

Audit Panel

Tuesday, 21st October, 2014

SPECIAL MEETING OF AUDIT PANEL

Members present: Alderman Rodgers (Chairman);
Alderman M. Campbell;
Councillors Hutchinson, Jones and Mullan; and
Mr. D. Bell.

In attendance: Mr. R. Cregan, Director of Finance and Resources;
Mr. M. McBride, Head of Finance and Performance;
Mr. A. Harrison, Acting Head of Audit, Governance
Risk Services;
Mr. T. Wallace, Financial Accounting Manager;
Mr. R. Allen, Director, Northern Ireland Audit Office;
Mr. A. Knox, Audit Manager, Northern Ireland
Audit Office; and
Mr. J Hanna, Senior Democratic Services Officer.

Apology

An apology was reported on behalf of Councillor Beattie.

Declarations of Interest

No declarations of interest were reported.

Report to Those Charged with Governance 2013/2014

The Committee considered the undernoted report:

“Relevant Background Information

The Local Government Auditor has issued, in draft format, her Report to those charged with Governance for 2013/2014. This summarises the system/control issues arising during the NIAO’s 2013/2014 audit and includes recommendations for management action.

The purpose of this report is to apprise the Audit Panel of the issues raised in the Local Government Auditor’s Report for 2013/2014. At this stage management have not had the opportunity to provide comments and/or actions to address these issues.

Key Issues

The audit is substantially complete and it is anticipated that the Local Government Auditor will certify the 2013-2014 statements with an unqualified opinion.

The Auditor has identified 3 significant risks as part of the audit strategy.

Risk 1 – Provisions

Provisions may not be identified, or if identified, may not be recorded correctly within the accounts.

The Local Government Auditor has highlighted an issue about the length of time the landfill provision covers, recognition of sale of electricity generation as an asset, and access to records after the transfer of leisure to a mutual trust.

Risk 2 – Capital Projects Funded by EU

The risk of incurring ineligible expenditure if the projects do not strictly comply to the terms and conditions of the Letters of Offer.

The Local Government Auditor has highlighted a lack of proactive controls in relation to monitoring compliance and also projects proceeding at risk in advance of receipt of a Letter of Offer.

Risk 3 – Significant Capital or Revenue Projects

The Local Government Auditor believes there may be a risk to the general control environment if key staff are occupied with local government reform rather than normal activities. There is also a risk to investment expenditure delivered through grant programmes if funds are not spent in accordance with terms and conditions specified.

At present The Local Government Auditor has identified 16 areas where she has made recommendations and prioritised them as 1) significant issues for the attention of senior management which may have the potential to result in material weaknesses in internal control, 2) important issues to be addressed by management in their areas of responsibility, and 3) issues of a more minor nature which represents best practice.

In summarising the letter there are:

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- 5 priority 1 areas,
- 5 priority 2 areas, and
- 6 priority 3 area

the 5 priority 1 areas are:

- North Foreshore Landfill Site
- Impairment balances and asset revaluation
- Section 37 & 40 expenditure
- Unaccounted for Asset
- Measured Term Contract tender advertisement

the 4 priority 2 areas are:

- Assets under Construction – Capital
- Expenditure
- Right of access at Leisure Centre Mutual Trust
- Intangible Assets classified as Property Plant and Equipment

the 7 priority 3 areas are:

- Key to the City
- Heritage Asset Valuation
- Stores
- Donated Assets
- Public Sector Internal Audit Standards
- EU Capital Projects
- Waterfront Hall

A detailed response to the draft management letter, identifying timescales and responsible officers, will be completed and brought to a later meeting.

Resource Implications

None

Recommendation

The Audit Panel is requested to note the Report to those charged with Governance Audit results for 2013/2014.”

After discussion, during which the Director of the Northern Ireland Audit Office clarified a number of issues in relation to the sale of electricity generation as an asset and the Audit Office's view on closure costs in relation to landfill sites, the Committee noted the contents of the report and noted also that detailed response to the draft management letter, identifying time scales and responsible officers, would submit to a future meeting.

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Update on Audit of Property Maintenance Unit

(Mr G. Millar, Director of Property and Projects, and Mr. G. Wright, Head of Facilities Management, attended in connection with this item.

The Director of Property and Projects submitted for the Committees consideration the undernoted report:

“1. Relevant Background Information

1.1 The Audit, Governance and Risk Service (AGRS) carried out an audit of the Property Maintenance Unit in 2013. The subsequent draft report contained a number of findings and recommendations, and characterized the overall risk level as ‘Red’. It must be emphasized that this rating was not assigned on the basis of any evidence having been found that any of the risks had actually materialised, but was instead largely related to putting appropriate supporting mechanisms in place to provide assurance that any potential risks were being properly managed and mitigated.

1.2 It must also be noted that the Service does not concur with some of the risks identified and/or with the weight attached to them in the report, in the light of the revised operating environment in which the Property Maintenance Unit now finds itself. Specifically, in the context of the abolition of internal trading and the centralization of maintenance planning and spending, the Unit has sought to concentrate its limited audit and checking resources in the area of the procurement of external services and associated contract-management issues, as this is seen as the area of greatest potential risk.

1.3 Essentially the AGRS report has made recommendations in four principal areas, namely:-

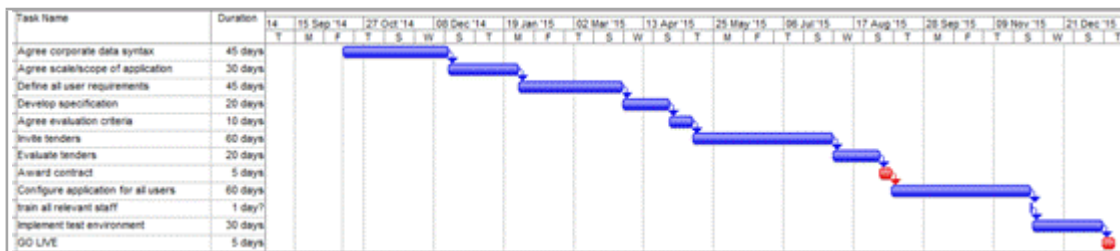
- inadequate information systems, system controls and associated management information;**
- a lack of documented processes across the Unit’s operations and a lack of consistency of application in respect of some processes;**
- evidence of the application of effective controls in areas such as the pre and post-inspection of work;
*and***
- the process for capturing key maintenance data on job cards.**

1.4 In each case, the Unit has been expending considerable effort to secure improvements where the issues in question are

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capable of resolution at a local level, and progress to date is set out below in respect of each of these principal areas.

- 1.5 It must, however, also be pointed out that the Unit is facing an extremely volatile external environment at this time. The creation of a Leisure Trust will, for example, change existing internal processes in respect of the initiation and delivery of planned and reactive maintenance at leisure sites (some of which will be delivered directly by the Trust or its agents and some by BCC) and will require new processes to be developed in respect of this work.
- 1.6 Similarly, the transfer of nearly 50 sites under Local Government Reform, taken together with the potential transfer of nearly 300 pieces of land and property of various types from central government plus approx. 33 off-street car-parks will all have implications not only for the scale and scope of Property Maintenance work but also for the management arrangements surrounding it. Consequently, and while many of the recommendations of the AGRS report remain valid in a general sense, a definitive resolution of some of the issues raised will not be possible for some time.
- 1.7 Lastly, the specification, procurement, configuration and implementation of a fully-featured corporate asset management system which caters for the requirements of all stake-holders is a complex task which will take some considerable time to complete. The chart below illustrates the minimum duration of the necessary work:



This broad outline confirms that the earliest that a new asset management system could feasibly be operational is very late 2015 or early 2016. Even this analysis assumes that a procurement framework may be available to shorten procurement lead times, but if for example a full EU procurement exercise was needed this timescale could lengthen considerably. The main milestones are:

- Creation of agreed user requirements and corporate data 27/01/2015

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- syntax:**
- **Develop system specification, invite tenders and award contract:** 01/09/2015
 - **Configure the application & train all relevant staff:** 01/12/2015
 - **Complete system testing:** 12/01/2016
 - **System 'go-live' for all users:** 01/03/2016

A number of the issues identified by AGRS in the Property Maintenance audit require changes to existing systems which cannot be made in the current versions. The unit has already sought to make whatever changes are possible at this time (see 2.2 below), but only a new corporate system (or a new, bespoke maintenance system) will allow us to address the remaining issues.

2. Progress report

2.1 Progress made in respect of each of the 4 principal areas set out above is as follows:-

(a) Information Systems and management information

At time of writing it remains the case that the unit is using two separate systems to record its costs, with labour and inventory costs being processed in one application and the purchase of goods and services being recorded in the other. Interfaces seek to join up this data, but this does not happen in real time and poses real challenges in terms of extracting definitive and timely management information. In addition, the version of the Archibus system currently in use lags considerably behind the latest available version, and consequently the functionality available to the unit is restricted. A number of the issues raised in the AGRS report could potentially be resolved either by upgrading to the most up-to-date version or by procuring a new, dedicated application.

However a number of departments and sections within the council are involved in storing and retrieving data on council properties (e.g. Legal Services, Estates, Project Management Unit, Insurance Unit, Property Maintenance etc) and consequently discussions have been ongoing for some time in relation to specifying and procuring a dedicated corporate property management application which all interested parties can use in order to centralise and standardise all property-related information. This is doubtless a laudable aim, but it is this unit's view that a necessary preliminary step is to agree a standardised syntax and structure for the storage of property-related costs and information which can be used consistently

by all and which is properly catered for in the council's chart of accounts etc. Without this step, a new system will not necessarily improve the situation.

The Property Maintenance Unit would be keen to see this work come to fruition soon, or alternatively to be free to acquire a separate, dedicated system to assist it in the planning, resourcing, delivery and management of planned and reactive maintenance work.

2.3 A lack of documented procedures across the unit's operations
Following receipt of the draft AGRS report a number of meetings have taken place with AGRS staff to discuss its recommendations. Since then, a review of the unit's principal processes and procedures has taken place which has resulted in the following changes:-

- the development of formal documentation in areas not previously addressed by specific charts or documents (e.g. emergency callout work, see attached);
- the amendment of a number of existing charts and documents to explicitly incorporate recommendations made in the AGRS report (see attached examples; changes highlighted in red);
- the creation of a universal shared folder in which all new and revised process charts can be accessed for reference at any time by all relevant managers, technical and supervisory staff from their desktop;
- the development of a training programme to ensure that staff are aware of the new and revised documentation and that the revised approaches are deployed consistently by all staff;
- the development of a comprehensive management system for the monitoring and management of all statutory compliance duties and obligations of the council.

Of the 10 process charts attached, 1 is new, 4 have been revised in the light of the AGRS report and the remainder have been reviewed and already comply with the report's recommendations. A new job card format has also been produced in line with the audit recommendations (copy attached). Much work has been done in terms of the development of new processes etc, and the current emphasis is on training and delivery.

2.4 Effective controls in the area of pre and post-inspections
This is one area where the unit does not concur with the overall thrust of the AGRS report. The report tends to view the Property Maintenance Unit almost as an external contractor

(as many were under the old CCT regime) rather than as an integral part of the council. Pre- inspections are normally undertaken to ensure that the work is in fact necessary, that the work is properly and proportionately specified (avoiding unnecessary and costly 'gold-plated' solutions) and to provide a benchmark for subsequent post-inspections designed to ensure that what was specified is what was delivered. These are standard techniques used when employing sub-contractors in order to avoid over-charging and profiteering.

However, with the abolition of internal trading and the centralisation of the planning, funding and delivery of maintenance work in the Property Maintenance Unit, it is difficult to see what motivation the unit could have for doing unnecessary work or over-specifying etc., as it would simply deplete our resources more quickly and leave us less able to respond to other corporate priorities. It remains our view that the risks associated with in-house work are of a much lower order than the risks posed by the procurement and management of external contractors, which costs the unit in excess of £2m per annum. Consequently our approach is to use what limited resources we have to carry out pre and post-inspections primarily on the high-risk external work.

Having said all this, the process charts in respect of pre and post-inspection have been modified to take into account the contents of the AGRS report in that, in certain circumstances, we will in future seek to implement pre and post inspections where the relevant criteria (see attached) are met. A new post-inspection form (copy attached) has been developed in line with the recommendations of the AGRS report.

- 2.5 The process for capturing key maintenance data on job-cards**
The AGRS report correctly pointed up a number of situations in which more definitive operational data could and should be included on the actual job-card documentation. Recommended changes implemented so far include the following:-

- within the 'maintenance field' we have added a radio button to allow out-of-hours call-outs to be identified and reported on separately to emergencies;
- a free text contact name and number has been added to more accurately identify who phoned in the P1 (previously each building had a name automatically assigned to it which was not always correct); *and*
- a new 'contacted' field has been added to identify who in Property Maintenance was contacted in respect of the P1.

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We also requested that Digital Services amend the production of the daily poll list to an automatic version as opposed to the daily manual print run as recommended in the audit report, but currently they advise this is not possible. Work continues on these issues, within the constraints imposed by current systems.

3. Resource Implications

- 3.1** There are no direct resource implications in respect of the issues set out in this report. However it must be recognised that the Unit faces a considerable increase in its workload and responsibilities on foot of LGR and transfer of functions changes etc, and that current staffing structures and many internal processes will need to be reviewed and revised again during 2015/2016.

4. Recommendations

- 4.1** It is recommended that the Panel note and endorse the progress made to date, and also recognizes the potential for continuing and significant change in the operational environment of the Property Maintenance Unit.
- 4.2** It would be useful to request AGRS to conduct a limited, interim review of the progress which has been possible and which is set out in sections 2.3 and 2.5 of the report above, in order to assess the effectiveness of the changes which have already been made.
- 4.3** It may also be prudent to schedule a follow-up audit during 2015/2016 in order to ensure that the anticipated changes in the scale, scope, complexity and management of the unit's work and associated increase in potential risk are properly reflected in processes and procedures.
- 4.4** It may also be useful to specifically consider the content and operation of the Service-Level Agreement which will set out the distribution of work as between the Council and the new Leisure Trust in terms of its effectiveness, once a suitable period of time has elapsed."

During discussion, the Director and the Head of Facilities Management outlined the process which the Council was undertaking currently in order to identify associated risks with those properties which were transferring into Belfast as part of the Local Government Reform process.

After further discussion, the Committee adopted the recommendations.

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Recruitment of Head of Audit, Governance and Risk Services

(With the exception of the Director of Finance and Resources and the Senior Democratic Services Officer, all members of staff left the meeting whilst this item was under discussion.)

The Director of Finance and Resources reminded the Members that the post of Head of Audit, Governance and Risk Services was currently being filled on an interim basis. He explained that, following a review of the post, it was now proposed to recruit the post of Head of Audit, Governance and Risk Services on a permanent basis and he sought the panel's authority to submit a report to the next meeting of the Strategic Policy and Resources Committee in this regard.

The Audit Panel granted the authority sought.

Date of Next Meeting

The Panel agreed that the date of the next meeting be agreed in consultation with the Chairman (Alderman Rodgers).

Chairman