

Report Title:		Board/Committee:	
Bristol City Council Trading Companies Annual Audit and Assurance Report		Bristol City Council Audit Committee	
Agenda item:	Meeting date: 26/07/2021	Non-confidential	Choose an item.
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Executive Summary			
<p>This is a report of the Bristol Holding Company Audit and Risk Committee (ARC) and outlines for Bristol City Council Audit Committee the work of the ARC for the financial year 2020/21. This is an annual report with the aim of providing assurance for BCC's Shareholder function and Audit Committee of overall governance arrangements for the Council's group of wholly owned companies.</p> <p>The report summarises key areas of review by the ARC, in particular its role in reviewing risk management arrangements across the Council's companies, and outlines audits of functions undertaken and considered by the Committee, their findings and management actions.</p> <p>An introduction to the role of the ARC will be presented to the Audit Committee by its chair, Alex Wiseman. Terms of reference of the ARC, which are reviewed annually, are attached as Appendix A to this report.</p>			
Recommendations			
<p>Bristol City Council Audit Committee is asked to.</p> <p>1 – Receive and note the submission of the Bristol Holding Group Audit and Risk Committee Report.</p>			
Link to Corporate Objectives			
<i>Effective governance, performance and risk management arrangements.</i>			

1. Introduction / Background

- 1.1. The Council determined to re-establish Bristol Holding during 2019 with the aim of overseeing arrangements for the Council's trading companies and ensuring more consistent governance processes of scrutiny and assurance through the company boards and sub committees. Bristol Holding Company is the mechanism by which Bristol City Council oversees the delivery of the company's business plans, providing

strategic alignment and the 'golden thread' between the companies, the council, and the wider ambitions of Bristol.

- 1.2. Key aims for the Holding Company include having arrangements that ensure.
 - effective governance, assurance and regulatory compliance
 - delivery of financial efficiencies across both the council and companies
 - strategic objectives of the council are clearly articulated and delivered
 - that a commercial portfolio approach is taken to the delivery of financial and social returns
- 1.3. It should be noted that all key decisions relating to the companies, such as approval and amendments to business plans, major funding considerations, and appointment of key personnel, can only be made by the Council under reserved matters – and not by the Holding Company.
- 1.4. On inception the Holding Company determined to establish a group wide Audit and Risk Committee to facilitate a more robust and independent approach to corporate governance issues and financial integrity and propriety across the companies. The Audit and Risk Committee (ARC) was established and now meets quarterly, with the first meeting in December 2019. Terms of Reference of the Audit and Risk Committee, which were reviewed and updated in December 2020 are attached as Appendix A to this report. Its key purpose is to assist the Bristol Holding Ltd Board in fulfilling its oversight responsibilities by reviewing and monitoring,
 - the integrity of the financial information provided to BHL and Bristol City Council (Shareholder),
 - the Company's and the Group's systems for internal controls and risk management,
 - the internal and external audit process and auditors, and
 - the process for compliance with laws, regulations and ethical codes of practice.
- 1.5. The Committee is chaired by Alex Wiseman, a Non-Executive Director of Bristol Holding Ltd, and Committee representation is designed to maintain independence from the subsidiaries to ensure robust review and scrutiny. There are three Committee members, two INEDs from Holdco. Ltd (one of which is also a director of Bristol Heat Networks Ltd) and with a third member from one of the subsidiaries (Goram Homes Ltd). BHC Chair usually attends but he is not a member of the Committee. The Committee meets quarterly.
- 1.6. BCC Audit Committee looks to ARC to provide a level of assurance that the group of companies are operating in an effective control environment. The Committee is scheduled to meet on the 26th July and consider the ARC annual review. The Committee comprises a number of new members and it is therefore proposed to attach key documentation such as terms of reference and the risk management strategy and framework.
- 1.7. A key role for ARC is ensuring adequacy of arrangements for the management of whistleblowing, fraud and compliance - reviewing the companies' procedures for prevention, detecting and countering fraud, corruption, bribery and money-laundering, ensuring in confidence arrangements for reporting any wrong-doing, and

ensuring proportionate and independent investigations are undertaken with appropriate follow-up.

- 1.8. As this is a report of the Holding Company Audit and Risk Committee it will be introduced by Alex Wiseman as Chair of the Committee. Due to the absence of remote dial-in facilities the Chair will prepare a video introduction.

2. Bristol Holding Audit and Risk Committee (ARC) – Risk, Compliance and Other Substantive Matters

- 2.1. The ARC met four times during the last financial year; June 9th, October 6th, December 1st, and March 9th. Attendance at the meetings was as follows:

BH ARC Meeting	Alex Wiseman	Elaine Holt	Nick Buckland
9 June	Yes	Yes	N/A*
6 October	Yes	Yes	Yes
1 December	Yes	Yes	Yes
9 March	Yes	Yes	Yes

*Nick Buckland became a member of the Committee July 2020, and resigned May 2021. Mark Hallett was appointed June 2021

- 2.2. A key priority for ARC has been reviewing the implementation of the BHL Group Risk Management Strategy and Framework. Committee members had previously been instrumental in shaping of the strategy which was approved by the Holdco. Board in April 2020. The strategy and framework forms an integral part of the Holdco group’s internal control and corporate governance arrangements. A copy of the Risk Management Strategy has previously been made available to this Audit Committee.
- 2.3. Companies adopted the risk register reporting tool and feedback was positive across the group of companies as a means of identifying and reviewing mitigations and monitoring progress. The risk registers for Bristol Holding and for each subsidiary are presented to each ARC, and detailed scrutiny is undertaken on content, assessment, risk appetite and progress against mitigating actions. Company executives are required to present and respond to reviews and consider recommendations from the ARC to take back to respective boards.
- 2.4. Bristol Heat Networks Ltd was set up during 2020/21 to develop and deliver heat network infrastructure and supply in the Redcliffe and Old Market areas of the City. Delivery of this via a company, rather than the Council direct, was a requirement of government funding, who provided £10m Heat Network Improvement Programme (HNIP) funding to support the £26m capital cost of the two schemes. ARC reviewed the new company’s risk management arrangements in December 2020, and was assured that financial systems proposals, which had to sit outside BCC financial systems, addressed key financial risks.
- 2.5. In addition to company entity risk registers, a group risk register has been developed, which incorporates all cross-cutting and significant risks that could impact on the wider group, and is reviewed by the ARC at each meeting as well as being considered each month by the Holdco. Board. ARC undertook a detailed review of the group risk register at its December meeting, and recommended to the

Holdco Board some substantive changes to content, scoring and actions required to mitigate their likelihood and impact.

- 2.6. Each ARC meeting has also reviewed, as a standing item, company compliance matters. These sessions have scrutinised regulatory, health and safety, and information governance requirements and performance, along with measures to ensure risk of non-compliance is mitigated. The June Committee meeting included Bristol Energy, who at the time, were still trading. Bristol Energy Ltd operated in a heavily regulated market, with the risk of significant financial penalties arising from non-compliance with Ofgem requirements. It should be noted that at the time the Committee met the decision had been made by the Council to dispose of its interest in Bristol Energy following the EY review earlier in the year. At its December meeting ARC also considered regulatory requirements associated with Bristol Heat Networks. Compared to gas and electricity supply this is a largely unregulated industry. Goram Homes will commence compliance reporting to ARC after they commence on site during 2021.
- 2.7. At its June meeting the Committee also considered initial findings from PwC on the audit of 2019/20 company accounts. The major consideration was that Bristol Energy could not be signed off as a going concern and the accounts required to be presented on a break-up basis. For all other companies, PwC issued unqualified audit opinions.
- 2.8. Other matters reviewed by ARC have included the Health and Safety Policies, and Business Continuity Plans, in light of the ongoing pandemic, and in particular the impact on Bristol Waste. A review of the potential financial implications of Covid19 across the companies was also undertaken. ARC has also reviewed claims and litigations across the group and the adequacy of insurance arrangements.
- 2.9. A key function of ARC is to review arrangements and priorities for the development of group-wide and new company policies and procedures as key foundations for good corporate governance arrangements, ensuring they articulate how behaviours reflect organisational corporate values and ethics, and ensuring day-to-day operations align to those values. A number of these are reviewed at each meeting.

3. Internal Audit Reviews

- 3.1. Holdco work closely with BCC Internal Audit colleagues to commission a risk-based plan to determine the priorities for internal audit activity, consistent with organisational goals. Consistent with agreed reporting arrangements, an action tracker is in place to record details of matters arising and agreed management actions in response to all completed audits, including prior year. It is the responsibility of companies to ensure that agreed actions are implemented within agreed timeframes. ARC review the tracker at each meeting and company executive teams are regularly challenged on progress. At the last meeting, the audit tracker showed that of 32 improvement actions required from completed audits up to March 2021, 25 had been fully implemented and 1 partially implemented.
- 3.2. Within each audit report, an overall assurance opinion is provided on the area reviewed. The opinion is based on the information obtained during the course of the audit and represents an assessment of the effectiveness of risk management, control

and governance processes in the area audited. The range of opinions provided in audit reports is set out in the following table:

Assurance Opinion	Definition
Substantial	There are sound risk management, internal control and governance processes which are designed to achieve the company's objectives, with key controls being consistently applied.
Reasonable	Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put company objectives at risk.
Limited	There are weaknesses in the risk management, internal control and governance processes; putting company objectives at risk
No	The risk management, internal control and governance processes are generally poor and as such company objectives are at significant risk.

- 3.3 During the last year, audit reviews reported to, and considered by ARC, comprised of; review of Bristol Waste Company (BWC) payroll services, BWC accounts payable, BWC use of consultants, and governance arrangements across the group. A summary of findings is set out below.

BWC Payroll Services; the objective of the audit was to provide an independent opinion on how effectively the risks associated with HR/Payroll system and associated processes were being managed by the company, and which received a reasonable assurance audit opinion. Key improvement actions included, enhanced training for service managers to improve timeliness and accuracy of key HR documentation, process improvements for dealing with leavers and overtime, and measures to improve resilience of the systems. All improvement actions were agreed by BWC executive.

Use of consultants within BWC; the objective of the review was to provide an independent opinion on how effectively the risks associated with 'off payroll' processing were managed and to ensure that the processes that were in place and their adherence were being operated. A limited assurance opinion was received. Key areas of concern included; risk of incorrect employment status being applied, processes for determination of employment status, and arrangements to ensure awareness and compliance with procedures by hiring managers. The audit did however recognise a number of areas of good practice within BWC's arrangements for managing "off-payroll" staff. All recommendations arising from the findings were agreed and the improvement action plan was subsequently reviewed by ARC.

BWC Accounts Payable; the objective of the review was to assess arrangements for managing accounts payable and provide independent opinion on effectiveness of key controls. A reasonable assurance opinion was provided, with a number of areas of good practice, but improvements required with regard to late payments, governance arrangements for new supplier and receipting of deliveries. All recommendations were accepted by BWC management and ARC reviewed the improvement action plan to ensure it addressed all areas of concern.

- 3.4 **Governance Processes across BCC Companies;** Bristol Holding commissioned Internal Audit to undertake a review of governance arrangements across the group, the objective of which was to review and assess the effectiveness of the governance framework and decision-making processes in place. The audit focused only on the governance systems and processes operating within the group, and not did not include the interaction between the group and the Council as the Shareholder. A key finding of the audit was that there was a clear lack of clarity from subsidiaries on the role and responsibilities of the Holding Company, which could impact upon decision-making. Although Holding Company exercised its role to provide commercial oversight, assurance and scrutiny on behalf of the Shareholder, there was no clear framework for how that would operate in practice, which could blur roles and accountabilities. Furthermore, in exercising their mandate on behalf of the Shareholder, Holding Company executive attended subsidiary boards as observers, but their role in this was not formally defined, and their active participation at meetings, although inevitable as part of their commercial oversight, assurance and scrutiny role, led to the risk of them being deemed shadow directors. As a consequence of these matters the audit assurance provided was “limited assurance”. However, it was made clear that “this conclusion does not necessarily mean that there is a problem with the decisions made but simply reflects the lack of clarity in roles and responsibilities in the decision-making processes”. Other matters of concern included diversity of representation of company boards, the need for independent assessment of individual company board effectiveness, and the need for board member induction and ongoing training. As a result of the findings, which were considered by ARC at its March meeting, Bristol Holding has put in place measures to mitigate the risk of shadow directorships, ensured arrangements are put in place for regular board effectiveness reviews, and to widen diversity of company boards. The Council is currently undertaking its own governance of companies review, and some of the key issues identified above will need to follow the outcome of that review.
- 3.5 The audit plan for 2021/22 has included Information Governance arrangements across the companies and BWC Performance Management (now completed and judged reasonable assurance, cyber security arrangements, risk assurance mapping, environmental compliance (including preparations for Clean Air Zone), and equalities, diversity and inclusion.

Index of Appendices:	
Appendix A:	Audit & Risk Committee Terms of Reference

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