

**CORPORATE SERVICES**

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**Assurance Statement**

**for period ending 31 March 2008**

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## Section 1 - Introduction

### 1.1 Introduction

1.1.1 The purpose of this report is to present the Head of Audit, Governance and Risk Service's opinion on the overall adequacy and effectiveness of the Council's internal control environment. In forming this opinion, we have taken into consideration:

- the key elements of the Council's internal control environment and associated risk management and governance arrangements, as detailed in the Council's Annual Governance Statement
- the results of audit work undertaken in 2007/2008 and the management responses / actions taken in respect of audit reports
- future developments which may lead to improvements in the internal control environment.

### 1.2 Report Layout

1.2.1 The report is set out as follows:

- Section 2 – Assurance statement. This section sets out the background to the statement and the assurance statement itself.
- Section 3 - Evidence for Assurance Statement. This section includes an overview of the internal control environment within the Council to support the Assurance Statement and a summary of the audits and other work completed in 2007/08.
- Section 4 – Progress made against the priorities and targets included in the Audit Strategy and Plan for 2007/08.
- Appendices.

## Section 2 – Assurance Statement

### 2.1 *Background to Assurance Statement*

2.1.1 The Assurance Statement forms part of the corporate governance arrangements for Belfast City Council. The Council is responsible for the stewardship of public money and must therefore demonstrate that it has adequate and effective systems of risk management, governance and internal control. This is reflected through the requirement for the Director of Corporate Services to sign an Annual Governance Statement in the Annual Accounts. My Assurance Statement is important because it provides the Director of Corporate Services, Assurance Board and the Audit Panel with an independent professional opinion on the overall adequacy and effectiveness of the Council's control environment.

2.1.2 The CIPFA Code of Practice for Internal Audit in Local Government requires the Head of Internal Audit to produce a formal report on the overall adequacy and effectiveness of the organisation's internal control environment. This report fulfils that requirement. The internal control environment can be seen as comprising the Council's policies, procedures and operations in place to:

- establish and monitor the achievement of organisational objectives
- identify, assess and manage the risks to achieving the organisation's objectives
- facilitate policy and decision-making
- ensure the economical, effective and efficient use of resources
- ensure compliance with established policies, procedures, laws and regulations.

2.1.3 In providing this assurance it should be noted that Audit, Governance and Risk Services can provide a reasonable rather than absolute assurance on the Council's internal control environment. Other sources of assurance include assurances from management, for example through Director / Head of Service / senior manager sign-offs and the work of external review bodies, such as the external auditor's reports and the accounts. It should also be noted that the Council's risk management processes are still being developed. As risk management processes become more embedded and mature, I will be able to place greater reliance on them as both a basis for audit work and to provide a greater level of assurance to senior management and Members.

## 2.2 Assurance Statement

- 2.2.1 As Head of Audit, Governance and Risk Services, on the basis of work carried out, I can provide a reasonable assurance regarding the adequacy and effectiveness of the Council's control environment. In forming this opinion, I have taken account of the Council's internal control systems, risk management and governance arrangements. Some weaknesses and areas for improvement have been identified through our audit work, and these have been reflected in audit progress reports and reports to senior management and appropriate recommendations have been agreed.
- 2.2.2 The majority of audits have resulted in 'green' or 'amber' opinions, the level of agreement with audit recommendations is good, as is the level of implementation of recommendations. One 'red' level assurance report was issued, relating to the Council's computer use policy and the need to strengthen controls to monitor compliance with the policy. This and other audit reports have been summarised during the year in regular internal audit progress reports to the Assurance Board / Audit Panel. More information on the classification of audits is provided at Section 3 of this report.
- 2.2.3 During the course of 2007/08 the Council implemented a new financial system and associated business processes. It is inevitable that implementation of a major and complex new system and new business processes results in teething problems. However, audit work undertaken during the year has highlighted weaknesses in the arrangements for system and process testing prior to go-live on 1 October 2007 and further specific issues have been raised since go live, including issues relating to data accuracy / migration, controls over bank reconciliations and debt management. These issues have been reported to the Better Business Programme Board which is overseeing the project. In our audit of Treasury Management arrangements, we have highlighted the risks of over-reliance on a small number of key staff in Financial Services. This issue has been reported to the Director of Corporate Services and the Head of Financial Services. In addition, it should be noted that Financial Services is currently subject to a structural review by the Business Improvement Service (BIS), which should help address the issue of over-reliance on a small number of key staff. Further audit work is ongoing in relation to the new purchasing / payments and accounts receivable processes and we will continue to monitor the actions taken to bed down the new systems and processes successfully over the next year.

2.2.4 With regard to risk management and governance, a number of improvements have been implemented during 2007/08, as detailed in the Council's Annual Governance Statement. In particular, further work has been undertaken to embed risk management processes at all levels in the organisation. With regard to governance, the formal adoption of a Code of Corporate Governance for Belfast City Council now provides a clear focus for improving governance arrangements. However, it is fair to say that the Council's risk management and governance processes are still being developed. Planned work for 2008/09 includes formal communication and implementation of the Code of Corporate Governance and also an Assurance Framework for Belfast City Council. If implemented successfully, these developments should improve the Council's overall control environment and will further support the independent assurance I can provide to Members and senior management in the future.

2.2.5 Evidence to support this statement is provided at Section 3 of this report.

## **Section 3 - Evidence for Assurance Statement**

### **3.1 Introduction**

3.1.1 This section of the report provides details of the evidence on which we have based our assurance statement. This takes the form of:

- an overview of the internal control environment in Belfast City Council (see section 3.2)
- the results of individual audits undertaken during 2007/08 (see section 3.3)
- the results of other work undertaken by the Section in relation to risk management, governance, business continuity and project work (see section 3.4)

### **3.2 Overview of the internal control environment in Belfast City Council**

3.2.1 The new requirement to produce an Annual Governance Statement (reported separately to the Assurance Board and Audit Panel) as part of the annual accounts, provides an opportunity to describe the current governance arrangements in place in the Council and the arrangements to review the effectiveness of these arrangements. As such, unlike in previous years, I do not intend to document all the arrangements, as they are set out in the Annual Governance statement itself. However, the process adopted by the Council to develop the Governance Statement and comply with best practice demonstrates the seriousness with which the Council takes governance matters and the efforts that are being made to improve governance.

### **3.3 Results of Audits Completed during 2007/2008**

3.3.1 Audit, Governance and Risk Services work undertaken during 2007/08 has had an influence on our overall opinion on the adequacy and effectiveness of the Council's internal control environment, as set out in the Assurance Statement at Section 2 of this report. Audits are classified as follows:

Table 1: Assurance Levels

| <b>Level</b> | <b>Definition</b>                                                                         |
|--------------|-------------------------------------------------------------------------------------------|
| RED          | Significant / key risks are not being controlled to an acceptable level.                  |
| AMBER        | Risks are controlled to an acceptable level but the system of controls could be enhanced. |
| GREEN        | Risks are controlled to an acceptable level by a robust system of controls.               |

3.3.2 Table 2 below shows the opinion reached on each individual audit assignment.

**Table 2: Audit Opinion on Finalised Audits 2007/08**

| <b>No.</b> | <b>Audit Activity</b>                                                   | <b>Opinion</b> |
|------------|-------------------------------------------------------------------------|----------------|
| 1          | Audit of Treasury Management                                            | Amber          |
| 2          | Audit of Arts Grant Funding                                             | Amber          |
| 3          | Audit of Food Safety                                                    | Green          |
| 4          | Audit of Parks & Amenities (Facilities Management Agreements Follow Up) | Amber          |
| 5          | Audit of Community Services                                             | Amber          |
| 6          | Audit of Computer Use & Legislative Compliance                          | Red            |
| 7          | Audit of Insurance                                                      | Amber          |
| 8          | Follow Up on Consumer Advice Centre                                     | Green          |
| 9          | Follow Up on Domestic Refuse Collection                                 | Green          |
| 10         | Follow Up on Industrial Estates & Gasworks                              | Green          |

3.3.3 In summary, of the 10 systems-based audits / follow-ups were completed in 2007/08, 4 received green level assurance, 5 received amber level assurance and 1 received red level assurance. This can be compared to the 2006/07 figures when, of the 14 audits completed using the above “traffic light” system, 3 resulted in green level assurance being provided; 10 resulted in amber assurance being provided; 1 resulted in red assurance being provided. The report receiving red level assurance during 2007/08 related to Computer Use Policy, details of which are summarised in the May / June 2008 audit progress report to the Assurance Board/Audit Panel.

3.3.4 Audit, Governance and Risk Services also undertake follow-up reviews to confirm that recommendations have been implemented. In 2007/08 100% of recommendations raised in audit reports were accepted by management (against a target of 90%) and 84% of recommendations were implemented (against a target of 80%). This can be compared with the 2006/07 figures, when 97% of recommendations were accepted by management and 81% of recommendations were implemented. More details regarding the detailed audit findings and recommendations arising from the audits / follow ups set out at Table 2 above have been provided to the Audit Panel / Assurance Board through audit progress reports issued during the course of 2007 and 2008.

### **3.4 Results of Other Work Completed during 2007/2008**

3.4.1 The results of a lot of other work undertaken by Audit, Governance and Risk Services during 2007/08 is taken into account when preparing this annual statement on the Council's control environment. These areas of work may not have resulted in conventional audit reports with an opinion in the format shown at Tables 1 / 2 above, but they are, nonetheless, relevant to our overall opinion. They often took the form of gap analyses or reviews designed to reach a specific conclusion. The work related to:

- Better Business
- Annual Stock Count
- Audit work for Arc21
- Investigations
- Overtime – Value for Money Study
- Cost of Absence Follow Up

3.4.2 It should be noted that none of the fraud investigations undertaken resulted in us identifying evidence that the Council itself had been defrauded. However, where relevant, recommendations have been raised / agreed with management to ensure that the risk of fraud is mitigated in the future. A summary of the issues arising from the above reviews and investigations is included in Appendix 1.

#### Risk Management, Governance and Business Continuity

3.4.3 Audit, Governance and Risk Services have continued to take the lead on these initiatives to enable the Council to meet its obligations under the Local Government (Accounts and Audit) Regulations 2006. During the year operational risk registers were developed for all key services within the council to complement the existing Departmental and Corporate risk registers. Quarterly reporting on risk management activities including updates to the risk registers and associated action plans is now in place for all levels of risk management.

3.4.4 During the year AGRS have continued to provide risk management training to all senior management teams within the Council. Work has also continued to embed the risk management processes, through working with managers to develop action plans

to manage identified risks and regular reporting to Service Departmental and Chief Officer Management Team meetings.

- 3.4.5 A local code of governance has been developed for Belfast City Council. This code is based on new CIPFA / SOLACE (Society of Local Authority Chief Executives) guidance specific to local authorities. On 2<sup>nd</sup> April it was approved by the Audit Panel. AGRS will carry out periodic audit reviews. These will focus on the progress made by managers in completing the actions agreed in this code. Compliance with the Code will be integral to the production of the Council's Annual Governance Statement.
- 3.4.6 Business Continuity Management was initiated to address the need for the Council to be able to deliver key services in the event of a major disruption. A Business Continuity Policy has been produced and was approved by COMT on 11<sup>th</sup> September 2006. Business Continuity strategies and plans have now been produced for all of the Council's key services. A testing programme is currently being developed for the BCM service plans; timing of these tests will be in line with the service BCM priority levels. The type of test carried out will be the most appropriate for individual services
- 3.4.7 In order to ensure that the Council is prepared to meet the threat of a pandemic, a Business Continuity Pandemic Plan has been prepared. The Plan outlines measures to be adopted by the Council in the event of a pandemic and includes the identification of both roles, responsibilities and critical services. This Plan was approved by COMT in December 2006. Specific operational plans have been prepared for critical services; these detail service requirements in a pandemic and how they can be addressed. Strategic plans outlining corporate activities including human resources and corporate communications are in the process of being developed. These plans are updated in line with the BCM policy.

## **Section 4 Progress made against 2007/08 Audit Plan**

4.1 Table 3 summarises progress made in relation to the priorities and targets included in the 2007/08 Audit, Governance and Risk Services Plan. More details, in relation to individual audits / project work completed are provided at Appendix 3.

**Table 3: Audit Plan 2007/2008 – Progress against Priorities & Targets**

| <b>Priority</b>                                                                  | <b>Targets</b>                                                                                    | <b>Position as at End 2007/08</b>                                                                                                                     |
|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| To agree an annual Audit Plan                                                    | Discuss and agree plan with Assurance Board, Directors, LGA and Audit Panel.                      | <b>Complete</b>                                                                                                                                       |
| To deliver the Audit plan.                                                       | 70% of planned audits completed                                                                   | <b>Part Complete</b><br>68% Complete<br>14% Part Complete (draft report stage)                                                                        |
|                                                                                  | 90% audit recommendations accepted                                                                | <b>Complete</b><br>100% audit recommendations accepted in 2007/08                                                                                     |
|                                                                                  | 80% of agreed audit recommendations implemented (confirmed by follow-up audits)                   | <b>Complete</b><br>84% audit recommendations implemented in 2007/08                                                                                   |
| To provide an annual assurance statement to the Assurance Board and Audit Panel. | 3 Assurance Board meetings to be held.                                                            | <b>Complete</b><br>4 meetings held during 2007/08                                                                                                     |
|                                                                                  | 3 Audit Panel meetings held                                                                       | <b>Complete</b><br>3 Audit Panel meetings held 2007/08                                                                                                |
|                                                                                  | Annual report to be produced by June (after the end of the financial year)                        | <b>Complete</b>                                                                                                                                       |
| To assist the embedding of risk management processes within the Council          | Quarterly attendance at DMTs and COMT to help ensure risk registers / action plans are up to date | <b>Complete</b>                                                                                                                                       |
|                                                                                  | Facilitate production of operational risk registers for key services                              | <b>Complete</b><br>All risk registers are now in place.                                                                                               |
|                                                                                  | Implementation of new risk management software during 2007/08                                     | <b>Part Complete</b><br>An internal pilot within AGRS has been completed. A wider pilot is currently running from May to June 2008.                   |
|                                                                                  | Delivery of risk management training programme                                                    | <b>Complete</b><br>Delivery of initial risk management training programme is complete. Training will now be expanded to cover more operational staff. |

**AUDIT ASSURANCE STATEMENT period ending 31 March 2008**

| <b>Priority</b>                                                                            | <b>Targets</b>                                                                                                                                   | <b>Position as at End 2007/08</b>                                                                                                                                                 |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To assist the Council in implementing its Improvement Agenda and achieving good governance | Identification of specific savings opportunities to assist the council in meeting efficiency targets                                             | <b>Complete</b><br>Covered through Cost of Absence and Overtime reviews                                                                                                           |
|                                                                                            | Produce a formal Code of Governance                                                                                                              | <b>Complete</b><br>Code of Governance approved by COMT. (Approved by Audit Panel 2/4/08)                                                                                          |
|                                                                                            | Review action plans to ensure compliance with Code of Governance by March 2008                                                                   | <b>In progress</b><br>The Code of Governance was approved by the Audit Panel in May 2008. Work to ensure compliance with the new Code of Governance will be performed in 2008/09. |
| To assist with the development of business continuity processes in the Council             | To ensure operational strategies are in place for all key services                                                                               | <b>Complete</b><br>Strategies in place for all key services.                                                                                                                      |
|                                                                                            | To ensure plans are produced, maintained and exercised (where applicable)                                                                        | <b>Part Complete</b><br>The majority of plans for key services are completed or in draft awaiting approval.                                                                       |
| To provide assurance on the Council's financial systems                                    | Provide ongoing advice on controls/new financial processes being implemented as part of the new financial system prior to system implementation. | <b>Complete</b><br>Better business work will be ongoing again in 2008/09.                                                                                                         |

4.2 Of the 17 targets noted above, 13 have been fully achieved, 3 partly achieved and 1 not achieved.

4.3 The completion of 68% of planned audits and follow ups against the target of 70% was largely due to the higher than expected levels of other work carried out during 2007/08 (see Appendix 1).

## Appendix 1 – Summary of Other Audit Work Undertaken During 2007/08

### Other Reviews

#### 1. Better Business

We undertook a number of pieces of work in relation to Better Business, the programme which is overseeing the implementation of the new financial system and processes. This work included:

- Review of new processes and financial procedures prior to go-live, in particular consideration of the adequacy of process testing
- Review of the migration of data from the legacy Cfacs system to the new SAP system
- Bringing to the attention of management and the Better Business Board specific issues, such as the need for a clear approach to debt management (dunning)

In addition, during 2007/08 we completed an audit of treasury management (covered in audit progress reports). Further audit work is ongoing in relation to the new purchasing / payments and accounts receivable processes and we will continue to monitor the actions taken to bed down the new systems and processes successfully over the next year.

#### 2. Annual Stock count

We attended the annual stock count and confirmed it complied with written procedures.

#### 3. Audit work for Arc21

We have continued to provide an audit service to Arc21 during 2007/08 under a Service Level Agreement with Arc21. Audit reports are issued directly to Arc21 and are essentially matters for their attention. We therefore do not report on these issues in detail to BCC management.

#### 4. Investigations

During the course of 2007/08, we undertook a small number of investigations or related follow up reviews to ensure that any control issues arising from previous investigations had been addressed. These reviews related to:

- Building control – receipt of cheques
- Recycling
- Financial Services – issue of cheque
- Property Maintenance – drains contract
- Waste Management – contractual issue at landfill
- Control over fuel stores

There was no evidence in any of the above investigations that the Council had been defrauded. Where relevant, recommendations have been raised in order to improve the system of control.

**5. Cost of Absence Follow Up**

This relates to a review of the systems in place to capture the cost of absence in the Council. A follow up report on this topic went to the Assurance Board / Audit Panel in September / October 2007.

**6. Overtime**

This was a corporate Value for Money (VfM) review of overtime and was reported in summary form to the Assurance Board / Audit Panel in November / December 2007.

**Appendix 2: Progress Made against 2007/08 Audit Plan (Individual Assignments)**

This table shows progress made in relation to specific audits / pieces of work included in the plan for 2007/08.

| <b>PLANNED ACTIVITIES</b>                                               | <b>2007/08 YEAR END POSITION</b>                                            |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>Risk Management</b>                                                  |                                                                             |
| Review of Risk management Strategy, policies and procedures             | Completed                                                                   |
| Development and review of risk registers                                | Completed                                                                   |
| Risk Reporting                                                          | In progress / ongoing                                                       |
| Risk Management Training                                                | In progress / ongoing                                                       |
| Risk Management Software – Implementation                               | In progress – Pilot testing stage                                           |
| <b>Governance</b>                                                       |                                                                             |
| Produce Code of Governance for Belfast City Council                     | Completed, reported to Audit Panel May 08                                   |
| Review of Governance arrangements against new CIPFA / SOLACE guidelines | In progress                                                                 |
| Governance Compliance Reviews (Gifts and Hospitality)                   | Completed, reported to Audit Panel Apr 08                                   |
| <b>Business Continuity Management (BCM)</b>                             |                                                                             |
| Development of Business Continuity Strategies                           | Completed                                                                   |
| Development of Business Continuity Plans                                | In progress                                                                 |
| Exercising Business Continuity Plans                                    | Will now take place in 2008/09                                              |
| Pandemic Planning                                                       | Completed (ongoing monitoring only)                                         |
| BCM Training Programme & Administration                                 | In progress                                                                 |
| <b>Statement of Internal Control (SIC)</b>                              |                                                                             |
| Compilation of Evidence                                                 | In progress                                                                 |
| <b>Financial Audits</b>                                                 |                                                                             |
| Annual Stock Count                                                      | Completed (attendance at stock count)                                       |
| Treasury Management                                                     | Completed, to be reported to Audit Panel June 08                            |
| Income Collection / Debtors                                             | In progress                                                                 |
| Purchasing / Payments                                                   | In progress                                                                 |
| Payroll (Audit Command Language)                                        | In progress                                                                 |
| Corporate Credit Cards                                                  | Part Completed - Draft report issued                                        |
| <b>VFM Audits</b>                                                       |                                                                             |
| Cost of Overtime                                                        | Completed, reported to Audit Panel Dec 07                                   |
| Cost of Absence - follow up                                             | Completed, reported to Audit Panel Dec 07                                   |
| <b>Service Audits</b>                                                   |                                                                             |
| Culture and Arts Grant Funding                                          | Completed, reported to Audit Panel Dec 07                                   |
| Property Maintenance                                                    | Area covered by investigation follow-up (see below)                         |
| Outdoor Leisure                                                         | Replaced by audit of compensation claims                                    |
| Food Safety                                                             | Completed, reported to Audit Panel Apr 08                                   |
| Health and Safety                                                       | Fieldwork complete, draft report being prepared                             |
| Employee Resourcing                                                     | Deferred to 08/09 plan                                                      |
| Waterfront Hall / Ulster Hall                                           | Replaced by advisory work on new Waterfront Hall ticketing system - ongoing |
| Community Services                                                      | Completed, reported to Audit Panel Dec 07                                   |
| Absence Management                                                      | Part Completed - Draft report issued                                        |
| Insurance                                                               | Completed, reported to Audit Panel Apr 08                                   |

**AUDIT ASSURANCE STATEMENT period ending 31 March 2008**

| <b>PLANNED ACTIVITIES</b>                             | <b>2007/08 YEAR END POSITION</b>                        |
|-------------------------------------------------------|---------------------------------------------------------|
| <b>Follow Up Audits</b>                               |                                                         |
| Culture & Arts Grant Funding Follow Up                | Part Completed – draft report issued                    |
| Consumer Advice Centre Follow Up                      | Completed, reported to Audit Panel Apr 08               |
| Domestic Refuse Collection Follow Up                  | Completed, reported to Audit Panel Apr 08               |
| Industrial Estates and Gasworks Follow Up             | Completed, reported to Audit Panel Dec 07               |
| Parks and Amenities (Facility Management Agreements)  | Completed, to be reported to Audit Panel June 08        |
| <b>Computer Audit</b>                                 |                                                         |
| ISB Project Management                                | Deferred to 08/09 plan                                  |
| Computer Use Policy                                   | Completed, to be reported to Audit Panel June 08        |
| <b>Investigations Provision</b>                       |                                                         |
| Investigations                                        | Completed                                               |
| Property Maintenance Drainage Investigation Follow Up | Completed, to be reported to Audit Panel June 08        |
| Waste Management - Follow Up                          | Completed, reported to Audit Panel Apr 08               |
| Fuel Stores Follow Up                                 | Completed, reported to Audit Panel Dec 07               |
| <b>Projects</b> - Better Business - data migration    | Completed / ongoing – reported to Audit Panel June 2008 |
| <b>Other</b> - ARC 21                                 | Completed – reported to Arc21                           |
| Compensation Claims (Parks and Leisure)               | In progress (interim report issued)                     |