

Audit and Risk Panel

Friday, 8th December, 2017

MEETING OF AUDIT AND RISK PANEL

Members present: Alderman Rodgers (Chairperson);
Councillor Craig; and Mr. R. Cox.

In attendance: Mr. A. Harrison, Head of Audit, Governance
and Risk Services;
Mr. T. Wallace, Financial Accounting Manager;
Mr. L. Mulholland, Audit, Governance and Risk
Services Manager;
Mrs. C. O'Prey, Audit, Governance and Risk
Services Manager;
Mr. A. Knox, Northern Ireland Audit Office; and
Mr. H. Downey, Democratic Services Officer.

Apologies

Apologies for inability to attend were reported from Councillors Heading and Hutchinson.

Minutes

The minutes of the meeting of 11th September were taken as read and signed as correct.

Declarations of Interest

No declarations of interest were reported.

Procurement Update

The Head of Audit, Governance and Risk Services submitted for the Panel's consideration the following report:

“1.0 Purpose of Report

1.1 The purpose of this report is to update the Audit and Risk Panel on key activities taking place in procurement in support of improving the council's procurement approach. The last update was presented by the Head of Contracts in March, 2017

2.0 Background

2.1 The remit of the procurement function has changed (impacted by the 2015 legislative changes and reflected within the council's draft Procurement Strategy) with increased focus on

**Audit and Risk Panel,
Friday, 8th December, 2017**

commercialisation, defining the commission, supporting the local economy and building social capacity whilst balancing between achieving Value for Money (VfM) managing risk and ensuring statutory and corporate compliance.

- 2.2 Previous reviews, which were commissioned to establish a strategic approach to procurement identified the need for further improvements in the areas of both procurement and contract management. However, there was limited progress due to a number of factors including the transfer of functions, the on-going Organisation Development (OD) Transformation Programme and procurement governance
- 2.3 In 2017, Audit, Governance and Risk Services (AGRS) carried out an investigation; the *Commissioning of the Capital Investment Programme* resulting the identification of a number of control failings and subsequent recommendations. The then Head of Contracts worked with AGRS to identify, implement and manage controls to meet these which included the development review and updating of corporate policies and guidelines.
- 2.4 The intended structural review of Corporate Procurement Services (CPS) has been delayed to facilitate other priorities and organisational structure alignments as part of the wider OD programme. Financial resources were made available which ensured the delivery of the capital programmes.
- 3.0 Key Issues
- 3.1 The Panel is asked to recognise that procurement is an area of high risk in terms of meeting the councils escalating ambitions, achieving VfM and, of the legal and reputation consequences of not complying with relevant statutory provision and council governance. The Panel is further asked to note that CPS due to the current staffing resource issues is not in a position to manage and let all organisational tender requirements.
- 3.2 Governance
- The Commercial Panel, with the aim to improve the council's commercial operations, continues to bed-in and oversee corporate procurement. In August 2017, it recommended that a Commercial Panel Working Group (CPWG) be established to provide greater assurance and support in making key commercial decisions.

CPS report monthly to the Panel on STAs, contracts extended and contracts awarded; these are then reported to the SP and R Committee providing transparency. CPS is working with Legal Services to develop a process to provide assurance under the Scheme of Delegation; with a proposal that this will be extended to SP&R committee.

In November 2017, CPS presented the 2016/2017 Analysis of Spend to the Commercial Panel. It will be presented to the (CPWG) to enable evidence based decision making.

3.3 Corporate Contract Requirements

In May 2017, the then Head of Contracts presented a report to the Commercial Panel highlighting risks with the 2017/2018 corporate Programme of Tenders as corporate demand was outstripping CPS capacity and there was a back log of tender requirements. This resulted in contracts being extended exposing the council to a high level of risk. At the Panel's request, further work was done to assess the situation. A risk based prioritisation matrix was developed and applied to the tender requests. By the autumn a Prioritised Programme had been developed which identified a way forward via a number of potential contingency routes. In October 2017, following a focused engagement and validation exercise, carried out with departments, a clear strategy/programme to resolve the backlog emerged which would ensure that the council's current contracts requirements could be met. This programme is still subject to ongoing due diligence with Legal and AGRS and approval from the Commercial Panel and if required SP&R Committee.

3.4 Capacity Building

As per the recommendations of the 2017 AGRS review, CPS initiated an overall improvement strategy with number of strands. In the summer of 2017 a corporate procurement capacity building programme was developed, funding sourced guidance and toolkits drafted and rollout proposed for early 2018. This was to include Contract Management, Specification Writing, and Quotation training. In August 2017 the Commercial Panel agreed to prioritise officer development in order to ensure that the fundamentals of good procurement are in place. To this end, CPS (with AGRS and Legal) have developed and re-scheduled a new capacity building programme and guidance, for circa 80-100 key council officers for Feb / March 2018. To ensure maximum impact and compliance with any new processes, guidance will be issued in tandem with the delivery of this training.

**Audit and Risk Panel,
Friday, 8th December, 2017**

3.5 Internal Resource / External Support

In the last 6 months, CPS staff resource has been reduced by approx. 50% due to retirement, staff leaving the council and long-term sick. The Head of Contracts, appointed in 2012, resigned in June 2017. These posts have not been replaced, pending the outcome of the current WPS review and the overarching OD programme.

In September 2017, the Deputy Chief/ Director of Finance and Resources commissioned Westminster Procurement services to carry out a review: *Procurement Operating Model Review and Sourcing Programme*. The draft report was presented to the Director of Finance and Resources for review and comment on the 9th November 2017. It was also agreed that WPS would provide a Senior Manager, Stuart Ramsay, to provide leadership, stakeholder engagement, sourcing programme management and act as a conduit to WPS.

In September 2017, due to the capacity issues in CPS, the Deputy Chief/ Director of Finance and Resources agreed that WPS would manage and let the Peace IV tender requirements for the council.

4.0 Future Work and Focus

It is anticipated that there will be further contract and tender requirements before the end of this financial year (City Deal City of Culture, Regeneration etc.). Due to the current resource position in CPS it may be necessary to utilise external support to carry out this additional work. CPS is continuing with the improvement programme which will be aligned to the agreed recommendations from the WPS review

5.0 Finance and Human Resource Implications

5.1 Financial Implications

1. It is anticipated that there will be financial implications associated with a number of the proposed recommendations, these are unknown at this stage, however they will be reviewed in line with the councils estimates process

5.2 Human Resource Implications

1. The development of a new resources model may result in HR issues.

**Audit and Risk Panel,
Friday, 8th December, 2017**

2. Support and advice from Corporate HR/OD, taking cognisance of the wider corporate review.

6. Decision Required

6.1 The Panel is requested to note the information contained within this report.”

After discussion, the Panel noted the information which had been provided.

Managing the Risk of Bribery and Corruption

The Head of Audit, Governance and Risk Services informed the Panel that, from time to time, the Northern Ireland Audit Office issued to public sector organisations in Northern Ireland good practice guides relating to important areas of governance and associated risk.

He reported that, in November, it had published a guide on “Managing the Risk of Bribery and Corruption”, which had highlighted the increasing need for local authorities to manage the key risk areas of planning, procurement, grants administration, partnership working and regulatory functions, following the Review of Public Administration. The document, a copy of which was available on the Mod.gov site, had confirmed that, in global terms, the United Kingdom was ranked in a low position in terms of the perceived level of public corruption, but had warned against any complacency. It had highlighted also the fact that public officials could be at risk, particularly if they had a discretionary role in decision-making processes, and had stressed the need for organisations to ensure that appropriate measures were in place to address identified bribery and corruption risks.

The Head of Audit, Governance and Risk Services explained that, whilst the Council had a number of arrangements in place to guard against the risks of bribery and corruption, it was beneficial to review their effectiveness on a regular basis. With that in mind, he drew the Panel’s attention to an action plan which had been formulated by Audit, Governance and Risk Services, which included actions and timescales around, for example, awareness and governance training, policies and communications, the code of conduct for staff and guidance on conflicts of interest.

Noted.

Quarterly Absence Rates

(Mrs. C. Christy, HR Manager, attended in connection with this item.)

The information contained in the following report is restricted in accordance with Part 1 of Schedule 6 of the Local Government Act (Northern Ireland) 2014

The Panel considered a report which provided an update on the Council’s sickness absence rate for the period ending on 30th September, compared that figure with the same period in 2016/2017 and indicated whether the Council was anticipated to

**Audit and Risk Panel,
Friday, 8th December, 2017**

meet its target figure for 2017/2018. The report had provided also an analysis of absence through work-related and personal stress across the Council for 2016/2017 and had made recommendations to address the issues which had been identified.

After discussion, the Panel:

- i. noted the information which had been provided;
- ii. agreed that the report providing a breakdown of sickness absence should, in future, set out the rate for the Planning and Place Department separately, rather than include it within the Chief Executive's Department, as had been the case previously; and
- iii. agreed that Chief Officers should be advised of its concerns regarding the latest absence figures and of the need for compliance with policies and for officers to take steps to improve performance in the remainder of the year.

Update on Corporate Health and Safety Performance

(Mrs. E. Eaton, Corporate Health and Safety Manager, attended in connection with this item.)

The Corporate Health and Safety Manager provided the Panel with an update on the Council's Health and Safety performance for the period ending on 30th September, 2017.

She reported that the cumulative corporate percentage compliance rate with health and safety actions for the quarter had been 54%, which was below the target figure of 80%, and provided details around a number of high priority outstanding actions which were either in the process of being addressed or had yet to be addressed. There had been forty-nine accidents involving Council employees and twenty-four involving non-employees, which represented an increase of thirteen and a decrease of one from the previous quarter, respectively. Slips, trips or falls had accounted for the highest number of accidents in each category. The number of accidents which had been referred to the Health and Safety Executive for Northern Ireland under the RIDDOR legislation had increased from eleven in quarter one to fourteen in this quarter and had been due to lifting or carrying, being struck by moving objects, slips, trips and falls, a wasp sting and a release of chlorine gas at Belfast Zoo.

She reported further that there had been five employee accidents on GLL-managed facilities, which was three less than in the previous quarter, and that one of those accidents had been referred under the RIDDOR legislation. In addition, there had been thirty-nine incidents of work-related violence, which was seventeen more than in the previous three months. The majority of those incidents had involved verbal abuse. The Corporate Health and Safety Manager concluded by providing details of the Council's engagement with the Health and Safety Executive for Northern Ireland and the Northern Ireland Fire and Rescue Service over the course of the quarter.

**Audit and Risk Panel,
Friday, 8th December, 2017**

The Panel noted the information which had been provided and noted also that the People and Communities Committee, at its meeting on 5th December, had agreed that a report would be submitted to a future meeting assessing the feasibility of extending defibrillator provision to other Council assets, including community centres.

External Review of Audit, Governance and Risk Services

The Panel was informed that the Public Sector Internal Audit Standards required a review to be undertaken every five years of the Council's internal audit function, with a view to confirming that Audit, Governance and Risk Services was operating to the highest of standards and to assuring key stakeholders that they could rely upon the professionalism of the Service.

The Head of Audit, Governance and Risk Services reported that, following a quotation exercise, On Board Training and Consultancy had been appointed to undertake the review. On Board had found that Audit, Governance and Risk Services conformed to the Public Sector Internal Audit Standards and that, whilst there were a few areas which required action, they were not of such significance as to impact significantly upon its overall opinion. In addition, On Board had, during the process, found strong evidence of the value and contribution which Audit, Governance and Risk Services made to the Council's governance, risk management and control environment.

He explained that the most significant issue identified within the review related to a potential conflict of interest on the part of Audit, Governance and Risk Services in the risk management process, in that it was responsible for reviewing the effectiveness of the Council's risk management arrangements, whilst having some responsibility for their oversight and administration. He confirmed that Audit, Governance and Risk Services had accepted that this issue needed to be considered and that it would identify measures to address the issue until such time as changes to the Council's overall corporate management frameworks had been implemented.

After discussion, the Panel noted the information which had been provided and commended Audit, Governance and Risk Services on the positive outcome of the review.

Audit, Governance and Risk Services Terms of Reference/Charter

The Head of Audit, Governance and Risk Services informed the Panel that it was a requirement, under the Public Sector Internal Audit Standards, for the terms of reference for the internal audit function to set out clearly its context in the organisation, its purpose, authority, responsibilities and access powers. He explained that Audit, Governance and Risk Services reviewed and updated its terms of reference/charter on an annual basis and that its endorsement was sought from senior managers and from Members through the Assurance Board and the Audit and Risk Panel, respectively. This year, Audit, Governance and Risk Services had, in response to recommendations arising from the external review which had been undertaken by On Board Training and Consultancy, updated its terms of reference/charter to allow for additional clarification to be provided around, for example, the scope of its work and the process for auditor independence.

The Panel noted the information which had been provided.

**Audit and Risk Panel,
Friday, 8th December, 2017**

Audit, Governance and Risk Services Progress Report

The Panel considered the following report:

“1.0 Purpose of Report/Summary of Main Issues

1.1 The Audit and Risk Panel’s terms of reference include provision for consideration of summary reports from the Head of Audit, Governance and Risk Services (AGRS) on the Service’s activity, including summaries of specific internal audit reports. This report addresses these requirements.

2.0 Recommendation

2.1 The Audit and Risk Panel is requested to note the AGRS Progress Report for the period September 2017 – November 2017.

3.0 Main Report

3.1 Assurance work completed in period

3.1 Table 1 (below) summarises the assurance audits finalised during the period from September 2017 to November 2017. Definitions of audit opinions / priority ratings have been circulated to the Panel, along with greater detail regarding each assignment.

3.2 Table 1: Summary of Final Audit Reports

| Audit area | Opinion | Comments |
|------------------|--------------------|---|
| Payroll (CAAT’s) | Substantial | The audit involved using Computer Assisted Audit Techniques (CAAT’s) to examine and interrogate transactional data within the PSE system. The purpose of the review was to highlight errors, discrepancies and potential fraudulent activity. We are able to provide substantial assurance over the CAAT’s testing performed and that they provided reasonable assurance that all Payroll transactions reviewed were accurate and bona fide. No recommendations for improvement were made as a |

**Audit and Risk Panel,
Friday, 8th December, 2017**

| Audit area | Opinion | Comments |
|-----------------|--------------------------------|---|
| | | result of this review. |
| Outdoor Leisure | Some improvement needed | <p>Our audit involved discussions with staff and review of relevant documentation in order to identify, evaluate and test the key controls in place:</p> <ul style="list-style-type: none"> • To maximise the usage of pitches, multi-use games areas (MUGAs) and bowling greens to help deliver key council objectives / Belfast Agenda and; • To collect and properly account for all income generated from hire of pitches, multi-use games areas (MUGAs) and bowling greens. <p>There has been little or no overall monitoring on the usage of all pitches and bowling greens. In the absence of review of usage figures per site there is a lack of assurance that all potential income is being generated and that all is being done to help deliver key Council objectives/Belfast Agenda. We have raised two 'medium' priority issues which relate to this area. Generally, controls around income collection and recording are adequately designed. An investigation relating to income collection in 2009 resulted in new controls being introduced which significantly strengthened this area. However, we noted some controls in certain areas need to be more robust (e.g. more supervising of key income tasks; review and update of procedures and adequate staff training to cover tasks in a key team member's absence etc.) no significant control failures or gaps</p> |

**Audit and Risk Panel,
Friday, 8th December, 2017**

| Audit area | Opinion | Comments |
|---|--------------------------------|--|
| | | were noted and we are able to provide a good level of overall assurance. |
| Belfast Investment Fund (consultancy assignment) | N/a consulting review | <p>This was a consulting rather than assurance assignment, reflecting that, at the time of our review only one project had progressed to completion stage so a full 'compliance' type audit would have been premature.</p> <p>An action plan has been developed by management to address the recommendations arising.</p> |
| Corporate Complaints | Some improvement needed | <p>The audit opinion provided continues to reflect the improvements made since 2013 when we provided a 'red' assurance opinion over this area. A number of recommendations for improvement have been agreed with management which, if implemented, should see further improvements to the handling and management of complaints. These include ensuring that policy and procedures are updated to reflect current practices, improved performance reporting, particularly in relation to time standards for responding to complaints and the criteria for extending the response times for complaints. We also found that further work is required to ensure that information recorded on the Customer Relationship Management system (CRM) is complete and accurate and that that quality of responses to complaints is monitored. The issue of integrating business intelligence regarding complaints into other performance / customer related information has been discussed with senior management who have indicated that these issues will be addressed through the Customer Relation Management (CRM) project.</p> |

**Audit and Risk Panel,
Friday, 8th December, 2017**

| Audit area | Opinion | Comments |
|---|--------------------------------|--|
| Treasury Management | Some improvement needed | The objective of the audit was to examine the controls in place around the Council's Treasury Management Framework and to ensure compliance with the CIPFA Code of Practice for Treasury Management. In general treasury management controls were found to be robust, well managed and adhered to and the Council has adopted the Treasury Management Code. We have made 6 recommendations, including two high priority ones relating to Capital cash flow projections and CHAPS transfers, specifically for a review of access privileges within CHAPS for appropriateness. |
| City Centre Investment Fund (consultancy assignment) | N/a consulting review | <p>This was work requested by the City Centre Finance Manager regarding Grade A offices.</p> <p>We reviewed the Project Assessment Process document and examined:</p> <ul style="list-style-type: none"> (i) Programme design (ii) The proposed process for the selection and approval of projects for investment; (iii) The proposed process for the monitoring of projects, drawdown and repayment of funds. <p>An action plan has been developed by management to address the recommendations arising.</p> |

3.3 Work in Progress - Audits

3.3.1 The following work is in progress:

- **Accounts Payable (draft report stage)**
- **Domestic Refuse Collection**
- **Information Management**
- **City Centre Regeneration and Investment Strategy (assurance audit)**

**Audit and Risk Panel,
Friday, 8th December, 2017**

- **Procurement and Contract Management**
- **Corporate risk on Organisational Design and Transformation**
- **Revenue Grant draw down**
- **IT Server relocation**
- **New HR payroll system**

3.4 Requests for Deferral of Audits

3.4.1 On occasions, management request deferral of an audit in the agreed audit plan. On these occasions AGRS seeks an explanation and considers the basis / validity of the request.

- **The Deputy Chief Executive and Director of Finance and Resources and the Strategic Performance Manager have requested a deferral of internal audit work on performance management due to NIAO review of this area and a need by management to consider future Council management arrangements over this area.**
- **After discussion with the Business Manager (Development) we are holding back on review of markets (income) audit until the new 'kiosk' (whereby stall holders pay for their pitches via machine) is installed and operational. We expect this work to take place later this financial year.**

3.4.2 Details of progress against the plan has been circulated to the Panel.

3.5 Recommendations Monitor

3.6.1 AGRS has undertaken its latest review of outstanding audit actions during November 2017 and the results of this exercise is reported separately.

3.6 Investigations Update

3.6.1 AGRS are currently taking the lead or liaising with departments on 5 cases where allegations / concerns have been raised that relate to the whistleblowing (including anonymous concerns) policy. We are providing assistance in relation to the ongoing review of Bonfires. Finally, we are continuing to work with the PSNI on 4 cases that have been referred to them for investigation as well with departments on data matches arising from the National Fraud Initiative exercise.

**Audit and Risk Panel,
Friday, 8th December, 2017**

3.7 External Review of AGRS

3.7.1 The review has now been completed and the results have been reported separately.

3.8 Progress against AGRS Plan 2017/18

3.8.1 An update on progress against plan for 2017/18 has been circulated to the Panel.

3.8.2 A significant amount of time has been directed towards unplanned assignments including investigative work, which has coincided with some shortfalls in existing staff resources. Consequently, the Head of AGRS intends to explore the possible short-term engagement of an agency assignee to help achieve the audit plan. The reviews allocated to the assignee will be closely managed, monitored and reported in the normal way. Costs will be met from the existing AGRS budget.

4.0 Other

4.1 While fieldwork on the review of the Council's disciplinary procedure has been substantively completed it was extended, at the request of senior management, to include the Council's grievance procedure. This phase of the review is currently underway and being managed by the Head of HR.

5.0 Financial and Resource Implications

None.

5.1 Equality or Good Relations Implications

None."

After discussion, the Panel noted the information which had been provided.

Audit Recommendations Monitor

The Panel considered the following report:

"1.0 Purpose of Report/Summary of Main Issues

1.1 The Audit and Risk Panel require assurance that agreed audit recommendations are being implemented. The purpose of this report is to provide the Audit and Risk Panel with an

**Audit and Risk Panel,
Friday, 8th December, 2017**

update on the current position regarding the implementation of agreed audit actions.

2.0 Recommendation

2.1 The Audit and Risk Panel is requested to note the update on the progress made by management to implement audit recommendations and the areas where further action is required.

3.0 Main Report

3.1 Actions (recommendations) agreed as part of AGRS and NIAO work, along with the names of the action owners and implementation dates are recorded on the action tracking module of an IT system known as the MKinsight. Council officers have access to this system to provide updates on the progress being made to implement these actions and AGRS undertakes independent monitoring and validation exercises on the progress towards implementation of these actions twice a year.

3.2 The Audit and Risk Panel may recall that the previous validation exercise was undertaken and reported to the Panel in June, 2017.

3.3 The exercise was completed recently and encompassed a review of all high and medium audit recommendations that were open as at 30 September 2017 (with the exception of low priority recommendations which we have excluded from our analysis). This change in coverage and a focus on the link between outstanding recommendations and corporate risks (see below) reflects the actions arising from the recent On Board review of AGRS regarding this report.

3.4 We have now completed our review. At the start of this exercise, there were 196 'live' actions in the MKinsight system. AGRS staff have reviewed and, where appropriate, validated the progress management has made to implement these actions. As a result of our validation exercise, we can report that 51 of these actions have been closed, therefore there are 145 actions that remain 'live' on the system. Of the 145 actions that remain live, 100 of these have been partially implemented. The table below provides a summary of the results of the validation exercise:

**Audit and Risk Panel,
Friday, 8th December, 2017**

| All Actions | | | | | | |
|------------------------------|----------------------------------|--------------------------------------|-----|-----------------|-------|--|
| Live actions as at 30/9/2017 | Actions closed during validation | Actions outstanding after validation | | | | Actions that are partially implemented |
| | | High | Med | Not prioritised | Total | |
| 196 | 51 | 58 | 59 | 28 | 145 | 100 |

3.5 We further analysed which actions directly related to the management of corporate risks, (see the table below). We found that almost half of all open actions directly related to the management of the corporate risks, with almost a quarter closed in the period.

| Actions relating to Corporate Risks only | | | | | | |
|--|----------------------------------|--------------------------------------|-----|-----------------|-------|--|
| Live actions as at 30/9/2017 | Actions closed during validation | Actions outstanding after validation | | | | Actions that are partially implemented |
| | | High | Med | Not prioritised | Total | |
| 96 | 25 | 27 | 19 | 25 | 71 | 52 |

3.6 Management of Corporate Risks

Audit actions remain open in respect of 11 of the corporate risks. Key points to note are as follows:

- **Procurement and contract management - Procurement strategy and procedures within the Council are currently being reviewed with support from Westminster Procurement Services and a separate update report has been provided to the Audit and Risk Panel. As a result, AGRS have critically looked at the current open actions arising from both internal audits, external audits and investigations and merged, where appropriate, any actions where there is duplication. However, there are still a number of outstanding procurement related actions including a review of the Procurement Strategy, other related procurement documentation and key procurement processes. This creates a degree of exposure in terms of gaps in controls but the Commercial Panel is now in place and looking at these issues. It should also be noted that a**

**Audit and Risk Panel,
Friday, 8th December, 2017**

number of the procurement actions are closely linked to the accounts payable processes and the issues highlighted in a recent Accounts Payable audit, and there is therefore an overarching need to review the end to end procurement / accounts payable processes.

- **Information Governance – the Information Governance Group in conjunction with Digital Services is progressing the documentation and communication of an Information Security Policy, which would define roles and responsibilities in relation to Information Security Management. In addition, work is underway to agree the underlying governance structure for Information Security. Further work is required in relation to an information audit / creation of an information asset register and the risk assessment of information assets and this will be taken forward as part of an emerging Electronic Records Management project. Management have advised that additional resources are being put in place in City Solicitor's to progress these actions.**
- **Health and Safety - Work is ongoing but requires completion regarding senior management training, risk assessments, fully implementing a new WIRES inspection regime and demonstrating compliance with legislative requirements. In addition, the H&S Assurance Board is providing oversight. Further information on H&S matters is covered in the regular Audit & Risk Panel report on H&S.**

3.7 We also draw attention to the need to progress the one recommendation from 2015 that remains open in relation to the root and branch review of the capital programme, with management indicating that this should be implemented by December, 2017.

3.8 At present, there are no open audit recommendations in respect of the following corporate risks; Local Development Plan; Organisational Transformation; Safeguarding; Leisure Estates Programme; City Centre Regeneration; Community Plan and Corporate Frameworks. This does not imply that there are no issues in respect of these areas or we are providing an implicit assurance over them. This position reflects that when we first reviewed the management of these risks in 2016/2017 we decided that it would be premature to issue formal opinions on them and instead recommended management incorporate our observations as actions in their

**Audit and Risk Panel,
Friday, 8th December, 2017**

risk action plans on MK Insight. However, for 2017/2018 we will be 'auditing' the management of five of these risks (in quarter four) and issuing an audit opinion on them.

3.9 General Commentary

The results of this exercise have been reported to Directors and senior managers in each Department who have been given an opportunity to comment on the accuracy of the information. We have not sought to report in detail the progress against each review / action in this cover report, further details regarding our exercise have been circulated to the Panel. However, there are a number of key points as follows:

- there has been a 26% decrease in the number of outstanding actions during the period;
- of the 145 actions remaining 'open' at the end of the validation period, 69% (100 actions) have been partially implemented.

3.10 Approximately one third of the recommendations which remain open relate to Finance and Resources (47), with City and Neighbourhoods (30) and Property and Projects (41). The appendix to this report, a copy of which has been circulated, provides a detailed analysis, but the following should be highlighted:

- the highest number of high priority actions that remain open per individual audit relate to Overtime which was subject to review a number of years ago. While we are aware that some recent progress has been made in this area in that overtime is being considered as part of the HR/Payroll replacement project, this is at a relatively early stage and the continuing absence of a robust policy framework presents an ongoing risk that overtime costs will remain at current levels.
- a number of finance and procurement related recommendations remain open. Further work is also required to move on longer term actions relating to the grant programme.

3.11 Good progress has been made in a number of areas including Belfast Castle and Malone House and Grants (short term recommendations). In particular regarding grants, implementation of improved and proportionate controls has resulted in greater efficiency in processing times. Detailed

**Audit and Risk Panel,
Friday, 8th December, 2017**

information regarding these improvements has been circulated to the Panel.

4.0 Financial and Resource Implications

4.1 None.

5.0 Equality or Good Relations Implications

None.”

The Panel noted the information which had been provided.

External Review of Risk Management Arrangements

The Head of Audit, Governance and Risk Services informed the Panel that, since Audit, Governance and Risk Services had a degree of involvement in the Council’s risk management process, it could not play a fully independent role in auditing that process. As a result, On Board Training and Consultancy had, in addition to reviewing the internal audit function, assessed the risk management arrangements in order to provide Members with an independent assurance regarding the process and to identify any areas for improvement.

He reported that On Board had found that the new MKI system and the significant ongoing support from Audit, Governance and Risk Services had underpinned an improvement in the maturity of the Council’s risk management arrangements since the previous review in 2012. On Board had identified also a number of areas for improvement, relating to policy, process, review and reporting on the management of risk. He confirmed that an action plan had been formulated to address those issues, which would be logged on the MKI Insight system and that it would, upon implementation, be reported by Audit, Governance and Risk Services to the Assurance Board Audit and Risk Panel. He highlighted the fact that, although Audit, Governance and Risk Services would be able to progress some of the issues identified within the review, risk management was, in effect, a management rather than an audit function and stressed that the key to more successful risk management was to improve and to integrate the Council’s management frameworks.

Noted.

The Three Line of Defence Model - Improving Assurance over Corporate Risk

The Head of Audit, Governance and Risk Services submitted for the Panel’s consideration the following report:

“1.0 Purpose of Report/Summary of Main Issues

1.1 The purpose of this report is to advise the Audit and Risk Panel of the planned implementation of a ‘three lines of defence’ approach to the management of corporate risks.

2.0 Recommendation

2.1 The Audit and Risk Panel is requested to note the proposed approach to implementing a three lines of defence to the management of corporate risks.

3.0 Main Report

3.1 On Board has recommended that the Council consider developing its risk assurance arrangements further (see previous report), including through the development of a three lines of defence model. When managing corporate risks, the Three Lines of Defence is a simple way to communicate and clarify the responsibilities of various lines of management with respect to their control responsibilities.

3.2 The notion of 'lines of defence' probably has its origins in military planning and sport. However, the origin of the Three Lines of Defence Model is a little unclear. It appears to have gained prominence around a decade ago following its adoption by the former UK Financial Services Authority as the preferred model for managing operational risk in the UK financial sector.

3.3 Whilst there are many variations of what the model actually looks like and what each line represents, it can generally be summarised as follows:

- the first line of defence is provided by front line staff and operational management. The systems, internal controls, the control environment and culture developed and implemented by these business units is crucial in anticipating and managing operational risks.**
- the second line of defence is provided by oversight functions. These functions provide the oversight and the tools, systems and advice necessary to support the first line in identifying, managing and monitoring risks.**
- the third line of defence is provided by the internal audit function. This function provides a level of independent assurance that the risk management and internal control framework is working as designed.**

3.4 It sounds pretty logical but it is not without its critics – especially in relation to the role of the third line with many observers questioning whether internal audit should really be

regarded as a line of defence. Some critics complain that the metaphor implies three organisational functions working independently rather than together in a collaborative way. Others have commented that preventative controls are necessary to constitute a 'defence' whereas risk management and internal audit functions mostly play a detective role. But if we don't get too pedantic about the weaknesses of the metaphor itself, there are some important principles that we can take from the model.

3.5 The First Line – Front Line Management

Firstly, the front line is really the key to success. Managers are risk owners. It is the quality of the people, systems and culture at the coalface that is the main determinant of success. To use a sporting metaphor, it is often said in football sports such as rugby league and union that the front line forwards lay the foundation for victory. Play strong and tight in the forwards and the rest often falls into place.

3.6 The Second Line – Risk Management and Compliance

The second line i.e. the risk and compliance functions, play a support role. To be effective they need to work with and support the business. Often management's role in providing this type of assurance is not clearly defined or communicated. This implies the need to provide tools and advice that are practical, adaptable and effective. Risk management is an integral part of all organisational processes. It is the role of the second line to provide the systems and advice necessary to integrate risk management into key processes and allow the front line to manage for success. Using our sporting metaphor, the second line of defence (in those sports that utilise one), usually plays a multi-faceted role – at times anticipating what might go wrong up front and being ready to react whilst, at other times, acting as another set of eyes for the front line and shouting advice and encouragement when needed. Sometimes the second line steps up to the front if reinforcements are necessary and other times it drops back in cover defence. As well as management arrangements, Committees in the Council provide part of this second line of defence, through considering issues, providing challenge and approving (or otherwise) recommendations from management.

3.7 The Third Line – Internal Audit

Thirdly (and it seems appropriate when talking about the three lines of defence to make three observations), leaving aside

whether internal audit is really a line of defence, referring to it as the 'third' line reinforces that internal audit should never be relied upon as a primary control measure. Internal audit's role is largely detective and corrective i.e. detect control weaknesses or breakdowns and suggest improvements or remedial action. Quite often in risk workshops managers will nominate internal audit as a key control. Whilst it might be flattering that managers see internal audit this way, it is a dangerous view. Internal audit should never be relied upon or expected to detect every control breakdown, error or deficiency. Continuing our football metaphor, if a team continually relies on its fullback or goal keeper to save the day, it will lose more often than it wins. Internal audit has a key role to play but if the front line is relying on it to pick up everything that slips through the cracks, the organisation has a problem.

3.8 Application to Belfast City Council

Models are really just tools to simplify complex functions and relationships in a way that makes them easier to explain and understand. They are rarely perfect and valid for every conceivable situation. If we bear this in mind, then the Three Lines of Defence Model can provide a theoretical foundation for an effective risk and assurance framework. But like any model, it is only as strong as the people that work within it and it has to be tailored to the specific context in which the organisation operates.

3.9 Nonetheless, if we view the three lines of defence as critical components working together rather than in independent roles, the model has much to offer. The concept of operational staff and management working in collaboration with the risk, compliance and internal audit functions to create a multi-pronged and yet integrated approach to managing risk and helping to achieve objectives has to at least be worthy of consideration.

3.10 The most obvious area where we can apply this model is to managing corporate risks. As such it is proposed that we begin to apply this model to the management of these risks. AGRS will work with relevant risk owners to articulate, better understand and develop the quality of the first and second lines of defence and will (as now) ensure that the internal audit plan provides sufficient coverage to audit key risks – the third line of defence. Following this, consideration will be given to extending this approach across key functional activities. Risk management reports will be remodelled to provide information on the operation of the three lines of defence in

**Audit and Risk Panel,
Friday, 8th December, 2017**

relation to each corporate risk. We also plan, following the recent external review of risk management, to update the risk management strategy and training to communicate this approach to management across the organisation.”

The Panel noted the information which had been provided.

Corporate Risk Management

The Panel considered the following report:

“1.0 Purpose of Report/Summary of Main Issues

1.1 The purpose of this report is to apprise the Audit and Risk Panel of:

- a) the Council’s key corporate risks, as identified and assessed by senior management;**
- b) the action management has taken in quarter 2 in terms of reviewing these risks and related actions and the key issues pertaining to each of these corporate risks; and**
- c) business continuity management arrangements**

2.0 Recommendation

2.1 The Audit and Risk Panel is requested to note the report.

3.0 Main Report

3.1 Summary of BCC Risk Management Arrangements

3.1.1 In the light of recent changes to the membership of the Audit and Risk Panel and following Panel training, it is worth rehearsing the Council’s approach to risk management.

3.1.2 We are required by statute to have arrangements in place for the management of risk. Moreover, we need to manage risk in a fast changing environment to achieve our objectives. To address this, the Council has a process for identifying, assessing, managing and reporting on risks at a number of levels, including corporate, departmental and service / unit level. In addition, risk management arrangements are put in place for major projects. The purpose of the process is to enhance the likelihood of successful achievement of objectives. By taking effective action, risk levels should theoretically reduce over time (though it is rarely possible to eliminate risks).

**Audit and Risk Panel,
Friday, 8th December, 2017**

- 3.1.3** Senior management has identified 18 corporate risks, details of which has been circulated to the Panel. These are activities that are considered to present the greatest risk to the achievement of corporate objectives and / or compliance with key statutory requirements. These have been assessed in terms of the likelihood of them occurring and the impact if they did, using a 5x5 scoring matrix, with 5 being 'high' and 1 being 'low'. They are assessed at current and target levels. The 'gap' between the current and target risk assessments reflects action that management considers it needs to take before it can be satisfied that the risk is managed to the appropriate level.
- 3.1.4** Corporate risks are allocated to Directors and, for each one, the controls that help manage the risks and the additional actions required to each mitigate risk, have been identified and recorded on the Council's risk management system, MKInsight. There is a requirement for these risks and the associated controls / actions to be reviewed by risk owner on a quarterly basis. Directors sign quarterly assurance statements, personally attesting to their risk management arrangements and completion of this review.
- 3.1.5** Audit, Governance and Risk Services (AGRS) monitors compliance with this process and also audits the management of key corporate risks as part of its audit plan. The Audit and Risk Panel has an important role in seeking assurances regarding both the process and the management of key risks.
- 3.2** **On Board Review and Future Reporting on Risk**
- 3.2.1** The recent 'On Board' review of the Council's risk management arrangements (see separate report) has made a number of recommendations regarding reporting to the Audit & Risk Panel on risk management. In the light of this we have reviewed this report and would welcome Member comments on the report format and any areas for improvement.
- 3.3** **Risk Reporting Follow the End of Quarter 2, 2017/2018**
- 3.3.1** Appendix 1 to this report, which has been circulated to the Panel, shows the Council's 18 corporate risks and the management assessment of these risks. It also provides:
- details of the controls, oversight and audit / review arrangements in relation to each risk – the three lines of defence, where these specifically relate to the risk
 - the key issues that need to be addressed to manage the various risks

**Audit and Risk Panel,
Friday, 8th December, 2017**

- whether review of the risk / actions took place at the end of quarter 2 ('compliance').

3.3.2 Key points arising from the quarter 2 exercise and this report are as follows:

- management has not proposed any changes to the assessment of the corporate risks except for an increase in the procurement risk from a 'likelihood' score of 2 to 3 – more information regarding this area is provided in a separate update on procurement.
- no new risks have been proposed by senior management in the quarter.
- the risk profile presented is significant and presents considerable challenges. The key issues pertaining to each risk have been highlighted in the table in Appendix 1, which has been circulated to the Panel.
- AGRS audit work during 2017/2018 includes considerable focus on management of these risks, as indicated in the table in Appendix 1. We will be presenting audit opinions / assessment of the management of these risks to the Assurance Board / Panel, in particular focusing on the strength of oversight arrangements (the so called, 'second' line of defence')

3.4 Compliance with process

3.4.1 The table below summarises compliance with the risk review process for the quarter-end September 2017. While the quarterly review process is an agreed part of Council governance arrangements some issues of non-compliance have been noted, these are detailed in the table below.

| | |
|--|---|
| Chief Officer | Assurance regarding compliance with the risk management process |
| Deputy Chief Executive and Director of Finance and Resources | Partial compliance - 2 corporate risks have not yet been reviewed: <ul style="list-style-type: none">▪ Corporate frameworks▪ Procurement and contract management |
| Director of City and Neighbourhood | Full compliance for the corporate risks. |

**Audit and Risk Panel,
Friday, 8th December, 2017**

| | |
|-------------------------------------|---|
| Services | A major review of all departmental risks took place in June 17 to ensure alignment with committee plans and the Belfast Agenda. Management are aiming to have all the new risks allocated to risk owners and action plans developed by QE December 17. |
| City Solicitor | Partial compliance – the corporate risks on Information Governance and Organisational Transformation have been reviewed, however Corporate Communications service level risks will be reviewed when the new Head of Marketing and Communications is in place |
| Director of Property and Projects | <p>Full compliance for the corporate risks.</p> <p>In terms of departmental risks the Director has committed to undertake a comprehensive review of all risks in quarter 3 as many of the risks are now historic and / or have been affected by changes in personnel. This work has been delayed due to other work priorities and availability of resources.</p> <p>In terms of high risk major capital projects, the Director has confirmed that up to date risk registers are in place.</p> |
| Director of Planning and Place | Full compliance. |
| Director of Development | Full compliance. |
| Director of City Centre Development | Full compliance. |

In these instances, AGRS follows this up with management to review the risks, but it does impact on the assurance we can give Members on the application of the process;

3.5 Business Continuity Management (BCM)

- 3.5.1 Business Continuity Management is about being able to respond and continue with the delivery of key services in the event of disruption or in an emergency. To this end, the Council has identified a number of critical services and they are required to have BCM plans and test these each year. AGRS checks to see that plans are in place, tested annually and BCM contacts receive training. AGRS does not however manage or coordinate the implementation of plans either when activated in one specific service or across a number of services in the event of an emergency.**
- 3.5.2 As at mid November 2017, 8 of the 15 critical services have planned and scheduled their BC exercise for 2017-18. Management responsible for the remaining 7 critical services have been reminded of the need to ensure that BC exercises are planned and scheduled for 2017/2018.**
- 3.5.3 Finally, following ex-Storm Ophelia, the Emergency Planning team is leading a post-event review to see if there are lessons to be learned. AGRS and BCM champions have been providing feedback to inform this review.”**

After discussion, during which the Audit, Governance and Risk Services Manager confirmed that she was working with the Director of Finance and Resources to identify those elements of the Brexit process which would need to be incorporated into the Council’s risk management process, the Panel noted the information which had been provided.

Report to those Charged with Governance

The Panel was advised that the Local Government Auditor had issued her Report to those Charged with Governance for 2016/2017.

The Financial Accounting Manager, together with Mr. A. Knox from the Northern Ireland Audit Office, provided an overview of the report, which summarised the system/control issues arising from the Northern Ireland Audit Office’s audit of the Council’s Financial Statements for 2016/2017. The Local Government Auditor had certified the statements with an unqualified opinion.

It was pointed out that the Local Government Auditor had, within her report, identified four ‘Priority 2’ areas which needed to be reviewed and responded to by management. Those related to the alignment of the BELTEL LLP year end accounts with the Council’s, Pension Disclosure of Belfast Waterfront and Ulster Hall Ltd. Liabilities, the Local Investment Fund and the General Power of Competence. She had identified also amendments to two ‘Priority 3’ areas, namely, the narrative report accompanying the

**Audit and Risk Panel,
Friday, 8th December, 2017**

financial statements and the format of the Belfast Waterfront and Ulster Hall Ltd. Accounts, in accordance with best practice.

The Financial Accounting Manager drew the Panel's attention to a document which had been formulated in response to the Local Government Auditor's report, a copy of which was available on the Mod.gov website, which had identified timescales associated with the Local Government Auditor's recommendations and indicated that the Panel would be provided with regular updates as those recommendations were being implemented.

After discussion, the Panel noted the contents of the report to those charged with governance for 2016/2017 and agreed that the Chairperson and the Director of Finance and Resources should meet with the Local Government Auditor to discuss a recent media article in which an Elected Member had raised issues around the operation of the Local Investment Fund.

2016/2017 Annual Audit Letter

The Panel was informed that the role of the Local Government Auditor was to ensure that the Council managed its affairs in the context of economy, efficiency and effectiveness and that public money was properly spent or, in the case of income, properly accounted for. The Audit Office issued, under Regulation 17 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, an annual audit letter, which each Council was required to publish as soon as was reasonably practicable.

The Financial Accounting Manager reported that the Council had received its annual audit letter for 2016/2017, a copy of which was available on the Mod.gov site, in which the Local Government Auditor had confirmed that the Council's Financial Statements for the period had been given an unqualified opinion and that the Annual Governance Statement reflected compliance with the Code of Practice on Local Authority Accounting in the United Kingdom in 2016/2017 and with the requirements of the Department of the Environment. The letter had confirmed also that the Local Government Auditor was satisfied that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in the use of resources and that the robust, fair and consistent management of attendance continued to be a key priority. It had indicated also that she was planning to issue shortly her findings relating to the Council's review of its performance for 2017-2018.

Noted.

Update on Mid-Year Performance Assessment

The Panel considered the following report:

“1.0 Purpose of Report

- 1.1 This report appends a mid-year status update on progress made against activities contributing to the 6 Improvement Objectives contained within our Corporate Plan 2017-2018 to;**

**Audit and Risk Panel,
Friday, 8th December, 2017**

- build the city's position as a magnet for foreign direct investment;
- make Belfast a great place to do business by supporting entrepreneurs and business starts;
- design and deliver programmes to address health inequalities in the city;
- deliver city regeneration and investment projects;
- deliver the integrated tourism strategy to increase the number of leisure and business tourists; and
- deliver an integrated approach to employment and skills

2.0 Recommendation

- 2.1 The Panel is requested to review and approve the Performance Unit's overall assessment of the status of the activities contributing to our improvement objectives at mid-year, as circulated.**

3.0 Main Report

Background

- 3.1 Part 12 of the Local Government (NI) Act requires Councils to agree improvement objectives on an annual basis and publish these in the form of an Improvement. BCC's Corporate Plan 2017-2018 was agreed by Council in June 2017 and contained within it was the Council's commitment to securing continuous improvement through delivery of the above 6 Improvement Objectives**
- 3.2 Legislation also requires that progress be monitored and reported in an annual assessment of performance which BCC did for 2016-2017 via the Annual and Corporate Performance Reports (which were submitted to the previous meeting of the Audit and Risk Panel). At year end we therefore produce both a report, together with a more accessible glossy public Annual Report document, which reflects progress against the content of the Corporate Plan as a whole.**

**Audit and Risk Panel,
Friday, 8th December, 2017**

3.3 The Panel should note that the Guidance accompanying the legislation advises that our performance reports should:

- **form the basis of our next *Annual Improvement Report* which must be made available to the Local Government Auditor by 30th September 2018 and;**
- **help inform the content of our next Corporate Improvement Plan (due by 30th June 2018) in terms both of ongoing activity and other actions that may address any shortfalls in the current Plan;**

3.4 Following advice from the NIAO to refine and make more specific the ARP's role in respect of the performance improvement duty, the terms of reference for the Panel were updated to include specific reference to reviewing and overseeing the Council's framework and arrangements for performance management and to consider related NIAO reports on performance and management responses and actions to implement audit recommendations.

3.5 This mid-year report brings together an update on progress against the 20 activities identified in our 2017-2018 Plan as contributing to the achievement of our 6 improvement objectives. It is not a reflection of the full breadth of our work by any means, but merely an extract from it. The Panel will note that mid-year updates on progress against Committee Plans are submitted to the Committee in November and the information presented today was also reported through that medium since it is essentially an extract of it.

3.6 Finance and Resource Implications

All finance implications associated with the delivery of the various projects are within existing budgets.

3.7 Equality and Good Relations Implications

There are none associated with this report."

The Panel adopted the recommendation.

Update on Training for Audit and Risk Panel

The Head of Audit, Governance and Risk Services reminded the Panel that a training session had been held on 31st October, which had been facilitated by Mr. S. Mungavin, the former Chief Executive of the Chartered Institute of Public Finance and Accountancy. The training had been attended by all members of the Panel and had covered issues such as the changing characteristics of the Council's governance

**Audit and Risk Panel,
Friday, 8th December, 2017**

arrangements, the importance of effective risk management and assurance frameworks, performance management and the Panel's effectiveness. A number of areas of improvement had been identified, including the need for more time to be made available to consider risk and risk management arrangements, to improve the way in which risk was reported to the Panel, to build further capacity for Members in relation to risk management and to consider referring risk control and governance issues, where appropriate, to Standing Committees for action. It had been recommended also that meetings should, in future, commence at 12.30 p.m. and that a pre-meeting, solely for Panel Members, should be held at 12.15 p.m. He confirmed that, should the Panel approve those actions, a report on the progress of their implementation and their effectiveness would be submitted to its meeting in June, 2018.

The Panel approved the list of actions, as outlined.

Schedule of Meetings 2018

The Panel approved the following schedule of meetings for 2018 and noted that, in line with its decision earlier in the meeting to adopt a number of actions arising from its training session on 31st October, the meetings would commence at the earlier time of 12.30 p.m.:

- Tuesday, 6th March;
- Tuesday, 5th June;
- Tuesday, 11th September;
- Monday, 22nd October; and
- Tuesday, 4th December.

Chairperson