

# Public Document Pack

**Democratic Services Section  
Chief Executive's Department  
Belfast City Council  
City Hall  
Belfast  
BT1 5GS**

9th January, 2019

**MEETING OF BELFAST WATERFRONT AND ULSTER HALL LTD SHAREHOLDERS'  
COMMITTEE**

Dear Alderman/Councillor,

In addition to those matters previously notified to you, the following item(s) will also be considered at the meeting to be held at 5.15 pm on Monday, 14th January, 2019.

Yours faithfully,

SUZANNE WYLIE

Chief Executive

**AGENDA:**

3. **Audit & Risk**

- (a) Internal Audit of BWUH (Pages 1 - 10)

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Subject:	Internal Audit Update
Date:	14 January 2019
Reporting Officer:	Claire O'Prey, Acting Head of Audit, Governance and Risk Services (AGRS)
Contact Officer:	As above

## Restricted Reports

Is this report restricted?

Yes

☐

No

☐ x

If Yes, when will the report become unrestricted?

After Committee Decision

After Council Decision

Some time in the future

Never

☐  
☐  
☐  
☐

## Call-in

Is the decision eligible for Call-in?

Yes

☐






No

☐ x

<b>1.0</b>	<b>Purpose of Report or Summary of main Issues</b>
1.1	The purpose of this report is to provide Members with an update on the outcome of an internal audit review undertaken at the Belfast Waterfront and Ulster Hall (BWUH) Ltd.
<b>2.0</b>	<b>Recommendations</b>
	That the Committee notes the report.
<b>3.0</b>	<b>Main report</b>
	<u>Key Issues</u>
3.1	When BWUH Ltd was established a number of measures were put in place to ensure that there would be appropriate governance / oversight. This included a requirement for the Company to have an internal audit function and an audit and risk committee.

3.2	The Council's Audit, Governance and Risk Services (AGRS) has fulfilled the internal audit role at the Company and have agreed a three-year internal audit plan with the Company's Audit & Risk Committee.
3.3	In November 2018, AGRS completed an internal audit review at the Company, which focused on risk management, procurement / contract management, sales and marketing and operations. A second audit is planned for early 2019 which will focus on key financial controls and performance management.
3.4	The detailed audit report has been issued and agreed with Company management and the Company's Audit & Risk Committee. The executive summary from the audit report is attached in the appendix.
3.5	In summary, AGRS has been able to provide a positive assurance with the overall outcome / opinion of "some improvement needed" – the 2nd level of 4 possible levels of assurance. Management has agreed an action plan to address the issues arising from the audit and these will be tracked by the Company's Audit & Risk Committee.
3.6	<u>Financial &amp; Resource Implications</u> None
3.7	<u>Equality or Good Relations Implications/Rural Needs Assessment</u> None
<b>4.0</b>	<b>Appendices</b>
4.1	Appendix A – Executive Summary (internal audit report)

## Executive Summary

<b>Audit Title:</b>	<b>BWUH Ltd (Audit)</b>	<b>Audit Opinion:</b>	 <p><b>Some Improvement Needed</b></p>	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.
	Belfast Waterfront & Ulster Hall Limited (BWUH Ltd) was formed in January 2016 as a company wholly owned by Belfast City Council (BCC). Its purpose is to manage the Belfast Waterfront and Ulster Hall venues on behalf of the Council in accordance with the provisions detailed in Leases, and a Contract (including a services specification).			
	Per the company's business plan, projections for income and expenditure of the company have been set out for the next five years of operation. The key target in relation to finance is to reduce the Council's contribution (via the management fee) towards the operation of the venues from £3.175m in 16/17 to £1.575m in 20/21 by a combination of rigorous cost control and growing sales revenue. Financial performance is monitored by the Senior Management Team via a monthly financial report which includes a Profit and Loss, Balance Sheet, Scorecard, Event Contribution Analysis and Cost Centre Analysis. Regular reports are also presented to the Board of Directors and the Shareholders Committee and meetings / briefings are held regularly with BCC officers.			
	The company's Senior Management Team (SMT) is comprised of the Managing Director, a Sales & Marketing Director, a Director of Event Operations and a Business Support Director. BWUH's operational staff currently comprises 64 full time equivalent staff.			
	<p>In Belfast City Council, the Senior Responsible Officer (SRO) for BWUH is the Director of Economic Development. The SRO reports to the Council's Corporate Management Team (CMT) and to the Shareholder's Committee in conjunction with the BWUH SMT.</p> <p>BWUH's Board is comprised of a chairperson and 5 other non-executive directors. The Board's key role is to oversee successful delivery of the strategic and commercial objectives of BWUH Ltd. BCC's Chief Executive and Deputy Chief Executive / Strategic Director of Finance &amp; Resources attend board meetings as observers.</p> <p>BWUH and its Board are independent of BCC and have been granted autonomy to ensure that it is capable of succeeding in a highly competitive marketplace. The relationship between the company and its sole shareholder (BCC) is set out in a Shareholders Agreement. Per the Agreement, performance of the company is reported to and reviewed by the Shareholders Committee of Belfast City Council.</p>			

	<p>Also within the Shareholders Agreement is a list of 'Reserved Matters' which are decisions that can only be made by BCC, not by the company itself. The Shareholders Committee is responsible for approving the Company's business plan.</p> <p>A Business Plan (covering April 2016 to March 2021) was agreed by the Shareholders Committee in June 2016. Individual plans covering each year of the main plan will be presented to and agreed with the Shareholders Committee. The 18/19 plan was agreed by the Board in December 2017 and was agreed with the Shareholders Committee in January 2018.</p> <p>In addition to the Shareholders Agreement, the company's Articles of Association have been approved and adopted. A range of financial and governance policies and processes are in place in the company.</p>
<b>RISK</b>	<p>Our audit reviewed the controls in places to mitigate against the following potential risks:</p> <ul style="list-style-type: none"> <li>• If BWUH does not have adequate processes in place for identifying, managing and reporting on risk then there is an increased likelihood of risks materialising which could adversely affect the achievement of objectives.</li> <li>• If BWUH does not have an effective sales and marketing strategy targets may not be met and there is an increased likelihood of continued reliance on the Council's management fee to sustain the company.</li> <li>• If goods and services are not purchased on a timely basis, in compliance with legislation and policy, and do not achieve value for money there is an increased risk of purchases over market value, unapproved purchases which will have a negative impact on the achievement of objectives.</li> <li>• If contracts are not managed effectively there is an increased likelihood that they will not be fully discharged which will have an impact on the achievement of objectives.</li> <li>• Events that are poorly planned or delivered may result in reputational damage for the company and have negative impact on sales.</li> <li>• Poor management and maintenance of venues may negatively impact on customer satisfaction, lead to legal fines for non-compliance with legislation which will result in reputational damage for the company and have a negative impact on sales.</li> </ul>
<b>Basis of Audit Opinion:</b>	
<p>At the outset of our audit, we agreed that we would review risks and controls in place to achieve the following objectives:</p> <ol style="list-style-type: none"> <li>1. To identify and manage key risks that could impact on the delivery of the business plan;</li> <li>2. To undertake sales and marketing activity to help deliver BWUH targets;</li> <li>3. To procure goods and services on according to legal and policy requirements and to manage contracts to achieve the outcomes required; and</li> </ol>	

4. To plan and deliver events according to customer requirements and maintain BWUH venues.

On the basis of our review we found that some improvement is required to address the adequacy and effectiveness of the controls in place to deliver the objectives reviewed. In general we found that the key controls are in place but require further development or documentation in policy. Our findings for each area reviewed are as follows:

### **1) Risk Management**

We found that the key elements of risk management are in place. These include a risk management policy, a risk register for recording corporate (“priority”) risks and operational risks and regular review and reporting to the Board and Shareholders’ Committee. However, there are some areas that require further development.

There is currently no requirement for risks, particularly priority risks, to be linked to the objectives of the company as set out in the business plan. Linking risks to objectives in this way helps to ensure that all corporate objectives are covered in terms of risk management. This also helps to embed a culture of risk management into the planning and day to day operations of the company. In reviewing alignment between the two we found that there were some objectives that were clearly linked to risks but others that were partially or not related. This results in reduced effectiveness of the risk information that is presented to the Board and Shareholders’ as a means of assisting with the successful management of the company.

We found that risk is being reported on monthly and quarterly basis. However, the full reporting schedule has not been incorporated into the risk management policy. Improvements were also identified regarding the annual review of risk, updating the risk management policy to include the company’s risk targets and the development of action plans for amber risks. These issues do not have a significant impact on risk management but addressing them will help to enhance and improve it.

### **2) Sales and Marketing**

The Sales and Marketing Strategy is outlined in the BWUH Business Plan for 2018/19. It sets six objectives and then summarises a range of activities to support the achievement of these. The audit identified that a significant amount of work has been completed and is ongoing with respect to the implementation of the Sales & Marketing strategy as well as the operation of the Sales & Marketing team.

### 3) Procurement and Contract Management

The BWUH procurement policy was created in May 2016 and revised in May 2017. We have been unable to confirm that it was approved by the Board. We reviewed the procurement policy and compliance with it and as a result we identified some areas where improvements to the policies and processes are required as well as some instances where we were unable to confirm the policy had been followed for a sample of purchases/contracts. The issues we identified were:

#### Tendering Process

The procurement policy requires a tender exercise to be carried out for all purchases greater than £70,000. BWUH Ltd. do not currently have a documented tendering process as part of their procurement policy. We have been informed that the company will adhere to its own procurement process for tendering. The company intends to run tender competitions for several contracts in the new year. Two contracts have expired and have been extended and another, due to expire in November 2018, has also been extended. This may be indicative of issues with procurement planning (see contracts register issue on the next page) and underlines the need for plans and processes to be put in place for these contracts to be re-tendered. Without a documented tendering and procurement planning processes there is a risk that contracts will be awarded without a fair and transparent process and expired contracts need to be extended, potentially impacting on value for money.

#### Single Tender Action

The procurement policy does not outline an approval process for the awarding of a new contract without competition (single tender action). There were two occasions where a contract was awarded to a supplier as a single tender action because a replacement supplier was required urgently. In one case authorisation was sought from the Board and in the other the Managing Director advised that she authorised the award of a new cleaning contract, due to the poor performance of the existing contractor, the urgent need to find a replacement, and the relatively small estimated value of the contract. Without a documented approval process for single tender actions there is a risk that the company cannot demonstrate fairness and transparency in its procurements and best value is not obtained in the purchase of goods and services.

#### Contract Management Process

BWUH inherited four contracts when it was formed. These did not include contract management processes within the contracts themselves. As a result the company has been in the process of developing a contracts management process. A contracts manager has recently been appointed to ensure that appropriate contract management arrangements are put in place and adhered to. The contracts in question are either being rolled forward on a monthly basis or are due expire in the next 6 months. The intention is to carry out tender exercises to replace these in the new year.



It is important for these and future contracts that documented contract management requirements are put in place to better ensure goods and services are delivered to specification and that in the event of poor performance it can be effectively managed.

#### Procurement Compliance

We found that current practice does not always follow the procurement policy. For example authorisation by at least two members of the Senior Management Team is not sought for expenditure below £70,000 as required in policy. The requirement to seek two members of the Senior Management Team to authorise all levels of expenditure does not happen for revenue expenditure as the majority of these purchases are of small value. We found that capital expenditure proposals are governed by a separate approval process as the capital expenditure plan and all business cases must be signed off by the SMT and then by the Council's Strategic Planning and Resource Committee but this is not currently documented in policy. As a result management need to review and clarify what is required for different types and levels of expenditure and update the procurement policy accordingly.

In addition, in the sample of 6 purchase orders reviewed we found:

- one case where we were unable to confirm that the minimum number of quotations had been sought for the original purchase and we were also unable to confirm that approval had been given by the Board to extend the contract beyond its expiration as required by the procurement policy; and
- one case, for capital expenditure, where we were unable to confirm that a capital expenditure form had been completed.

Without clear requirements and compliance with procurement policy there is an increased risk that procurement exercises will not be fair, transparent and value for money.

#### Contracts Register/Procurement Planning

We found that there is no corporate contract register for recording all contracts that will need to be re-procured in the future. Without a contract register it is more difficult to carry out effective procurement planning, leading to contracts continuing beyond expiry dates and the need to extend contracts using single tender actions. This may result in legal challenges and poor value for money.

#### 4) Events Planning, Delivery and Venue Management

##### Events Process

The previous audit identified the need to develop and document clear and detailed processes for sales, planning and delivery of events. The implementation of this is ongoing and is expected to be completed by 28<sup>th</sup> February 2019. The existing Business Excellence Manual sets out key controls for booking, planning and delivering events that we tested in this audit. Of the events reviewed we found that a number of key control were not operating effectively:

- In 8 out of 10 instances an event specific risk assessment for health and safety was not uploaded to VEMS and no evidence was provided that they had been completed. Not all events will require an event specific risk assessment, for example a generic risk assessment will be sufficient for standard entertainment events but the criteria for when event specific risk assessment are required are not fully documented in the policy. If there are not clear criteria for when an event specific risk assessment should be carried out there is a greater likelihood they will not be carried out when necessary, resulting in an increased risk to life and property. Management advised AGRS that in future the event manager assigned to the event will determine whether or not a standard risk assessment for the event is not sufficient. This will be controlled within VEMS via a check sheet.
- In all 10 cases a signed copy of the agreed event schedule (this contains what will be delivered and when as part of the event) had not been uploaded to VEMS and no evidence was provided at the time of fieldwork to show they had been completed. However, in practice it is not expected that a signed copy will be returned by the client. It is sufficient to email the final event schedule to them and assume it is agreed if there is no response. As a result the main issue identified is that policy and processes do not reflect current practice. Management advised AGRS that the revised end to end process will reflect the required practice.

We also identified that some item prices require manual input to VEMS and that there is some ambiguity regarding responsibility for closing work orders (a work order is created for each deliverable on the event schedule). Without these controls operating there could be a negative financial impact due to work orders not being invoiced or incorrect prices being input leading to under or over charging.

##### Venue Maintenance

BWUH has a service level agreement with Belfast City Council Property Maintenance Unit. The SLA commenced in April 2016 and is due to expire in March 2019. The SLA can be extended if both parties agree. Management have advised AGRS that they envisage the SLA will continue for the

foreseeable future. The SLA is due to expire in the next 6 months and there is a risk that if a decision is not taken on whether to continue it BWUH will be without a satisfactory maintenance service for its properties resulting in client dissatisfaction and loss of business.

### 5) Implemented recommendations

As part of this audit we reviewed related recommendations where management had confirmed to the Board that the recommendation had been fully implemented. At the date of fieldwork there were 4 recommendations, all relating to risk management, that were reported as complete. We found that in 2 of these further work is still required. To fully implement these recommendations the risk management policy needs to be updated to reflect risk reporting practices.

#### Agreed Actions

High	2	To address the issues identified in the audit management have agreed to implement 2 high priority recommendations, 6 medium priority recommendations and 1 low priority recommendation. The high and medium priority recommendations are in the following areas:
Medium	6	
Low	1	
		<p><u>High Priority</u></p> <ol style="list-style-type: none"> <li>1. The development of processes and procedures for tendering for upcoming and future procurements;</li> <li>2. A decision should be taken on the maintenance SLA and agreement reached with BCC if it is to continue beyond March 2019 and alternative arrangements put in place for ensuring that there is ongoing provision of a maintenance service that will not impact on operations at ICC Belfast or the Ulster Hall; and</li> </ol> <p><u>Medium Priority</u></p> <ol style="list-style-type: none"> <li>1. The development of risk management to include explicit integration with the business plan and updating the risk management policy to reflect current practice in relation to reporting schedule and target risk scores;</li> <li>2. The procurement policy is reviewed and updated to reflect operational practices. The updated policy should be reviewed and approved by the Board;</li> <li>3. The development of processes and procedures for contract management for upcoming and future procurements;</li> <li>4. Developing a process for recording and approving single tender actions;</li> <li>5. The creation of a contracts register for recording contracts that will need to be re-procured in the future and a related procurement planning process; and</li> <li>6. Development of and compliance with the events process.</li> </ol>

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