



Annual Audit Letter

Issued by the Local Government Auditor



2014-15

To the Members of
Belfast City Council

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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.

This report provides a summary of the findings from my 2014-15 audit. Due to the implementation of Local Government Reform from 1 April 2015, the report is issued to the Members of the newly constituted Belfast City Council.

Local Government Reform

Under the Local Government Act (Northern Ireland) 2014 (The Act) the number of local councils in Northern Ireland reduced from twenty six to eleven on 1 April 2015. Belfast City Council together with parts of Lisburn and Castlereagh Councils, have been joined to form a newly constituted Belfast City Council.

The Act now forms the legislative framework for Northern Ireland's eleven 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 has been impacted. The new councils have now taken the lead in community planning and are expected to deliver high quality services in an effective and efficient manner under a new performance improvement framework. Powers such as planning have transferred from central government 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.

Belfast City Council struck the 2015-16 rates and approved business and financial plans in advance of 1 April 2015. As the 'new' Council was operational to a limited extent during the 'shadow' period, I am required to audit the accounts of this body for the 2014-15 period. This is the subject of a separate letter to the Audit and Risk Panel.

As well as additional audit work required in relation to the new councils operating in shadow form and the audit of statutory transition committees in the transitional year of 2014-15, 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 been engaging with relevant external stakeholders. 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'.

2. Financial Statements

Summary of Audit Findings

Belfast City Council

The accounts of Belfast City Council must be prepared 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 of the Belfast City Council on 19 June 2015. This is within the statutory timeframe of 30 June. Following the audit, the accounts were re-signed on 15 October and published on the website of the Council by 31 October 2015 in accordance with the regulations.

For the year ended 31 March 2015 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 2014-15, of the financial position of Belfast City Council as at 31 March 2015 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, addressed to the Chief Financial Officer of the Council, on the results of the audit, noting the most significant issues, making recommendations and seeking comments. That report is presented separately to the Audit and Risk Panel.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Belfast City Council shows that during the year ended 31 March 2015 the Council spent £187.1m on the provision of services. It also received income of £202.3m.

The major items of expenditure were:

- Recreation and Sport - £46.8m;
- Environmental Health - £18.2m;
- Waste Collection - £16.8m;
- Economic development - £14.9m; and
- Other Cleaning - £14.8.

The major areas of income were:

- District Rates - £134.5m;
- Capital Grants and Contributions - £13.1m;
- Recreation and Sport - £6.5m; and
- Revenue Grants - £4.6m.

At 31 March 2015 Belfast City Council had non-current assets of £523.3m. The majority of these non-current assets, £375.9m, are in the land and buildings category. Total loans outstanding were £23.2m which cost the Council £1.2m in interest charges during the year.

At 31 March 2015 Belfast City Council had usable reserves of £50.9m as set out in the table below.

Usable Reserve	£
General Fund	22,027,605
Capital Receipts	1,243,065
Capital Fund	27,589,083
Other balances and reserves	2,898
Total	50,862,651

Legislation¹ placed 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. The Chartered Institute of Public Finance and Accountancy (CIPFA) and its Local Authority Accounting Panel (LAAP), which includes representatives from UK local authorities and audit institutions, provide guidance on finance and accounting issues relevant to councils. Specific guidance on financing capital expenditure and the establishment and maintenance of local authority reserves and balances is included in both the CIPFA Prudential Code² and a recent LAAP Bulletin³.

¹ The Local Government Finance Act (Northern Ireland) 2011

² The Prudential Code for Capital Finance in Local Authorities (2011 Edition)

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

Belfast City 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 2014-15;
- 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 the following significant governance issues in its Governance Statement.

- Local Government Reform – meeting the challenges of Phase 2
- Belfast Agenda – new statutory responsibilities with regards to community planning
- Organisational development – realignment of the council to meet new priorities
- Medium term financial plan – taking account of income and expenditure risks in the medium term
- European Regional Development Fund – potential financial consequences of extended delivery dates and compliance issues for major capital projects
- Waterfront Hall operating Model – the need to meet the strategic economic objectives for the Waterfront
- Management of leisure contract and capital investment – management of the leisure contract between the Council, Active Belfast Limited and Greenwich Leisure Limited to ensure outcomes are achieved.

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

- Information management - having effective systems and procedures in place
- Robinson Centre – the closure of the centre.

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. Belfast City Council has an in-house Internal Audit Department. A review of the effectiveness of the system of internal audit was carried out during 2014-15 by the Council and the findings of the review were considered by the Audit and Risk Panel.

Audit and Risk Panel

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 and Risk Panel. The Audit and Risk Panel of Belfast City Council met 5 times in the year and the agenda items included:

- NIAO audit reports;
- internal audit reports;
- risk register review; and
- other relevant business.

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 Belfast City 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 2014-15, I examined the areas of Financial Planning and Asset Management 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. I made one recommendation to the Council to help improve arrangements which is included in my Report to those Charged with Governance.

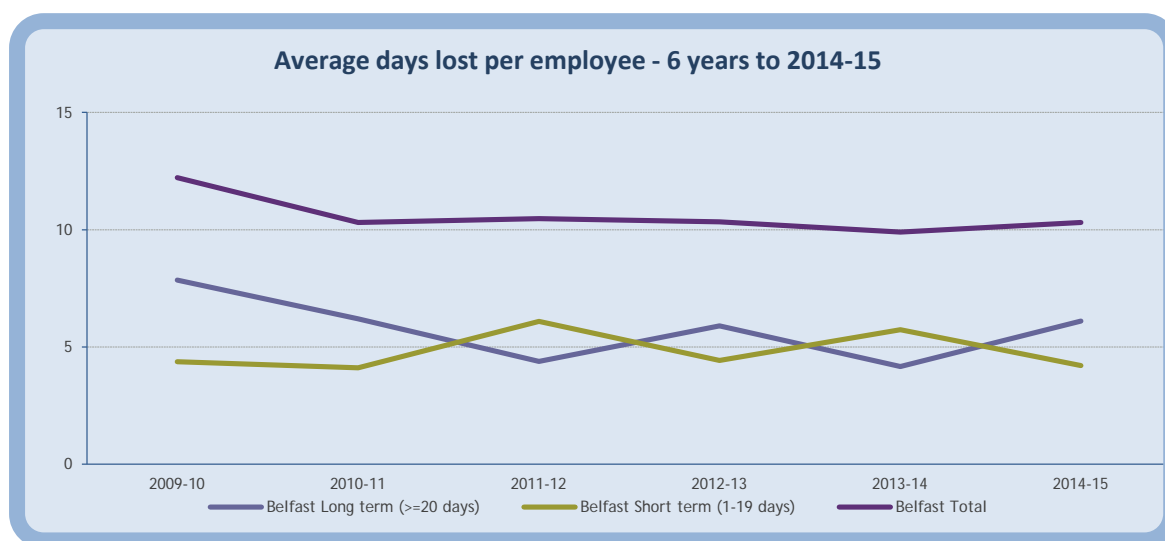
⁶ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The 2014-15 absenteeism rate for Belfast City Council is 10.31 days. This represents an increase of 0.41 days on the previous year. The Council explained this was due to a slight increase in long term sick absence. The Health and Environmental Services Department, the only department to not meet its target, is the largest department in the Council with a significant number of front line staff. This department and corporate HR continue to work closely together to develop an improvement plan in order to achieve the target reduction next year.

The trend over the years 2009-10 to 2014-15 is shown below.



Joint Committees

Belfast City Council is a member of the Arc21 Joint Committee which was established for the purposes of managing waste. During the year the Council advanced £5.9m towards funding expenditure of the Joint Committee

Separate accounts have been prepared by the Joint Committee and are audited by me and a separate annual audit letter is issued.

6. Closing Remarks

This letter concerning the 2014-15 audit of Belfast City Council is addressed to the Members of the newly formed Belfast City Council and prepared for the sole use of the latter. 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 of Belfast City Council.

Belfast City Council facilitated the audit in a positive and constructive way. I would like to take this opportunity to express our appreciation for the assistance and co-operation provided.

This letter will be presented to Audit and Risk Panel 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
12 November 2015