

Audit Panel

Tuesday, 28th April, 2009

MEETING OF AUDIT PANEL

Members present: Councillor Rodgers (Chairman); and
Councillors Lavery, Mullaghan and Rodway.

In attendance: Mr. T. Salmon, Director of Corporate Services;
Mr. A. Wilson, Head of Audit, Governance and
Risk Services;
Mrs. G. Ireland, Corporate Risk and Governance
Manager;
Mr. A. Harrison, Acting Corporate Assurance
Manager;
Mr. N. Malcolm, Committee Administrator;
Mr. J. Buchanan, Chief Local Government Auditor; and
Mr. S. Knox, Local Government Auditor.

Apologies

Apologies for inability to attend were reported from Councillor Ekin and Dr. Smith.

Minutes

The minutes of the meeting of 8th December, 2008 were taken as read and signed as correct.

Local Government Auditor's Management Letters 2007 - 2008

The Director of Corporate Services advised the Panel that the audit of the Council's financial statements for 2007 - 2008 had been completed and had resulted in an unqualified opinion. However, during the course of his work the Local Government Auditor had identified a number of issues which the Council needed to address and had set these out in an interim and end-of-year management letters.

The Director outlined to the Members some of the issues which had been raised by the Auditor and indicated that the relevant senior officers had completed their responses to the management letters and prepared action plans to address the issues which had been raised. He informed the Members that those officers would monitor the progress achieved in implementing the Local Government Auditor's recommendations to resolve the issues he had raised and that a report regarding their implementation would be submitted to a future meeting of the Panel.

During discussion in the matter, the Director of Corporate Services answered questions regarding a number of the issues which had been raised by the Local Government Auditor and indicated that, where necessary, reports would be submitted to future meetings of the Panel. In addition, he informed the Members that the forthcoming "Review of the Centre" would examine the staffing levels within a number of Sections, including the Business Improvement Section and Information Services Belfast. He assured the Members that "right-sizing" of those Sections would involve no compulsory redundancies and indicated that a member of staff would not be permitted early retirement if the skills which that person had were needed by the Council.

Arising from discussion in this matter, several Members expressed the view that, following the abolition of the Personnel Sub-Committee, personnel issues were no longer being given the importance they deserved within the Committee process and pointed out that reports on personnel issues were not considered at great length during meetings of the Strategic Policy and Resources Committee due to the number of items on the agenda.

In response, the Director of Corporate Services indicated that, whilst he believed that there was no desire within the Council to reintroduce Sub-Committees, he would convey the Members' comments regarding personnel issues to the Chief Executive.

**Northern Ireland Audit Office – Audit Strategy
for Belfast City Council 2008-2009**

The Chief Local Government Auditor explained that, under the Local Government (Northern Ireland) Order 2005, he was required to examine, certify and report on the financial statements of Belfast City Council. Accordingly, he had issued an Audit Strategy for Belfast City Council for the 2008-2009 financial statements, which set out the:

- (i) responsibilities for the preparation of accounts and associated regulations;
- (ii) scope of the audit;
- (iii) audit approach;
- (iv) records which needed to be provided for audit inspection;
- (v) timescales which would be involved; and
- (vi) Local Government Auditor staffing.

The Chief Local Government Auditor pointed out that the Council was required to submit the accounts for audit by 30th June, drew the Panel's attention to various aspects of the Strategy and answered questions which were put to him by the Members.

The Panel noted the contents of the Audit Strategy for the Council for the 2008-2009 financial year and the comments thereon of the Chief Local Government Auditor.

**Audit, Governance and Risk Services
Draft Strategy and Plan 2009-2010**

The Head of Audit, Governance and Risk Services informed the Members that each year the Section prepared an annual plan of work which set out the mission and strategic objectives of the Service, together with a detailed plan of audit and related work which it intended to undertake during the financial year. The Strategy and Plan had been developed in conjunction with the various Departmental Directors and the Local Government Auditor and provided for both conventional audit work and work which would help develop and improve the Council's arrangements for risk management, governance and business continuity.

He pointed out that the main aim of the Service was to support the Council in achieving its objectives by helping it improve the effectiveness of its risk management, control and governance processes and it endeavoured to achieve this through the provision of an independent assurance and advisory service. The Audit Plan set out the work which the Section considered was required to be undertaken during 2009-2010 in order to fulfil this aim. The Plan was based on an audit needs assessment which took into account a number of factors to help determine the relative importance of different audit areas, such as the financial significance of the area in question, fraud risk, Member and management concerns and changes to systems and personnel. The Plan was based also on legislative requirements and was designed to enable the Head of Audit, Governance and Risk Services to provide an annual opinion to Members on the adequacy and effectiveness of the Council's risk management, internal control and governance arrangements. There would also be audit work in relation to significant projects, travel, subsistence and the provision of fraud training.

The Head of Audit, Governance and Risk Services pointed out that, as the Council was becoming more dynamic with change embedded in its culture, the likelihood of the Plan remaining unchanged was low and he emphasised that it would not be the Service's intention to complete the Plan at the expense of its relevance. He pointed out further that the programme of work outlined in the Plan indicated that there was a shortfall in the number of days which were available and explained that this was due to a member of staff being on maternity leave and other staff working shorter hours. It was likely therefore that some separate and distinct audit work would be undertaken by an outside company. He assured the Panel there was sufficient money within the budget to pay for such work and that any work undertaken by an outside firm would be reviewed regularly to ensure that it was being carried out to the required standard.

During discussion in the matter, the Director of Corporate Services reminded the Panel that the primary function of Audit, Governance and Risk Services was to examine internal control and to provide assurance, rather than to undertake value-for-money audits.

After discussion, the Panel approved the Audit, Governance and Risk Services Draft Strategy and Plan for the period 2009 - 2010.

**Audit, Governance and Risk Services
Progress Report**

The Panel considered a report regarding the work which Audit, Governance and Risk Services had undertaken between December, 2008 and March.

The Acting Corporate Assurance Manager pointed out that a value-for-money review of the Council's publications and an audit report into compensation claims had been finalised in the period and that action plans had been developed to ensure that the control in those areas would be enhanced. In addition, follow-up reports had been finalised in the areas of treasury management, insurance arrangements and overtime. He pointed out that for the year to date 76% of previously agreed recommendations within audit reports had been either fully or partially implemented against a target of 80%. This situation had been discussed by the Assurance Board which had agreed that the relevant managers be requested to provide further information and explanations to the Board regarding the non-implementation of audit recommendations and that Audit, Governance and Risk Services would, at a later date, undertake further follow-up reviews to confirm the implementation of the recommendations.

The Panel noted the contents of the progress report regarding the work which had been undertaken between December, 2008 and March, 2009 by the Service and the comments thereon of the Acting Corporate Assurance Manager.

Updated Code of Governance

The Panel considered the undernoted report:

“Purpose

To present the Audit Panel with the updated Code of Governance for Belfast City Council.

Relevant background information

Development of the Code of Governance

In line with best practice¹ AGRS developed a Code of Governance for Belfast City Council based on the 6 core principles set out in the CIPFA Solace Framework. The Code was reviewed and approved by the Audit Panel on 13th May 2008 and was communicated to all managers with responsibility for actions identified within the Code.

Why we have a Code of Governance

Good governance should ensure that the Council fulfils its purpose and achieves its intended outcomes by operating in an effective, efficient, economic and ethical manner, thereby strengthening credibility and confidence in the Council.

The development of a local Code helps the Council demonstrate that it is complying with the principles of good governance and will assist the Council in compliance with new regulations².

Monitoring and Review of Our Code

As set out in the Code, AGRS has undertaken an annual review of the Code. The main purpose of this review was to determine the progress being made to fully embrace the 6 governance principles. We contacted the various officers and determined whether the systems, processes and documents continued to provide evidence of compliance with the principles. We also determined the progress made in implementing the planned improvement actions. We updated the Code as appropriate following these discussions with officers and reported to COMT on 2nd March 2009.

When updating the Code during January 2009, we noted significant progress in the following areas:

- cascade of the VCM
- launch of the Interlink site for staff
- purchase of a performance management system
- development of a draft Customer Focus Strategy
- establishment of the Asset Management Group
- development of and agreement on our corporate values
- implementation of the Member Development Programme
- establishment of Register of Gifts and Hospitality for Members
- development of the Human Resources Strategy and Workforce Development Plan
- implementation of the Modern.gov minutes system.

In addition, there are other areas where work is ongoing, these include:

- development of a Community Engagement and Consultation Strategy
 - implementation of the performance management system
 - agreement and implementation of the Customer Focus Strategy
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- development of a Financial Strategy and Medium Term Financial Plan
- implementation of the Gateway process
- development of an Asset Management Strategy
- development of guidance for officers on how to implement the Scheme of Delegation and regular reporting on the implementation of the Scheme
- development of the Council Constitution
- implementation of the Human Resources Strategy and Workforce Development Plan
- implementation of the Information Strategy and associated Framework
- development of a new planning framework which includes area based planning.

The above tasks are detailed within the Corporate Value Creation Map and we have been informed that progress will be monitored by the Core Improvement Team on a quarterly basis during 2009/10.

The results of our review and update of the code will inform the preparation of the Annual Governance Statement which forms part of the published annual Financial Report for the Council.

In order to facilitate monitoring and review of the code, we have now included a column to capture the intended timeframe for implementing the planned improvement actions.

Key issues - resources and responsibilities

The majority of the planned improvement actions set out within the Code have been taken from the corporate VCM and so there is no significant additional resource required in terms of implementing the improvement actions.

Recommendation and decision required

The Audit Panel is asked to note the attached updated Code of Governance for Belfast City Council and to note the range of improvement actions that are due to be implemented as outlined in the Corporate Value Creation Map.

Documents attached

Appendix 1 - The updated Belfast City Council Code of Governance.

Key to Abbreviations

AGRS	Audit, Governance and Risk Services
CIPFA	The Chartered Institute of Public Finance and Accountancy
COMT	Chief Officer's Management Team
Solace	The Society of Local Authority Chief Executives and Senior Managers
VCM	Value Creation Map

APPENDIX 1 - Belfast City Council Code of Governance

Introduction

Governance is about how Belfast City Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its community.

The CIPFA Solace 'Good Governance in Local Government: A Framework' was published in July 2007 and represents best practice for developing and maintaining a local code of governance and making adopted practice open and explicit.

Belfast City Council is committed to the principles of good governance and this Local Code of Governance is a public statement of that commitment.

The Audit Panel approved this Code on 13th May 2008.

The 6 Principles of Good Governance

Belfast City Council is committed to the core and supporting principles of good governance set out within the CIPFA Solace Framework, namely that good governance means:

1. Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively.
6. Engaging with local people and other stakeholders to ensure robust local public accountability.

Compliance with the Code

Our Local Code of Governance is supported by systems, processes and documents that determine and control the way in which the Council manages its affairs.

Monitoring and Review

Through discussion with the various officers, we have identified the individual(s) responsible for monitoring and reviewing each system, process and document that underpins our governance arrangements.

The Head of Audit Governance and Risk Services will undertake at least annual reviews of the Councils governance arrangements to ensure that governance arrangements are adequate and operating effectively in practice.

The results of these reviews will be reported to the Audit Panel and will inform the preparation of the Annual Governance Statement³ which forms part of the published financial statements.

Policy Owner: Trevor Salmon, Director of Corporate Services

<u>Version Number</u>	<u>Date of Issue</u>	<u>Issued by</u>	<u>Issued to</u>
1.0	28.08.07	Corporate Risk and Governance Manager	COMT
1.0	19.03.08	Corporate Risk and Governance Manager	Assurance Board
1.0	13.05.08	Corporate Risk and Governance Manager	Audit Panel
2.0	02.03.09	Annual update	COMT''

Following further discussion, the Panel adopted the recommendations.

**Update on Actions Taken to Address Issues Disclosed
in the Annual Governance Statement 2007-2008**

The Panel considered the undernoted report:

“Relevant Background Information

The purpose of this paper is to apprise Members of the actions that have been taken to manage the Council’s key risks, as disclosed in the Annual Governance Statement for 2007/08.

The LGA’s Annual Letter on the accounts for 2007/08 referred to the major governance issues identified in the Council’s Annual Governance Statement for which the Council needed to put in place an action plan(s). These were:

1. Risks identified from new financial system and associated business processes are managed by being allocated to risk owners;
2. Over-reliance on a small number of key staff in Financial Services;
3. Risk of being unable to comply with the targets of the Northern Ireland Landfill Allowance Scheme (NILAS);
4. Effective management, at a corporate level, of the resource requirements of large projects e.g. Titanic Signature Project: North Foreshore and Connswater Greenway;
5. Action plan to address all the issues arising from the Annual Governance Statements, which have been prepared by all the Directors, Heads of Service and senior officers for their area of responsibility.

On 23 December 2008 the Chief Executive wrote to the relevant Directors asking them to provide the ‘*details of the actions that we will take and work we will commission to address these comments*’. A paper addressing this matter was issued to COMT on 2 March 2009.

Key Issues

The actions being taken to manage the risks disclosed in the Annual Governance Statement are set out at Appendix 1 and 2 to this report.

All key risks facing the Council are declared in the CRR, an up-dated and reformatted CRR was presented to COMT on 2nd March. It was decided by the Assurance Board that the register and an accompanying risk management report would be reported to COMT on a quarterly basis. In addition to the work of the Audit Assurance Board, this will enable COMT to exercise its corporate management role in relation to risks. It will ensure that COMT will be aware of actions to address any key risks identified in the Annual Governance Statement for 2008/09 and future years, on a regular basis throughout the year as well as the identification of new risks which have corporate significance.

Resource Implications

Resources in relation to the management of individual risks are provided by the relevant departments, either direct or through inter-departmental teams. Quarterly reviews of the CRR; DRRs and ORRs and the development of annual governance statements for the departments; sections and the Council are supported by AGRS resources.

Recommendations

The Audit Panel is asked to note this report.

Key to Abbreviations

COMT – Chief Officer Management Team
CRR; DRR & ORR – Risk Registers at Corporate; Departmental or Operational levels
LGA – Local Government Auditor

Documents Attached

- Appendix 1 – Specific actions to address key risks identified in LGA Letter
- Appendix 2 – Comments by Director of Health & Environmental Services on managing the NILAS risk (for Information)

APPENDIX 1 - SPECIFIC ACTIONS TO ADDRESS KEY RISKS DISCLOSED IN ANNUAL GOVERNANCE STATEMENT

1. Risks identified from new financial system and associated business processes are managed by being allocated to risk owners - CRR risk no.1 ('poor financial management') refers.

During 2007/08 the risks were identified in the Better Business Risk Register. The decision to allocate managerial responsibility for the CTU to Financial Services resulted in the risks being reviewed and transferred to the Financial Services Risk Register where relevant. The only remaining risk in the Better Business ORR is 'failure to achieve the benefits identified in the business case'.

Actions to address the risks relating to the new financial system and associated processes are in the risk action plans associated with the Better Business and Financial Services ORRs and the Corporate Services DRR. Chief Officers will be aware that there were two internal audit reports on the system and processes. The evaluation of the Accounts Payable (AP) was a red assurance level while that of Accounts Receivable was amber. Significant steps have been taken to address these evaluations and the recommendations which were identified with an external consultant being brought in to manage the implementation of the action plan developed to address the recommendations and associated risks.

The key risk as shown in the Governance Statement (i.e. the correct allocation to risk owners) has therefore been addressed and additional resources deployed to manage and reduce the risks around this project.

2. Over reliance on a small number of key staff in Financial Services. - CRR risk no 10 ('Council does not sufficient staff with necessary skills etc') refers.

The staffing risk to Financial Services is specifically stated in the Financial Services ORR but there are relevant actions also in the Human Resources ORR in relation to the workforce development plan and recruitment procedures. There have recently been several recruitment exercises in the Financial Services Section which have reduced the level of this risk. The reviews of the centre and Financial Services, which will be reported on shortly, will also address this risk.

The key risk as shown in the Governance Statement has therefore been addressed and there is on-going action to remove it.

3. Risk of being unable to comply with the targets of the Northern Ireland Landfill Allowance Scheme (NILAS) - CRR risk no. 2 ('failure to manage city's waste within available resources in accordance with statutory duties etc.') refers.

The assurance column for this risk refers to the DRR and relevant ORRs in the Health & Environmental Services Department, which are supported by the specific action plans. The arrangement the Council has with arc21 also provides assurance. Mr Francey has provided the fuller comment set out in appendix 2.

The key risk as shown in the Governance Statement has therefore been addressed and is the subject of on-going action.

4. Effective management, at a corporate level, of the resource requirements of large projects e.g. Titanic Signature Project: North Foreshore and Connswater Greenway - CRR risk no. 3 ('poor management of key/city projects') refers.

COMT has discussed the governance of specific projects e.g. North Foreshore and Connswater Greenway on several occasions and, in the context of discussions on CIS and the capital programme, more generally the need for improved governance of large projects. In particular on 22 December it was agreed to commission work to audit the governance arrangements for existing large projects and identify recommendations for their effective governance for the future, including accurate assessment of the personnel; finance and time resources required. This was assigned to Messrs Salmon and Millar. Mr Millar advised the Team at its meeting on 19 January that the brief for the procurement of these reviews was being developed and that the proposed brief would be submitted to COMT for agreement before issue. The draft brief was agreed by COMT on 16 February and .

The key risk as shown in the Governance Statement is a lack of effective corporate management of the resource requirements of large projects. Additional resources are being sourced to identify what the governance arrangements should be and how they can best be delivered. The timescale for this preliminary work will mean that significant action to reduce the risk will be taken this financial year.

5. Action plan to address all the issues arising from the Annual Governance Statements, which have been prepared by all the Directors; Heads of Service and senior officers for their area of responsibility – CRR risk no. 6 ('failure to demonstrate good corporate governance')

COMT will recall that the preparation of the annual statements was done for the first time in 2007/08. This was therefore a new exercise for most senior staff. AGRS prepared a schedule setting out the key risks declared by Directors etc in their Statements and tracked these to the senior staff responsible for taking action along with the agreed key actions. The on-going ORR quarterly reviews have been informed by the statements provided last year and this schedule as well as by the continuing and changing operational needs and issues. Lessons learned from last year's completion of governance statements will be shared by AGRS as senior managers are asked to prepare their statements for the current year in March.

In addition AGRS is completing an internal audit of risk-based management which is expected to be completed in time (February) to inform and improve the annual corporate; departmental and service governance statements. In addition the Council will be reporting full compliance for 2008/09. This means that there is evidence that risk management awareness and the processes have been sufficiently embedded into departments for this assurance to be given.

The key risk as shown in the Governance Statement has therefore been addressed and there is on-going action to remove it.

APPENDIX 2 - NILAS - Additional information from Mr Francey

I would make the following comments in addition to the actions shown in the appropriate Risk Action Plan.

The risk description is expressed in terms of liability to incur fines while the actions/controls aim largely to mitigate the risk of failing to meet the NILAS targets. This is an acceptable approach in my view as the failure to meet targets may not translate into imposition of a penalty if 'best endeavours' have been made.

The key action in terms of target compliance is provision of necessary infrastructure (treatment facilities) in accordance with our (arc 21's) Waste Plan timetable. Other significant controls include action to ensure diligent use of recycling facilities by the public.

What is not mentioned in the risk action plan is that BCC's membership of arc21 enables it to benefit from transfer of unused allowances by other arc21 councils. This will be critical in the avoidance of fines in the period leading up to 2012/13 as BCC would not be able to landfill within its own statutory allowance. In 2012/13 the arc21 councils will need the first of the major residual waste treatment facilities and without this BCC would face liability to major fines as arc21 itself would be in collective exceedance of allowances. This fact has been regularly drawn to Councillors' attention through Committee reports."

The Corporate Risk and Governance Manager drew the Panel's attention to various aspects of the report and indicated that the Corporate Risk Register included the risks which had been disclosed in the 2007 – 2008 Annual Governance Statement.

The Panel noted the contents of the report and the information which had been provided.

Arising from discussion in this matter, the Corporate Risk and Governance Manager briefed the Panel on the current situation regarding the outbreak of Swine Flu.

Noted.

Appointment of External Member

The Director of Corporate Services reminded the Panel that Dr. Bill Smith had been appointed in 2008 as its External Member for a one-year period, with an option to extend his appointment for a further two years. He expressed the view that Dr. Smith had made a useful contribution to the work of the Panel and he inquired as to whether or not the Members wished to extend Dr. Smith's appointment for a further two years at a cost of £2,000 per annum.

Following discussion, the Panel agreed to extend Dr. Smith's appointment as its External Member for a period of two years at a cost of £2,000 per annum.

Next Meeting

The Panel agreed that its next meeting, scheduled to be held on 11th June, commence at 11.00 a.m. rather than the normal 1.00 p.m.

Chairman