough indication of when these priorities would be completed to help form the Work Programme for the new membership. He also noted the lessons learned and opportunities that have arisen from Covid 19. The Chair hoped that the new Audit Committee Chair would read the minutes of this meeting so that they were fully informed.

Resolved (Unanimous) – That the draft Internal Audit Plan for 2021/22 be approved.

12. Annual Whistleblowing Review 20/21.

A representative from the South West Audit Partnership was welcomed to the meeting and it was noted that they had undertaken an independent review of the Council's Whistleblowing arrangements to mitigate against the risk of self-review as Internal Audit are now responsible for the function. They reported as follows:-

1. The Whistleblowing process was given substantial assurance, the highest rating available as it was found to have key controls in place and there was clear guidance in the Code of Practice for staff to make a report;
2. There were three relatively minor findings in relation to the response protocol as follows:-
 - That the Whistleblowing procedure be formally approved and subject to version control;
 - Opportunities to publicise more to raise awareness;
 - To publicise successful prosecutions including those in other organisations;
3. That future Audit Committee reporting provides more explanation of learning points in order to identify thematic areas or trends;
4. These recommendations had been accepted by the Council and would be implemented.

There were no questions or discussion and it was:-

Resolved (Unanimously) –

- 1. That the outcomes of the annual review of Whistleblowing arrangements be noted;**
- 2. That the actions taken to address any issues identified be endorsed.**

13. Contract Management Update.



The Strategic Supplier Relations Manager updated the Committee by means of a presentation detailing the implications around effective contract management and steps taken and planned to make further improvements.

The following point arose from a question:-

It was proposed that there would be two separate systems for source and procurement and for contract management. The systems would be from the same supplier so there would be a seamless link from one to the other and validation would be required before it reached the contract management system.

Resolved – (Unanimously) – That the report be noted.

With the business of the meeting completed, the Chair took the opportunity to thank the Director – Finance and her staff, Chief Internal Auditor and his team and Democratic Services for all their work on Audit Committee. He also thanked members for their support on Audit Committee.

Councillor Gollop, noting that the Chair was standing down from being a Councillor, thanked him for his contribution over many years on the Audit Committee. This was echoed by Councillors Jackson and Kent.

Meeting ended 4.10pm.

Chair_

