

Report Title:		Board/Committee:	
Bristol City Council Trading Companies Annual Audit and Assurance Report		BCC Audit Committee	
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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 2021/22. 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 such matters as risk management and compliance arrangements across the Council's companies and review key systems and processes to ensure effective corporate governance arrangements are in place. The Committee, which comprises three experienced independent non-executive directors, operates in accordance with the provisions of the UK Code of Corporate Governance.</p> <p>The report focusses on key areas of independent assurance which the Audit and Risk Committee have reviewed over the last financial year including;</p> <ul style="list-style-type: none"> • Risk management arrangements • Regulatory and environmental compliance arrangements • Financial statements • Information governance • Fraud and corruption • Internal Audit reviews • Board Effectiveness 			
Recommendations			
<p>Audit Committee is asked to.</p> <p>1 – Note the annual assurance report of the Bristol Holding Group Audit and Risk Committee</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 (ARC) to facilitate a more robust and independent approach to corporate governance issues and financial integrity and propriety across the companies. The ARC first met in December 2019 and now meets quarterly. Terms of Reference of the ARC, which are annually reviewed and updated (as appropriate), are attached as Appendix A to this report. They were last reviewed in March 2022.
- 1.5. The ARC operates in accordance with the provisions of the UK Corporate Governance Code, acting independently from any company, providing a key assurance role for the Bristol Holding and subsidiary boards, and the Shareholder, 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.
- 1.6. The Committee comprises three independent non-executive directors and is chaired by Alex Wiseman, a non-executive director of Bristol Holding Ltd and Bristol Heat Networks Ltd. Committee representation is designed to maintain independence from the subsidiaries to ensure robust review and scrutiny, whilst ensuring expertise within each sector. During the year representation was strengthened by the appointment of Charmion Pears, a board member of Bristol Waste Company, who like Alex has significant experience of being a member of Audit and Risk Assurance Committees elsewhere. Mark Hallet provides significant housing sector and programme management experience.



- 1.7. BCC Audit Committee looks to ARC to provide a level of assurance that the group of companies are operating in an effective control environment.
- 1.8. In addition to the above, 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.
- 1.9. Audit Committee should note that this is a report of ARC, but the Group Finance Director and Executive Lead for Bristol Holding will attend the meeting to answer any questions from Committee members.
- 1.10. In November 2021 Bristol City Council Audit Committee considered a report on the management actions in response to the two Grant Thornton reports on the company governance arrangements (*Review of Governance Arrangements for Bristol City Councils Subsidiaries* and *Report concerning the governance arrangements for Bristol Energy*), and the subsequent independent shareholder advisor's Governance Review which reported in June 2021.
- 1.11. A primary recommendation of that latter report was that, following disposal of Bristol Heat Networks Ltd procurement process to the successful City Leap bidder, and without clear intent to bring more companies under the Holding Company in the short to medium term, Bristol Holding should be disbanded and its core functions absorbed by the Council and its Shareholder function. The Bristol Holding Company business plan, as approved by Cabinet in March 2022 was based on that assumption, and that included a review of audit and risk arrangements, which was undertaken by Navigo Consulting Ltd, who also undertook an independent review of each company board's effectiveness during the last year.
- 1.12. Navigo concluded that, in the context of two primary operating companies (BWC and Goram Homes), primary accountability for these processes should be at the operating company level and we are now in the process of implementing these arrangements whilst ensuring a seamless transition. From next year Bristol Waste and Goram Homes will develop an annual Comprehensive Assurance Statement (a detailed statement of material internal controls and governance mechanisms) for the Shareholder and this Committee.
- 1.13. Subsequent to finalisation of the review, the Council in its capacity as Shareholder has determined that a mechanism of further assurance will be retained through its Holding Company, for example to review compliance frameworks, comprehensive assurance statements and financial statement and reporting assumptions. We anticipate the final ARC to be in October 2022 by which time BWC and Goram Homes' Audit and Risk Assurance arrangements will have been implemented.

2. Meetings and Attendance

- 2.1. The ARC met four times during 2021/22; June 22nd, October 12th, December 13th, and March 15th. Attendance at the meetings was as follows:

BH ARC Meeting	Alex Wiseman	Elaine Holt	Mark Hallet	Charmion Pears
22 June	Yes	Yes	Yes	N/A*
12 October	Yes	Yes	Yes	N/A*
13 December	Yes	N/A*	Yes	Yes
15 March	Yes	N/A*	Yes	Yes

*Charmion Pears was appointed to the Committee in December 2021, following the resignation of Elaine Holt who was appointed Chair of BWC.

3. Risk and Compliance

- 3.1. A key priority for ARC is to regularly review the adequacy of implementation by each of the companies of the BHL Group Risk Management Strategy and Framework. The strategy and framework forms an integral part of the Holdco group's internal control and corporate governance arrangements. It represents a key line of defence in challenging the adequacy of existing controls and planned mitigations against threats to service delivery in line with agreed business plans and providing assurance to the Shareholder. A copy of the Risk Management Strategy, as reviewed by ARC in March 2021, is attached as Appendix B for information.
- 3.2. Companies have adopted the risk register reporting tool and embedded the identification and reporting of risks (both opportunities and threats) within their regular company board reporting. The risk registers are also presented to each ARC, for independent review and scrutiny on content, adequacy of controls, 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.
- 3.3. In addition to company entity risk registers, a group risk register was developed, which incorporates all cross-cutting and significant risks that could impact on the wider group, and this is also reviewed by the ARC at each meeting as well as being considered each month by the Holdco Board. This is also considered by the Shareholder at each shareholder group meeting, and where appropriate risks should be reflected in the Council's risk management arrangements.
- 3.4. Each ARC meeting has also reviewed company compliance matters. These sessions have scrutinised regulatory, health and safety, environmental and information governance requirements and performance, along with reviewing measures to ensure risk of non-compliance is effectively mitigated. These are also reviewed regularly by subsidiary boards.
- 3.5. During the year internal audit undertook an audit of environmental compliance across the companies, for which the final report was considered by the ARC in June 2022. The audit provided a 'Reasonable Assurance' opinion on the Council's companies' arrangements for ensuring legislative environmental compliance. It did identify areas of improvement, most notably for the Council in its operation of heat networks as service providers for Bristol Heat Networks Ltd.
- 3.6. Other matters reviewed by ARC have included the Health and Safety arrangements (specifically with regards to the Bristol Heat Networks and its reliance on assurance



from the Council) which provided assurance that the processes for procuring sub-contractors and managing them was adequate and there was compliance construction, design and management (CDM) regulations. One of the recommendations of the review was the appointment of a health and safety expert by BCC. However, that recommendation determined not to be practicable by the Council, given its existing H&S arrangements.

- 3.7. ARC has also reviewed claims and litigations across the group and an independent review of the adequacy of insurance arrangements across the group. No material gaps or issues were identified in either of the reviews, although it was acknowledged that certain insurance policies were becoming more difficult to procure.

4. Financial Statements

- 4.1 At its June meeting the Committee considered, in detail, draft 2020/21 accounts for each company and initial findings from the external auditor (PwC) on their audit of those accounts. It is a key role of the ARC to provide assurance that the accounts follow Companies Act requirements, follow proper accounting principles and standards, and provide an accurate reflection of the financial position of each company, both for the respective boards and Shareholder.
- 4.2 The review included final statutory accounts for BE2020 prior to the company entering members voluntary liquidation process (June 2021), and financial statements had to be prepared on a break-up basis as opposed to going concern, following disposal of the Bristol Energy assets during the financial year and decision to appoint liquidators.
- 4.3 Our process facilitates the opportunity for candid discussion between ARC members and the external auditor. No major concerns were identified as to accounting treatment and reporting of the financial position of each company prior to statutory accounts finalisation and filing.

5. Information Governance and Cyber-Security

- 5.1. A key area of review for the ARC during 2021/22 was assurance around the adequacy of information governance and cyber-security arrangements, across the companies. For both of these areas internal audit reviews were commissioned (the latter being undertaken by KPMG).
- 5.2 The audit review of GDPR assessed the effectiveness of the arrangements for information security across the group and to ensure compliance with General Data Protection Regulations. The review was also scoped to include residual information security risk management in relation to the Bristol Energy Ltd closure. Internal Audit provided a 'reasonable assurance' opinion on the effectiveness of the Information Security and GDPR Management arrangements across the group of companies. There was clear evidence of good practice policies and procedures being in place, but there were some inconsistencies across the group – and these were addressed as part of the agreed improvement actions.
- 5.3 An annual data protection review is also conducted by the ARC to assure processes are robust and lessons learnt from any breach. ARC has expressed concerns to

companies that there needs to be clearer assurance around lessons learnt and actions being taken.

- 5.4 Following concerns raised by the Council of the adequacy of its own cyber-security arrangements, ARC asked internal audit (through its IT audit partner KPMG) to undertake a high-level review of the cyber security controls across the Bristol Group Companies (the Group), focusing on the key technical and non-technical processes operated to mitigate cyber security risks. KPMG provided an overall assessment of 'Limited Assurance.' The audit review noted that the *"Group has established a governance structure whereby information security risk is regularly reported at individual company level and at the group level, to the Audit & Risk Committee. There is a group-wide risk management framework in place that ensures consistency in risk management approach across the Group. However, we noted gaps in documenting information security policies and procedures that can lead to poor awareness and communication of cyber and information security issues."* A number of specific company issues were also identified, and all key improvement actions, which fall under the direct responsibility of the companies are being acted upon. Delivery of all improvement actions are reviewed at each meeting.
- 5.5 The conclusions aligned with similar findings within the Council. It was recognised that all companies rely, to some extent on BCC cyber security controls and receive IT service delivery support from BCC. The review noted some policies and procedures were not formally documented for a number of security domains. including vulnerability management policy, patch management policy, privileged access management policy, and physical security policy. An action tracker of their delivery is subsequently being reviewed by ARC. Where policies and operational procedures are not formally documented it was recognised there is a risk that the Group's approach to securing systems and data may not be clearly understood by staff. There is also a risk that staff may act or take decisions that are inconsistent with companies approach to cyber security.
- 5.6 The review also noted that BWC uses a specific software for security updates and security patch management. In reviewing security vulnerability reports they identified a large number of applications where the latest vulnerabilities had not been patched. Furthermore, BWC has two servers which are patched by BCC ICT team, and their review of the Council's cyber security controls identified issues with those patch management processes.

6. Other Internal Audit Reviews

- 6.1. Holdco and subsidiaries have worked closely with BCC Internal Audit colleagues to commission a risk-based approach for prioritising 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 improvement action tracker at each meeting and company executive teams are regularly challenged on progress. At the March 22 ARC meeting, the audit tracker showed that of 62 improvement actions required from completed audits up to March 2021, 47 (76%) had been implemented and closed. A

further 8 actions related to the governance arrangements for Bristol Holding and so were pending decisions being taken by the Council.

- 6.2 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.

- 6.3 During the last year, other audit reviews reported to, and considered by ARC, comprised of; review of Bristol Waste Company (BWC) Performance Management, and assurance mapping. A summary of findings is set out below.

BWC Performance Management; the objective of the audit was to provide an independent opinion on the adequacy of the performance management framework within BWC and effectiveness of data quality processes. A reasonable assurance opinion was provided, and performance reporting reflected business plan and relevant national metrics.

Assurance Mapping; the objective of the review was to provide an independent opinion on how effectively specific risks are managed and provide an appropriate level of assurance under the 3 line of defence model.

7 Fraud and Corruption

- 7.1 Fraud, theft, bribery and corruptions are recognised across the group as significant risks, and need to be reviewed regularly as companies develop, grow and become more complex in structure. A group-wide anti-fraud, bribery and corruption policy was approved by the Holding Company in 2020. As part of that policy each company is required to keep abreast of fraud risks, emergence of new risk areas, and ensure a strong culture is embedded across the Group where fraud, bribery and corruption will not be tolerated. Under the group-wide policy the role of Audit and Risk Committee is to:
- Review adequacy of anti-fraud arrangements across the Group
 - Review and endorse the Anti-Fraud, Bribery and Corruption Policy

- Monitor performance of companies in dealing with fraud
- Receive periodic independent reviews of company procedures for preventing and dealing with fraud, and specific fraud risks

7.2 A detailed fraud risk assessment exercise is undertaken annually by each of the companies and reviewed by ARC. Goram Homes, Bristol Heat Networks and Holdco are currently very small companies, so there are limitations in terms of how they can arrange separation of duties, but appropriate arrangements are in place to mitigate the risk of fraud. The situation is different at BWC. Anti-fraud and corruption training is given to BWC starters as part of their induction. BWC is looking to put in place more controls and minimise cash transactions.

7.3 During the year ARC was kept apprised of any investigations against suspected fraud (for which there was one, relating to the previous financial year and for which evidence has been handed over to the Police for criminal investigation).

8. Board Effectiveness

8.1 During the autumn of 2021/22 an independent review of each company's board effectiveness was undertaken. The reviews were undertaken by Navigo consulting, specialists in this type of assessment and other company governance support. The reviews concluded that overall, boards were effective, and that should provide some assurance to the Council as Shareholder, although for BWC there was recognition that this was a board (at the time of the review) in transition, and this was impacting on its effectiveness. Furthermore, for BHNL, although the board was assessed as effective, it was challenged by poor information provided through its supply agreement with the Council.

8.2 Since conclusion of the review board membership of BWC has changed significantly with a new independent non-executive Chair and two independent non-executive directors. In light of these changes a further independent board effectiveness review will be conducted during 2022/23.

Index of Appendices:	
Appendix A:	Audit & Risk Committee Terms of Reference
Appendix B:	Risk Management Strategy and Framework

~ Report End ~