

Issued by the Local Government Auditor



2012-13

To the Members of
Belfast City Council

Louise Mason

Local Government Auditor
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

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1. Introduction

The Department of the Environment may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate persons who are members of the staff of the Northern Ireland Audit Office as local government auditors¹. I have been designated the Local Government Auditor for the Council.

As an auditor independent of the audited body, I seek to examine that the body has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for.

This report provides a summary of the findings from my 2012-13 audit.

¹ Article 4 (3) of the Local Government (Northern Ireland) Order 2005).

2. Financial Statements

Summary of Audit Findings

Belfast City Council must prepare its accounts in accordance with International Financial Accounting Standards as interpreted for Local Government in the 'The Code of Practice on Local Authority Accounting in the United Kingdom'. This code sets out the accounting treatment and disclosures for all normal transactions of local authorities.

The financial statements were signed by the Chief Financial Officer on 21 June 2013. This is within the statutory timeframe of 30 June 2013. Following the audit, the accounts were re-signed on 25 October 2013 and published on the website of Belfast City Council on 31 October 2013 in accordance with the regulations.

For the year ended 31 March 2013 I gave the following unqualified opinion on the financial statements;

In my opinion:

- the financial statements give a true and fair view, in accordance with relevant legal and statutory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, of the financial position of Belfast City Council as at 31 March 2013 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 and the Department of the Environment directions issued thereunder.

At the end of the audit I issued a Report to those charged with Governance on the results of the audit, noting the most significant issues, making recommendations and seeking comments. That report is presented separately to your Audit Panel.

In July 2013, the Council discovered that it had been subjected to an external fraud. This involved fraudulent changes being submitted and made to bank account details held by the Council for one of its main contractors, which resulted in two payments totalling £292,544.46 being made to a fraudulent bank account. Once the fraud was discovered actions were taken, including freezing subsequent payments to the fraudulent bank account, notifying the PSNI, activating the Council's Fraud Response Protocol and initiating a preliminary Human Resources investigation. This matter was reported to the Council's Strategic Policy and Resources Committee, the Audit Panel and the NIAO. Following initial investigation by the PSNI, it concluded there was no evidence to suggest that either employees of the Contractor or Council staff were involved in the fraud. Initial review of the circumstances of the fraud by the Council's Audit Governance and Risk Services indicated that if controls which had been put in place had been followed, then the fraud would not have occurred. I understand an internal Human Resources investigation is ongoing. This has been included in the Annual Governance Statement as a significant issue. The Council has advised me it has liaised with its insurance brokers and recovered much of the loss arising from the fraud. I will continue to monitor developments and I may report further on this matter at a later date.

During 2012-13 the Council received a request from it's Trade Union group to consider making a payment of £250 to employees earning less than £21,000 per annum. The Council accrued £469k in its 2012-13 accounts relating to the payments of £250 to staff below Senior Officer grade. The Council initially sought legal advice prior to committing expenditure which confirmed that whilst the payment would boost morale and assist good industry relations, there was no apparent lawful basis for making such a payment without some form of contractual consideration. The Council subsequently proposed that consideration could be in the form of staff committing themselves to be available in emergency response situations. The Council sought further legal advice confirming that a legal basis existed to make payment. Prior to payments being made the Council required eligible staff to provide their contact details and confirm their written commitment to make themselves available in emergency response situations. I considered the legality of the payments. I was satisfied that no further audit action was required under Article 19 of the Local Government (Northern Ireland) Order 2005. The detailed consideration by Council of the legality around the payment is welcomed. However I am unaware of any underpinning business case or clear demonstration of value for money. Affordability for Council seems to have been a key determinant.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Belfast City Council shows that during the year ended 31 March 2013 the Council spent £200,493,180 on the provision of services. It also received income of £201,752,631.

The major items of expenditure were;

- Recreation and Sport - £45.3m
- Environmental Health - £18.6m
- Waste Collection - £15.3m
- Other Cleaning - £13.4m

The major areas of income were:

- District Rates - £134m
- Revenue Grants - £4.5m
- Recreation and Sport - £9.1m

The Council currently has net non-current assets of £476,467,571. The majority of these non-current assets are in the land and buildings category. The Council told me that it plans to purchase additional capital items of £119,532,410. The main capital projects planned are the City Hall (£12.7m), Grove Wellbeing Centre (£23.2m), Urban Broadband (£16.7m), the Connswater Greenway (£31m) and the Pitches Strategy (£15m). Total loans outstanding are £27,688,507. During the year the Council incurred £1,232,909 on loan interest payments. The Council has an annual capital financing budget, made up of revenue contributions, loan charges and interest payments, which it intends to use to fund the additional capital expenditure.

At 31 March the council has usable reserves of £46,950,643 made up of:

Usable Reserve	£
Capital Receipts	961,790
Capital Fund	17,979,320
Other balances and reserves	7,395,483
General Fund	20,614,050
Total	46,950,643

Other balances and reserves is made up of an election reserve of £413,887 and a Sinking Fund of £6,981,596 for the repayment of its maturity based loans as they fall due.

3. Governance

The Good Governance Standard for Public Services² sets out the following key principles of good governance. Good governance means;

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

Annual Governance Statement

The Council is required to conduct a review at least once in a financial year of the effectiveness of its governance framework (including its system of internal control) and to then approve an Annual Governance Statement³.

I am required to report if the Annual Governance Statement:

- does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13;
- does not comply with proper practices specified by the Department of the Environment; or
- is misleading or inconsistent with other information I am aware of from my audit

I have no inconsistencies to report as a result of my review of the Statement.

The Council noted the following significant governance issues (more detail is included in its Governance Statement):

- **Management of the City's waste (non-achievement of targets)** - To limit the impact of this, the Waste Management Service has produced a 'Towards Zero Waste Action Plan (ZAP)' which contains actions to be taken by Belfast City Council, in conjunction with ARC21 where appropriate.
- **Strategic management of the Council's assets** - Belfast City Council have put in place a Portfolio Office which will monitor, report, support delivery and advice on issues and progress.

² The Good Governance Standard for Public Services, OPM and CIPFA, 2004

³ Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08

- **Meeting the challenges presented by local government reform** - Belfast continues to operate a Voluntary Transition Committee (VTC) while the nomination process for the Statutory Transition Committee (STC) is being reviewed by the DOE. Despite not having an STC, the Council is fully committed to reform and work is progressing well between Lisburn, Castlereagh and Belfast. Progress continues in terms of officer representation on a number of regional implementation working groups (e.g. Transfer of Functions, Finance, Human Resources, Communications and Legislation).
- **Delivering continued improvements to the corporate health and safety management arrangements** - An external independent review of Corporate Health and Safety arrangements was undertaken in 2012/13 to provide independent assurance to Members and senior management regarding the risk management, control and governance arrangements pertaining to health and safety. This review provided an amber assurance to the Council on its Corporate Health and Safety arrangements and concluded that whilst there is evidence of good practice there are some gaps in health and safety management arrangements which require action to address and improve.
- **Failure to maximise the collectible rate** - Key strands of the Council's Finance Strategy, such as the development of a city financing strategy and plans to maximise the collection of rates and minimise rates losses, will address this risk.
- **The delivery of the Investment Programme** - A significant risk is that the Programme is only partly delivered. To manage this risk, resources have been realigned to deliver the major projects, programme management arrangements have been put in place and project briefs have been developed for all key projects. The Council's Strategic Policy and Resources Committee monitors delivery on a quarterly basis and Area Working Groups have been established to take forward local delivery projects.
- **Information management risks, in relation to compliance with legislation / best practice (data protection, Freedom of Information)** - During the course of 2011/12, the council experienced a data breach, whereby personal information relating to Members was accidentally emailed to a member of the public and subsequently reported in the media. Steps were taken immediately to address this breach. The data breach had been the subject of review by the Information Commissioner's Office (ICO). In July 2013, the ICO wrote to the Council to advise that the Council would not be fined for this data breach. The Commissioner noted that the breach was unlikely to lead to substantial damage or distress

and that the data was not sensitive. The Commissioner further noted the co-operative tone of the submissions made.

- **External fraud** – see Summary of Audit Findings above.
- **EU / other external funding for major capital projects** - Within the Investment Programme there are a number of capital projects dependent on maximising ERDF funding through maximising grant allocation and delivery within the December 2014 deadline. Projects boards have been put in place to oversee their delivery, project plans are in place, external advisory support has been secured and risk action plans created for each project. Although timescales remain challenging, it is anticipated that all projects will be delivered on time and all eligible funds drawn down.

Internal Audit

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires councils to maintain an adequate and effective system of internal audit and to conduct a review at least once in a financial year of the effectiveness of its system of internal audit. The Council has an in-house Internal Audit Department called Audit Governance and Risk Services. A review of the effectiveness of the system of internal audit was carried out during 2012-13 by the Council and the findings of the review were considered by the Audit Committee.

Audit Committee

It is essential that Members exercise effective scrutiny of the internal control processes and procedures in place within the Council. One way that Members carry out this function is through the Audit Committee (Audit Panel in Belfast City Council). This Committee met five times in the year and the agenda items included internal audit reports, external audit reports, management of corporate risks and the implementation of audit recommendations.

4. Proper arrangements

Legislation requires me, each year to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources⁴.

My review of the Council's arrangements for securing value for money can cover the following ten areas which are referred to in my Code of Audit Practice:

- a) **Financial Planning.** Planning finances effectively to deliver strategic priorities and secure sound financial health.
- b) **Financial Performance.** Having a sound understanding of costs and performance and achieving efficiencies in activities.
- c) **Financial Reporting.** Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people.
- d) **Procurement.** Commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money.
- e) **Data to support decision making and manage performance.** Producing relevant and reliable data and information to support decision making and manage performance.
- f) **Good governance.** Promoting and demonstrating the principles and values of good governance.
- g) **Risk.** Managing risks and maintaining a sound system of internal control.
- h) **Natural Resources.** Making effective use of natural resources.
- i) **Asset Management.** Managing assets effectively to help deliver strategic priorities and service needs.
- j) **Workforce Management.** Planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

In 2012-13, I examined the areas of Financial Planning, Financial Reporting, Procurement and Data to support decision making and manage performance and Good Governance based on my risk assessment of the Council.

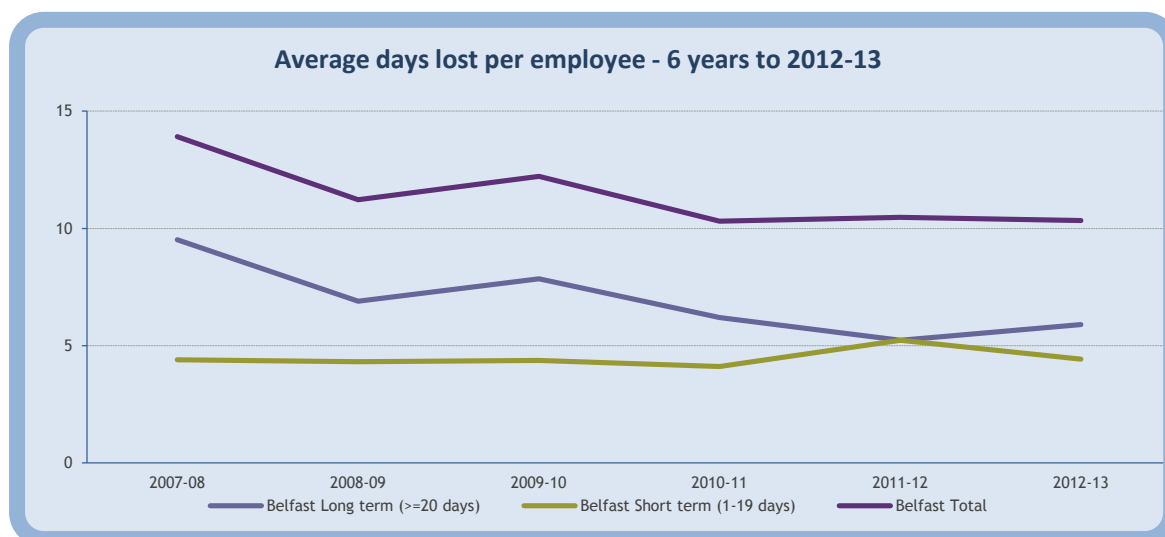
On the basis of my work I am satisfied that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.

⁴ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The 2012-13 absenteeism figure for the Council is 10.33 days. This represents a decrease of 0.14 days on the previous year. The trend over the years 2007-08 to 2012-13 is shown below.



National Fraud Initiative (NFI)

In the current economic climate with unprecedented budgetary pressures on public services, it is essential that public bodies use every means at their disposal to prevent and detect fraud and error. The NFI exercise, which is carried out every two years, is a highly effective tool which helps public bodies identify potentially fraudulent and duplicate transactions using sophisticated computer based data matching techniques. The Serious Crime Act 2007 inserted provisions dealing with data matching exercises into the Audit and Accountability (Northern Ireland) Order 2003. Local councils are involved in the 2012-13 NFI exercise and the outcome will be reported at a later date. The outcome of the previous NFI exercise can be found in the report produced by the Comptroller and Auditor General for Northern Ireland, published on 26 June 2012. A copy can be obtained from the Northern Ireland Audit Office's website. Suggestions would be welcome for further potential data matches that could help in the prevention and detection of fraud.

Joint Committees

The Council is a member of the Arc21 Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £9,397,360 towards funding the expenditure of the Joint Committee

Separate accounts have been prepared by the Joint Committee and are audited by me. A separate Annual Audit Letter is issued to the Joint Committee. Arc21 financial statements were certified on 31 October 2013 with an unqualified opinion

Grant Claims

In accordance with Article 25 of the Local Government (Northern Ireland) Order 2005 I have made arrangements for the certification of local government body grant claims. These arrangements are designed to provide reasonable assurance to the grant paying body. The key principle is that the certification of grant should be proportionate to the amounts involved and the associated risks. Specifically financial thresholds apply. I examined relevant grant claims of the Council and reported my findings to the funding body concerned.

6. Local Government Reform

Local Government Finance Act 2011

The new prudential system for capital finance in Northern Ireland was introduced on 1 April 2012 with the implementation of Local Government Finance Act (Northern Ireland) 2011 and the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011. The Act and Regulations introduced significant changes to local authority capital financing and accounting in Northern Ireland. This has modernised the legislative framework for local government finance, with a focus on greater freedom for Councils. The Act covers budgeting, reserves and funds, borrowing powers and capital receipts and expenditure. The key change is that it gives Councils more freedom to manage their finances without the need to obtain consent from the Department of the Environment. More emphasis has therefore been placed on the Chief Financial Officers' assessment of affordability by applying the principles and requirements of the Prudential Code.

The Department of the Environment has also issued statutory guidance on the minimum revenue provision, capitalisation directions and local government investments. Councils' financial statements for 2012-13 have included a charge to the general fund for the minimum revenue provision for financing capital expenditure and reflected other changes from the implementation of the Act and Regulations.

Local Government Reform

The Local Government Bill, currently proceeding through the Northern Ireland Assembly, provides for a reduction in the number of local councils from twenty six to eleven on 1 April 2015. On that date it is planned that parts of both Lisburn City Council's District and Castlereagh Borough Council's District will be amalgamated into Belfast City Council's District.

The Bill forms the legislative basis for the local government reform programme that will impact on every aspect of the governance, management and provision of local government services. The new councils will take the lead in community planning and will be expected to deliver high quality services in an effective and efficient manner under a new performance improvement framework. The Bill also sets out arrangements for the transfer of staff, assets and liabilities to the new councils.

Statutory Transition Committees (STCs) will ensure that the new councils are able to adopt their full range of powers and functions from 1 April 2015. They will gather information, consider and advise on matters relevant to moving to their new council. They will be responsible for the appointment of the Council Chief Executive, as well as the preparation of a draft budget and a draft corporate and business plan.

Elections are scheduled to be held during 2014 to determine the membership of the new councils. In the period between the elections and 1 April 2015, referred to as the shadow period, the incoming councils will appoint senior staff, strike rates and approve business and financial plans in advance of 1 April 2015.

I anticipate being responsible for auditing the STCs and the incoming councils.

7. Closing Remarks

The letter is addressed to the Members of Belfast City Council and prepared for the sole use of the audited body. No responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

The factual accuracy of this Audit Letter has been agreed with the Chief Financial Officer (Director of Finance and Resources).

The Council has taken a positive and constructive approach to our audit. I would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

This letter will be presented to your Audit Committee by my staff and I have asked for copies to be sent to all Members.

Louise Mason

Local Government Auditor

December 2013