



Annual Audit Letter

Issued by the Local Government Auditor



2013-14

To the Members of
Belfast City Council

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

Contents

1.	Introduction	3
2.	Financial Statements	4
	Summary of Audit Findings	4
	Financial Performance.....	5
3.	Governance.....	7
	Annual Governance Statement	7
	Internal Audit.....	9
	Audit Committee	9
4.	Proper arrangements.....	10
5.	Other Audit Work	11
	Absenteeism	11
	National Fraud Initiative (NFI)	11
	Joint Committees.....	11
	Grant Claims	12
6.	Local Government Reform.....	13
7.	Closing Remarks.....	13

1. Introduction

I have been designated the Local Government Auditor for Belfast City Council by the Department of the Environment with the consent of the Comptroller and Auditor General for Northern Ireland.

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 2013-14 audit.

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 19th June 2014. This is within the statutory timeframe of 30th June. Following the audit, the accounts were re-signed on 24th October and published on the website of Belfast City Council on 31st October in accordance with the regulations.

For the year ended 31 March 2014 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 2013-14, of the financial position of Belfast City Council as at 31 March 2014 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 Committee.

A significant issue for the Council is the delivery of the 'Leisure Transformation Programme'. This was referred to as a significant governance issue in the Council's Annual Governance Statement. I will keep under review delivery of this programme and may report on this matter at a later date.

The Belfast City Council Statutory Transition Committee

The Belfast City Council Statutory Transition Committee (STC), consisting of 60 members, was formed through regulation¹ to ensure that the new Council is able to adopt its full range of powers and functions from 1 April 2015. The STC was set up to gather information, consider and advise on matters relevant to moving to the new Council, to prepare a draft budget and to prepare a draft corporate and business plan. The other regulatory role of the STC was to appoint a clerk of the new Council, as well as any other staff it deemed appropriate. Under regulation the STC ceased to exist on 19 June 2014, following the election held in May 2014 to determine the Members of the new Council.

¹ The Local Government (Statutory Transition Committees) Regulations (Northern Ireland) 2013

The STC is a statutory local government body and I therefore have responsibility to audit the financial statements, in accordance with the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice. I gave an unqualified opinion on the 2013-14 financial statements of the STC.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Belfast City Council shows that during the year ended 31 March 2014 the Council spent £190.9m on the provision of services. It also received income of £186.1m.

The major items of expenditure were:

- Recreation and Sport - £51.1m
- Environmental Health - £19m
- Waste Collection - £15.8m
- Other Cleaning - £14.6m

The major areas of income were:

- District Rates - £131.3m
- Revenue Grants - £4.6m
- Capital Grants and Contributions - £6m
- Recreation and Sport - £7.2m

At 31 March 2014 the Council had net non-current assets of £480.9m. The majority of these non-current assets are in the Property Plant & Equipment (PP&E) category. Expenditure on capital projects during the year amounted to £11.8m, the most significant spend was on Connswater Community Greenway £2,949k, Visit Belfast £1,503k, Woodvale Park £845k and Dunville Park £792k. Total loans outstanding were £23.9m.

At 31 March 2014 the Council had usable reserves of £52.8m made up of:

Usable Reserve	£
General Fund	19,942,515
Capital Receipts	943,065
Capital Fund	23,402,740
Other balances and reserves	8,551,991
Total	52,840,311

Legislation² places a duty on the Chief Financial Officer to make arrangements for the proper administration of Belfast City Council's financial affairs, including the submission to the Council of a report on the adequacy of any proposed financial reserves. CIPFA and the Local Authority Accounting Panel (LAAP) provides guidance to Councils on financing capital expenditure and the establishment and maintenance of local authority reserves and balances in the CIPFA Prudential Code and a recent LAAP Bulletin³.

² The Local Government Finance Act (Northern Ireland) 2011

³ LAAP Bulletin 99 *Local Authority Reserves and Balances*, July 2014

3. Governance

The Good Governance Standard for Public Services⁴ 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 Statement⁵.

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 2013-14;
- 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.

The Council noted at the date of signing the Annual Governance Statement the following significant governance issues (more detail is included in its Governance Statement);

- **Meeting the challenges presented by Local Government Reform:** The Council continues to face considerable challenges in preparing for local government reform, with the new council operational from 01 April 2015. A summary of the key actions to manage the risk:
 - The Belfast Statutory Transition Committee (STC), which includes two Members from Lisburn City Council (LCC) and two from Castlereagh Borough Council (CBC).
 - The Belfast STC Corporate Plan (forward work plan) agreed in December 2013 and regular progress updates provided to Belfast STC and DoE.

⁴ The Good Governance Standard for Public Services, OPM and CIPFA, 2004

⁵ Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08

- The Chief Executive Designate, is responsible for helping Members to ensure the establishment and effective operation of the new council from 1 April 2015.
 - A dedicated LGR Programme support to co-ordinate the implementation of reform.
 - Chief Officers and Programme Managers have been aligned to specific LGR work streams.
 - Project (sequencing) plans have been prepared for each of the LGR work streams.
 - The former Belfast Planning Manager was seconded into the Council in November 2012 to assist with the preparations for the formal transfer and delivery of planning related functions to the Council.
 - Work continues with colleagues from LCC, CBC and North Down in preparation for the extension of the Belfast City boundary.
 - A communications plan is being implemented to ensure that all key stakeholders are kept informed of LG reform and the Councils preparations for it.
 - At a regional level, BCC elected Members and Senior Officers are represented on and input into the work of established LGR implementation structures.
- **Failure to sustain and enhance the rate base and manage the rate setting process for the Shadow Council:** The major financial risk for the Council in 2014/15 is that the District Rate which will be set in February 2015 will not provide adequate resources for the new organisation. Work has commenced on the validation of the rate base for the new Council area and the Council has engaged the support of the Institute of Revenues Rating and Valuation (IRRV) to support the Council in assessing the impact of the Non Domestic Revaluation on the rate base in advance of setting the District Rate for 2015/16. The Director of Finance and Resources is satisfied that these steps will address the stated risk and their implementation will be monitored on an ongoing basis.
 - **Failure to attract EU / other external funding and manage and deliver designated capital projects within deadlines and in compliance with funding requirements:** At the time of writing there remains a significant risk in relation to the funding of 4 high profile capital projects; North Foreshore, Innovation Centre, Creative Hub and Olympia Regeneration. These projects are noted as “schemes at risk” i.e. without letter of offer in place. Letters of offer have recently been received for the Belfast Waterfront and Girdwood Hub projects; however these are complex projects to be delivered within tight timescales prescribed by the funding body. The Council is now in receipt of the letter of offer for £18.5 million for the development of an Exhibition and Convention Centre at the Waterfront Hall. A highly experienced individual with international experience has been appointed at the Waterfront Hall to oversee an options appraisal on the operating model, develop the strategic plan for the new facility along with a sales and marketing plan which is aimed at delivering the revenue targets. Progress will be reported regularly to CMT to ensure that there is appropriate oversight of the progress of all these externally funded capital projects
 - **Delivery of the Leisure Transformation Programme:** The Council’s Leisure Transformation Programme received final approval from the Strategic Policy and Resources Committee in April 2014 and Council in May 2014. A Corporate Board has been set up to oversee the

Leisure Transformation Programme and a board set up to deliver it. As well as being included within the Corporate Risk Register a separate risk register has been developed and is reported to the Board on a regular basis.

- **Peace III project:** During the course of 2013/14, the Council was advised by the Special EU Programmes Board (SEUPB) of concerns that they had regarding an EU Peace III funded project - Promoting the Positive Expression of Cultural Heritage (bonfires project). A detailed and rigorous review of all expenditure in relation to the project was undertaken by the Council's Audit, Governance and Risk Services (AGRS). Belfast City Council has now initiated a process to claw back money. The Council has also conducted a management investigation into this matter, reviewed its internal controls and the delivery mechanism for the 2014 Bonfires project which is now being delivered directly by the Council.
- **External fraud risk:** A further issue that merits disclosure relates to external fraud risk. A number of attempts have been made to commit fraud whereby external fraudsters have made false representations to councils regarding changes in bank details. During 2014/15, as well as further delivery of fraud awareness training, the Council's Audit, Governance and Risk Services Unit will be working with the Financial Services Unit to review the fraud risk action plan and associated controls to ensure that this risk is mitigated as much as possible.
- **Whistleblowing:** During 2013/14 the Council reviewed, re-issued and communicated its whistleblowing policy. In undertaking investigations, AGRS, Corporate HR, Legal Services and relevant Departmental management liaise closely to ensure all issues are considered and managed. Given the growing importance of whistleblowing, the Council plan's to commission an external review of the policy and related issues during 2014/15 to get assurance that it is fit for purpose in the context of Local Government Reform.

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, known as Audit, Governance and Risk Services (AGRS). A review of the effectiveness of the system of internal audit was carried out during 2013-14 by the Council and the findings of the review were considered by the Audit Panel.

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 (known as the Audit Panel in Belfast City Council). This Committee met seven 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 to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources⁶.

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.

For 2013-14, I examined the areas of Workforce Management, Asset Management, Financial Performance and Risk based on my risk assessment of the Council.

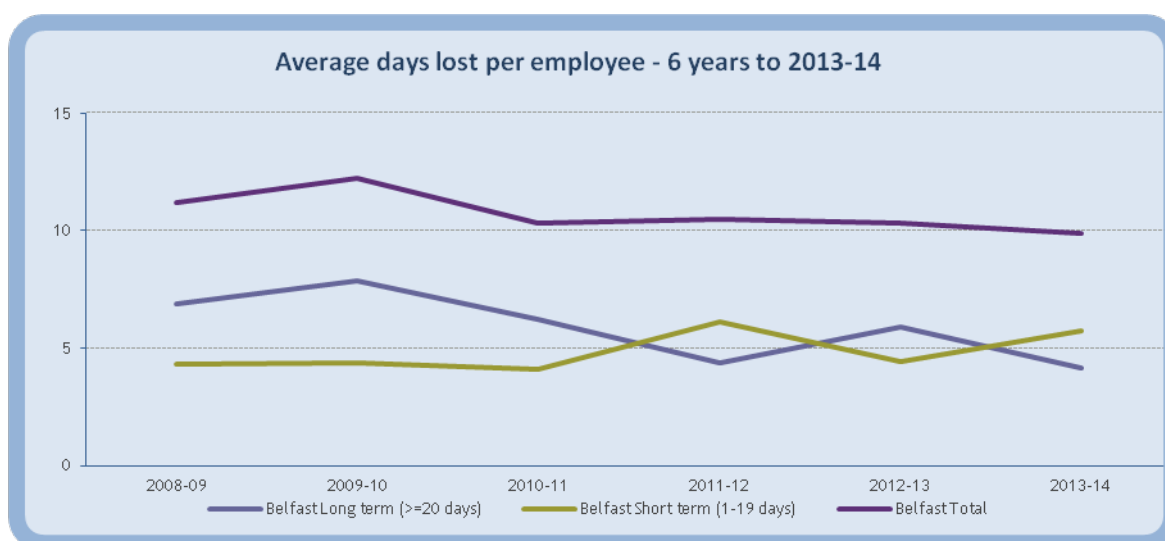
On the basis of my work I am satisfied that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.

⁶ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The 2013-14 absenteeism figure for the Council is 9.9 days. This represents a decrease of 0.43 days on the previous year. The Council has told me that this is due to strict monitoring to ensure compliance with the policy, timely intervention and action, close occupational health and employee counselling liaison and implementation of a range of adjustments to encourage earlier return. The trend over the years 2008-09 to 2013-14 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 were involved in the recent NFI exercise and the Comptroller and Auditor General for Northern Ireland published a report on its outcomes on 17 June 2014. A copy can be obtained from the Northern Ireland Audit Office's website.

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 £5,589,539 towards funding the expenditure of the Joint Committee; and

A separate account has been prepared by the Joint Committee and is audited by me. A separate annual audit letter is issued to the Joint Committee.

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 where required grant claims of the Council and reported my findings to the relevant funding body.

6. Local Government Reform

The Local Government Act (Northern Ireland) 2014 (The Act) provides for a reduction in the number of local councils from twenty six to eleven on 1 April 2015.

The Act forms the legislative framework for Northern Ireland's eleven new councils. This includes how decisions are made, how positions of responsibility are shared across political parties, how improvements in the delivery of council functions can be achieved to reflect the needs of local communities, and how effectively and efficiently council services are delivered to people. It provides for statutory governance in councils and introduces a new ethical standards framework which includes a mandatory code of conduct for councillors.

Every aspect of the governance, management and provision of local government services will be impacted. 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. Powers will transfer from central government such as planning, roads, urban regeneration and community development to the new councils. The Act also sets out arrangements for the transfer of staff, assets and liabilities to the new councils.

The Local Government (Transitional, Supplementary, Incidental Provisions and Modifications) Regulations (Northern Ireland) 2014 made transitional provision with respect to local government reorganisation including positions of responsibility within the new council for the winding up and final accounts of existing councils.

The new Council, elected in May 2014 and operating in shadow form from that date until 1 April 2015, has been appointing senior staff and will strike rates and approve business and financial plans in advance of 1 April 2015.

As well as additional audit work required in relation to the 'shadow' councils and statutory transition committees in the transitional year, the Act provides that I will undertake improvement audits and assessments each year for each of the new Councils. These will specifically entail:

- undertaking improvement audits, to review whether councils have discharged their duties for publishing improvement planning and performance information;
- carrying out improvement assessments, to determine whether councils are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
- reporting on improvement audit and assessment work.

In preparation for this extra work I have begun a process of engagement with relevant external stakeholders and I have established a team to manage and develop a best practice audit approach and methodology which will enable my staff to carry out their work with independence, integrity and objectivity, in accordance with the key principles set out in my 'Code of Audit Practice'.

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 facilitated the audit in a positive and constructive way. 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. I have also asked the Chief Executive to provide a copy to all Members of the Council.

Louise Mason

Local Government Auditor

8 January 2015