

Audit Panel

Monday, 15th February, 2010

MEETING OF AUDIT PANEL

Members present: Councillor Rodgers (Chairman);
the Deputy Lord Mayor (Councillor Lavery); and
Councillors Ekin, Mullaghan and Rodway and Dr. Smith.

In attendance: Mrs. J. Thompson, Director of Finance and Resources;
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. T. Wallace, Financial Accounting Manager;
Mr. H. Downey, Committee Administrator;
Mr. J. Buchanan, Chief Local Government Auditor;
Mr. S. Knox, Local Government Auditor; and
Mr. B. O'Neill, Local Government Auditor.

Apology

An apology for inability to attend was reported from Councillor Kyle.

Minutes

The minutes of the meeting of 25th November were taken as read and signed as correct.

Audit, Governance and Risk Services Progress Report

The Panel considered a report outlining the work which Audit, Governance and Risk Services had undertaken between December, 2009 and January, 2010.

The Head of Audit, Governance and Risk Services reported that, during the period, three follow-up audits had been completed in relation to payroll, the outdoor leisure income collection scheme and a value-for-money review of mobile telephones. Audit reports had been finalised in respect of travel and subsistence, the European Unit and a value-for-money review of advertising. He explained that a number of audits were being undertaken currently, which included, the procurement process, the Belfast Waterfront Hall, Peace III and the Tourism Unit/Belfast Visitor and Convention Bureau. Audits of the Bereavement Service, the Building Control Service, Parks and Open Spaces, employee resourcing and information security were being planned.

**Audit Panel,
Monday, 15th February, 2010**

He provided also details regarding fraud investigation work being undertaken by the Service and pointed out that, during the month of December, fraud awareness training had been delivered to seventy-five members/supervisors within the Parks and Leisure Department. He highlighted also the work being undertaken in relation to risk management, business continuity management and pandemic planning and pointed out that the Corporate Risk and Governance Manager would, commencing in April, be submitting on a quarterly basis to the Chief Officers' Management Team a report which would focus upon the management of risks within the corporate risk register, together with an assurance around the adequacy of the actions being taken to manage these risks.

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

**Audit, Governance and Risk Services
Draft Strategy and Plan 2010-2011**

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

He explained that the main aim of Audit, Governance and Risk Services 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 sought to achieve this through the provision of an independent assurance and advisory service. The Audit Plan set out the work which the Service considered was required to be undertaken during 2010-2011 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. It was based also on legislative requirements and reflected the key objectives of the Council as set out within its Value Creation Map 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 undertaken in relation to significant projects and the provision of fraud training.

The Head of Audit, Governance and Risk Services pointed out that the programme of work outlined within the Plan indicated that there was a shortfall of 306 auditor days available and explained that this was due to various reductions in staffing levels.

After discussion, the Panel approved the Audit, Governance and Risk Services Draft Strategy and Plan for the period 2010-2011.

**Update on the Review of Northern Ireland
Audit Office Report – Investigation of
Suspected Contract Fraud**

The Panel was advised that, in April, 2009, the Northern Ireland Audit Office had published a report following its investigation of suspected contract fraud within the Belfast Education and Library Board. The Acting Corporate Assurance Manager reported that the investigation had focused upon two specific issues, firstly, that a price-fixing cartel, led by a named contractor, had been in operation and that it had colluded with officers within the Board's Property Services Unit and, secondly, that the Board had paid for building work which had never been undertaken at two of its libraries. He explained that the Audit Office report had highlighted the strengths and weaknesses of the investigation which had been carried out by the Board and had examined issues to be addressed by public sector organisations seeking to prevent and investigate suspected fraud in relation to contracts. The Audit Office had provided also advice in respect of best practice.

The Acting Corporate Assurance Manager informed the Panel that the size and nature of works/maintenance contracts administered by the Council placed it at risk potentially, both from internal and external sources, from fraud and corruption. In order to address this risk, Audit, Governance and Risk Services had considered all of the key issues raised within the Audit Office's report and, having reviewed in terms of best practice the arrangements existing currently within the Council, had identified areas which required action and improvement. He explained that fraud awareness training had been provided to relevant managers in order to increase their awareness of the fraud risks to which the Council could be subjected and the importance of preventative control. In addition, Audit, Governance and Risk Services had worked closely with the Procurement, Project and Property Maintenance Managers to ensure that, in light of this training, an analysis of controls was undertaken to ensure compliance with good practice. As a result, controls had been identified which covered the main fraud risk areas, management had provided written assurances in relation to the adequacy of their controls to mitigate the risk of fraud and had developed a greater understanding of the need to review fraud risks on a regular basis and to ensure that adequate controls were in place to manage this risk. Further to this, Audit, Governance and Risk Services was in the process of agreeing action plans with the aforementioned managers in order to enhance the overall control environment.

He reported that the Service had, in light of the issues raised within the Northern Ireland Audit Office's report, undertaken in 2009 an analysis of the Council's anti-fraud arrangements. This had indicated that a number of improvements had been made within this area. However, a number of issues required attention, including the corporate systems used to analyse the award of contracts and awareness amongst staff of the Council's gifts/hospitality and declaration of interest policy. He added that Audit, Governance and Risk Services would continue to monitor progress in relation to any outstanding issues.

The Panel noted the information which had been provided.

Payment of Invoices by the Council

The Panel was reminded that, at its meeting on 25th November, it had, at the request of a Member, agreed that a report be submitted to its next meeting providing information in relation to the length of time taken by the Council to process invoices to creditors. The Director of Finance and Resources reported that the request had arisen as a result of media coverage in November which had highlighted long delays on the part of the Council in paying invoices. This had indicated that the average time taken to pay suppliers had been 56 days, with only 46% of invoices being processed within 30 days. However, she explained that this calculation had been based upon the date on which the invoice had been generated and did not take into account factors such as delays in posting and companies holding invoices before submitting them to the Council.

She recommended that the Council should commence its calculation from the date on which an invoice was received initially, which would exclude factors over which the organisation had no control. Based upon this calculation, it had been determined that the average time taken in the months from July to December, 2009 to process invoices had varied between twenty-nine and thirty days. In order to reduce this timescale further, a number of actions had been initiated, which included the identification of compliance issues, the holding of monthly meetings with Departmental representatives in order to resolve any matters and measures to be put in place where non-compliance was not being addressed. In addition, performance indicators, based upon the average time taken to pay suppliers and the percentage of invoices paid within 30 days were reported on a monthly basis to the Systems Applications and Processes (SAP) Improvement Group and through the Council's Performance Management System.

Noted.

Update on Telephony/Mobile Phones

(Ms. R. Crozier, Head of Information Services Belfast, attended in connection with this item.)

The Panel was reminded that, at its meetings on 2nd September and 25th November, it had considered reports in relation to the use of mobile telephones within the Council. The Head of Information Services Belfast reported that, in November, 2008, the internal audit section had completed a review of the use of mobile telephones. Arising from its findings, a number of actions had been initiated in order to address the issue of telephony in general. She reported that a new policy governing the use of mobile telephones had been developed which would cover issues such as the purchasing of telephones and require the formulation of a robust business case to be completed by any officer requesting a mobile phone as part of their duties. This exercise had reduced by sixty-three the number of phones now in use within the Council.

The Head of Information Services Belfast reported further that significant work had been undertaken to consolidate the billing process for landlines. This meant that the Council's Central Transactions Unit would now be required to process only one invoice on a quarterly basis as opposed to several hundred bills as had been the case previously. This approach was being taken also with the Council's two mobile telephone providers who were each in the process of moving to a single bill and whose tariffs would be in line with the Office of Government Commerce framework. She added that a review would be undertaken in April in order to consolidate the efficiencies which had been achieved to date.

During discussion, several Members expressed the view that, whilst many officers required mobile telephones as part of their work, the costs of telephony should continue to be monitored. A Member pointed out that it was often difficult to obtain the mobile telephone numbers of Chief Officers and Heads of Service and suggested that a list should be forwarded to all Members of the Council. The Head of Information Services Belfast undertook to make this information available and undertook also to submit to the next meeting of the Panel the total expenditure on mobile telephones for the period 2008/2009, together with information on the feasibility of the Council centralising its telephone/internet provision under one provider.

The Panel noted the information which had been provided.

Staff Numbers, Overtime and Agency Costs

(Mrs. J. Minne, Head of Human Resources, attended in connection with this item.)

The Panel considered the undernoted report:

"Purpose

The purpose of this report is to provide baseline information on staff numbers, overtime and agency costs to the Audit Panel.

Relevant Background Information

Staff costs account for a significant element of the Council's gross expenditure and clearly, it is essential that the Council's elected members have assurances in respect of the organisation's most significant area of spend.

Baseline information has been requested by the Audit Panel and Strategic Policy and Resources Committee on staff numbers, overtime and agency as the first step in an ongoing project to develop a framework for the rigorous monitoring, management and reporting of staff numbers and costs.

This is a key element of the Council's efficiency programme which will be further discussed at the Strategic Policy and Resources Committee in March 2010.

Key Issues

Appendix 1 – Number of people in post

In order to set a baseline figure of staff numbers, Appendix 1 provides information on the number of people in post at quarter three 09/10 at corporate and department level compared to the numbers for the same time last year.

Appendix 2 – Overtime costs

Appendix 2 provides information on the cost of overtime at corporate and departmental level for the rolling year January – December 2009 compared to the same period last year January – December 2008.

Appendix 3– Agency costs

Appendix 3 provides information on agency costs at corporate and departmental level for the rolling year January – December 2009 compared to the same period last year January – December 2008.

Grading Structure

The council's grading structure goes from Scale 1 to Director. The percentage of the workforce at the three main groupings of Scale 1 to Senior Officer, Principal Officer and Chief Officer (including Head of Service) is set out below.

Key Findings

People in post – Appendix 1

- The average number of people in post for quarter three of this year is 2393 compared to 2363 for the same time last year
- This represents an increase of 30 or (1.26%)
- The movement in staff numbers was as follows:
 - (a) 6 people recruited to established but vacant posts, two of whom were recruited on temporary contracts
 - (b) 12 people were recruited to new permanent posts of Recycling Operatives (8), Safer City Project Officer (2), Facilities Manager and Antisocial Behaviour Coordinator approved by council
 - (c) 27 recruited to new temporary posts, of which twenty are part/fully funded
 - (d) Reduction of 15 released on VR from ISB

Overtime costs – Appendix 2

- Overtime costs for the rolling year to December 2009 are £4,766,877 compared £4,861,023 for the same time last year
- This represents a decrease of £94,145 for the same time last year
- Five out of the seven departments reduced overtime costs during this period with the Development department increasing costs by £81,819 and Property and Projects increasing by £31,728
- The Development department increase of £81,819 reflects cover for continued vacancies and 80% of the increase is due to the re-opening of the Ulster Hall In 2009.
- The increase of £31,728 in Property and Projects is due to additional overtime worked by staff in Facilities Management as a result of additional work at the City Hall and ongoing decants. This marginal increase should be seen in the context of the £296,435 decrease that the Department achieved in agency costs.

Agency costs – Appendix 3

- The cost of agency for the rolling year to December 2009 is £4,164,038 compared to £5,868,332 for the same time last year
- This represents a decrease of £1,704,294 for the same time last year
- This mainly relates to a significant reduction in the Health Department (Cleansing and Waste) as a result of posts that were covered by agency during operational reviews being filled on a permanent basis on completion of the reviews.
- Six out of the seven departments reduced their agency costs during this period, the Development department increased costs by £45,002
- This increase within the Development Department between 2008 and 2009 reflect cover for the high number of vacant posts caused by the Council's re-structuring exercise in April 2007. Implementation of those reviews continues.

Profile of grading structure

- Staff graded at Scale 1 (£12,312) to Senior Officer (£28,636) represent 76.94% of the workforce
- Staff grade at Principal Officer (£27,849) to (£56,695) represent 22.18% of the workforce (three quarters of these staff are employed in the lower Principal Officer grade range i.e. PO1 £27,849 to PO4 £37,206)

**Audit Panel,
Monday, 15th February, 2010**

- **Head of Service (£56,755) to Chief Officers (£98,619) represent 0.88% of the total workforce. (Head of Service band one max £67,565; Head of Service band two max £79,725)**

Next Steps

A framework which sets out the monitoring, management and reporting roles and responsibilities in relation to staff establishment, overtime and agency is currently being developed. Reports will be made to COMT, Audit Panel and SP&R on a quarterly basis as part of this framework.

Decision Required

The Audit Panel is requested to note the contents of this report and the proposal to develop a framework for ongoing monitoring and management of employee costs.

Documents Attached

- Appendix 1 - Number of people in post at quarter three 08/09 and 09/10
- Appendix 2 - Overtime costs for period January – December 2008 and January to December 2009
- Appendix 3 - Agency costs for the period January – December 2008 and January to December 2009

Appendix 1

<u>People in post</u>	<u>Average number of people in post Q3 last year 08/09</u>	<u>Average number of people in post this year (Q3 09/10)</u>	<u>Variance between people in post this year and same time last year</u>
BCC	2363.0	2393.0	30.0
Chief Executive's	77.0	80.3	3
Legal Services	18.6	22.4	4
Finance and Resources	263.6	245.4	-18
Health & Environmental Services	816.3	853.6	37
Parks and Leisure	633.1	633.5	0
Development Department	267.2	278.3	11
Property and Projects	287.3	279.5	-8

Appendix 2

<u>Overtime Costs</u>	<u>Rolling Year overtime costs January to December 08</u>	<u>Rolling Year overtime costs January to December 09</u>	<u>Variance</u>
BCC	£4,861,023	£4,766,877	94,145-
Chief Executive's	£47,213	41,022	6,191-
Finance and Resources	£149,085	£94,439	54,646-
Health & Environmental Services	£2,143,138	£2,016,168	126,970-
Parks and Leisure	£1,682,936	£1,663,051	19,885-
Development Department	£309,529	£391,348	81,819
Property and Projects	£529,122	£560,849	31,728

Appendix 3

<u>Agency Costs</u>	<u>Rolling Year agency costs January to December 08</u>	<u>Rolling Year agency costs January to December 09</u>	<u>Variance</u>
BCC	£5,868,332	£4,164,038	-£1,704,294
Chief Executive's	£104,683	£54,970	-£49,713
Legal Services	£88,157	£65,431	-£22,726
Finance and Resources	£324,301	£195,058	-£129,243
Health & Environmental Services	£2,423,925	£1,519,855	-£904,070
Parks and Leisure	£1,833,999	£1,486,890	-£347,109
Development Department	£514,094	£559,096	£45,002
Property and Projects	£579,174	£282,739	-£296,435"

After discussion, the Panel adopted the recommendation and welcomed the fact that employee costs and numbers would be considered as part of the development of the Council's future efficiency programme.

Absence Management

The Panel was reminded that, at its meeting on 25th November, it had considered a report outlining the Council's performance in managing absence during the period from July till September. The Panel had stressed the need to continue to manage effectively absence levels within the Council and had agreed to receive on a regular basis updates on the matter. Accordingly, the Head of Human Resources tabled for the information of the Panel a report which set out the Council's absence management figures for the period from October till December, 2009. She reported that, during the quarter, 3.66 days had been lost per employee, compared to 3.09 days over the same period in the previous year. Importantly, the figure represented an increase of 0.4 days over the previous quarter in the current year, which meant that the Council was not on target to reduce its overall sickness absence to 10.50 days by 2010/2011.

The Head of Human Resources outlined the extent of the work which had been undertaken to date by the Council in addressing absence management. She reported that an audit of compliance had been undertaken within each of the sections which were in danger of not meeting their targets and an improvement plan had been agreed with the Human Resources Service. She pointed out that, whilst absence figures were reported currently to Members on a quarterly basis, priority absence cases were now reviewed weekly. Analysis of absence figures which had been undertaken up to the end of January had indicated that corrective action had resulted in a reduction from December, 2009. She added that this work would continue in order to ensure that the downward trend was maintained.

After discussion, the Panel noted the information which had been provided and that the Head of Human Resources would submit annually a year-end report in respect of absence management.

Belfast City Council Annual Audit Letter 2008/2009

The Panel considered the undernoted report:

“Relevant Background Information

As an independent auditor of the Council, the Local Government Auditor seeks to examine that the Council has managed its affairs having regard to a combination of economy, efficiency and effectiveness and that public money is properly spent or in the case of income properly accounted for.

The Annual Audit Letter is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 (a copy of the Letter is attached). The Regulations require the Council to publish this Annual Audit Letter as soon as reasonably possible.

Key Issues

1. Accounts Adjustments

The Chief Local Government Auditor had noted a number of minor and material adjustments to the draft accounts as a result of his audit work and these were reported to the Audit Panel at its meeting of 25 November 2009. The accounts for 2008/09 were given an unqualified opinion.

2. Financial Standing

The Chief Local Government Auditor has indicated that the District Fund Balance is too low and hence the Council's financial standing would appear to be a matter of concern

The Council has taken steps to increase the reserve position in the 2010/11 rate setting process.

3. Capital Programme

The auditor is seeking to ensure that all the Councils assets are adequately financed.

Currently loan sanction applications amounting to £26m are with the DoE awaiting approval. Once approval is granted then advances can be made to the capital expenditure account to clear the deficit.

Further work in progress is underway to identify capital schemes requiring economic appraisals and loan sanction approvals to ensure that the capital expenditure account is fully financed by 31 March 2011.

4. Transition to International Financial Reporting Standards (IFRS)

A new IFRS - based Code of Practice on Local Authority Accounting is being introduced which will apply to local authority accounts from 1 April 2010.

A project plan is currently being finalised to implement any changes to accounting, reporting and computer systems that may be required.

As indicated in the Annual Audit Letter, training and support has been commissioned by the DoE from CIPFA. A further 3 training days for staff have been scheduled for February and March.

5. Absenteeism

Over the past three years Belfast City Council has reduced its absence by nearly four average days per person through a robust and corporate approach to the consistent management and reporting of attendance. Our trend is as follows:

<u>Average number of days sickness absence per full time employee</u>		
<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>
15.08	13.91	11.22

Belfast City Council has regularly made the point to NIAO that the reporting of absence on an average three year basis is not helpful. The Council will continue to pursue reductions in absenteeism and ensure that improvement plans are implemented as appropriate.

6. Waste Minimisation and Recycling

The Local Government Auditor is seeking assurance that the Council has considered the risk of incurring penalties under the Landfill allowance scheme. In relation to this the Council has been working in conjunction with Arc21 to mitigate this risk.

Arc21 prepared a Waste Plan for the region which was further developed to identify specific actions for each of the constituent councils. Recognising that individual councils could face the prospect of being fined under NILAS at some stage, arc21 also developed a protocol for sharing excess allowances between councils which had exceeded their allowance and those which had not which was considered by the Joint Committee. The resultant protocol was approved by the Council in Spring 2008.

The arc21 aligned Waste Plan provided a series of actions concerned with providing the opportunity for householders to divert waste from landfill at their doorsteps and to further promote these new recycling behaviours. The Plan plots the steps which the Council needs to take to minimise the risk of us breaching our NILAS allowances and provided a rolling programme of service

In addition, we recognised that additional steps might be needed outwith the plan to stimulate further waste diversion and to demonstrate 'best endeavours'. Most of these actions were discussed with arc21 prior to implementation to ensure that they accorded with the direction of travel of the region's Waste Plan.

The Council also continues to liaise with arc21 regarding other potential areas to divert further tonnages of waste from landfill.

7. Payment of invoices

In November 2008 the Minister at the Department of Finance and Personnel reduced the target for the payment of invoices by the public sector from 30 days to 10 days.

While district councils have not yet been formally required to comply with this target, the Chief Local Government Auditor is encouraging the Council to review its arrangements in this regard and to have in place steps for measurement against such a target.

A report on the timescale of payment of invoices has been provided as a separate agenda item.

Resource Implications

Financial

None

Human Resources

None

Asset and Other Implications

None

Recommendation

To note the comments and review the Annual Audit Letter.

Audit Panel,
Monday, 15th February, 2010

ANNUAL AUDIT LETTER

Issued by the Local Government Auditor
25th January, 2010

Belfast City Council
Year to 31st March, 2009

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 auditors (Article 4(3) of the Local Government (Northern Ireland) Order 2005). For the year ending 31 March 2009 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 managed its affairs having regard to a combination of economy, efficiency and effectiveness and that public money is properly spent or in the case of income properly accounted for.

Status and Availability of this Annual Audit Letter

This Annual Audit Letter is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006. The Regulations require the local government body to publish this Annual Audit Letter as soon as reasonably possible. The local government auditor will place a copy of this Annual Audit Letter on the NIAO website at www.niauditoffice.gov.uk.

The Audit Letter is addressed to members 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.

Contents

- Audit of Accounts
- Council Performance
- Other Audit Work
- Looking Ahead
- Conclusion
- Annex A Council Absenteeism

Audit of Accounts

1. As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 28 October 2009. I gave an unqualified opinion on your accounts.
2. The Local Government (Northern Ireland) Order 2005 requires that in auditing accounts a local government auditor must by examination of the accounts or otherwise satisfy himself that:
 - they are prepared in accordance with regulations;
 - they fully comply with the requirements of all other statutory provisions applicable to the accounts;
 - proper practices have been observed in the compilation of the accounts; and
 - the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Matters arising from the final accounts audit

3. The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Council's annual accounts were signed by the Chief Financial Officer on 16 June 2009 and members of the Strategic Policy and Resources Committee approved the accounts on 19 June 2009 which was within the statutory guidelines which requires this to be completed by 30 June. Following a number of minor and material adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 28th October 2009.
4. The most significant adjustments to the accounts made as a result of our audit findings were:
 - Pension provision was reduced by £624k as a result of the incorrect MVA factor being used to calculate the provision.
 - Loan interest has been increased by £252k as a result of accruing for the interest for the period February and March 2009.
 - Both the VAT Account and other debtors were adjusted by £524k.
 - Both Assets under construction and buildings were amended by £8.4m as a result of correcting for the contribution to the Grove Leisure Centre.

**Audit Panel,
Monday, 15th February, 2010**

- Expenditure on the landfill provision was amended by £1.4m and the landfill provision was discounted resulting in a further reduction of £572k in the provision.
- The above landfill provision movement resulted in reducing the Renewal and Repairs reserve by £2.8m and increasing the District Fund by £2.8m.
- Expenditure was increased by £244k as a result of grossing up the general grant figure.
- Both the Bank Account and VAT account were amended by £696k.
- Following discussions at audit, the legal provision was reduced by £430k.
- Additional funding of £710k to clear the deficit of the Gas Pension Fund.
- A sinking fund was established to meet the future costs of repaying loans.
- The District Fund, Note 3 and the Statement of Total Recognised Gains and Losses were amended by £1.6m to reflect pension movements.
- An analysis of the amounts in the cashflow were amended.
- The District Fund and Note 3 were amended by £1.4m to reflect loan interest paid to the loans pool.

The overall impact of these amendments resulted in the District Fund Reserve balance being increased by £2,279k.

Financial standing

5. The Council continues to have adequate financial management arrangements overall.
6. As a measure of prudence, a council should retain a sufficient balance in its District Fund to cover unexpected revenue expenditure or an unexpected drop in income in the foreseeable future. In recent years relevant examples of these include unforeseen costs associated with employment issues and reduced rates income from that estimated by Land & Property Services at the start of the year.

7. The district fund balance at £5,350k represents 3.8% of the net operating expenditure. As such the District Fund balance in my view is too low and hence the Council's financial standing would appear to be a matter of concern. The average for the 26 Councils as at 31 March 2009 is 8.5%, based on the accounts presented for audit, (12.9% as at 31 March 2008).
8. It should be noted that the Council's accounts do not reflect debtors of unpaid rates at 31 March 2009. These are carried by the Land and Property Services (an agency of the Department of Finance and Personnel) in their Statement of Rate Levy and Collection. The Council is therefore vulnerable to later adjustment in respect of uncollectible rates. The Statement of Rate Levy and Collection was the subject of a Public Accounts Committee hearing on 18 September 2008 and report on 6 November 2008.
9. The 'final penny product' finalisation adjustment for the year was for the most part included in the accounts prior to audit certification. It should be noted that when the estimates for the year were prepared they were based on an 'estimated penny product' and thus when final figures are received from Land and Property Services this can lead to additional funds or clawback adjustment.

District fund spending and balances

10. While the overall financial position remains stable, as outlined in paragraph 7 the District Fund balance should be increased. The Council decreased by £995k the District Fund in 2008-09, leaving the District Fund balance at £5,350k as at March 2009.
11. It is important that in preparing accounts the Council includes for all known liabilities and provisions in relation to committed events. In this regard preparation of the 2010-11 estimates and the accounts for 2009-10 and 2010-11 should include consideration of such topics as the outworking of single status, revenue contributions to capital in relation to any unfinanced capital expenditure and the early departure of staff not transferring to the new Council following RPA. I would also consider that Councils take into account the need for the new Council to have an opening working capital position and thus discussion through the Transition Committee and any advice from the Department should be taken into account. In this regard the Department of the Environment issued Circular LG20/09 on 7 December 2009.
12. The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 14.

**Audit Panel,
Monday, 15th February, 2010**

13. In addition, the Council has the following earmarked reserves:

<u>Funds</u>	<u>Balance at 31 March 2009</u>
Renewal & Repairs Fund – to meet future landfill closure costs	£11,805,061
Capital Receipts Reserve	£860,000
City Investment Fund	£4,385,110
Sinking Fund – being accumulated to meet future repayment of £3 million of interest only external loans	£2,205,000

Capital Programme

14. The Council has Fixed Assets totalling £637m with loans outstanding of £10.6m from the loans pool. As at 31 March 2009 the Council has not yet secured funding for £12.4m of its Fixed Assets. The Council plans to fund this expenditure from loans.
15. The Statement of Accounts reports a future capital programme totalling £106m. I understand that the Council plans to fund most of this programme via loans, and also with capital grants of approximately £18m.
16. As the Council moves towards RPA in May 2011 this leaves two financial years (2009-10 and 2010-11) in which to fully account for the financing of capital expenditure not met from grants or loans.

Annual Governance Statement

17. The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Councils 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 then approve an Annual Governance Statement.
18. The Annual Governance Statement was approved by the Chairman of the Strategic Policy and Resources Committee on behalf of Strategic Policy and Resources Committee on 19 June 2009, the Chief Financial Officer on 16 June 2009 and the Chief Executive on 18 June 2009. My opinion on the accounts includes the Annual Governance Statement. I am required to report if the Governance Statement is inconsistent with the guidance provided by DOE or if disclosures in the Statement are inconsistent with my understanding of the Council.

I noted no Governance Statement matters in my report but paragraphs 24 to 26 of this Audit Letter includes matters I considered.

Internal Audit

- 19. The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 also required 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 a dedicated Audit, Governance and Risk Services Department. The Council reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Strategic Policy and Resources Committee on 19 June 2009.**

Revaluation of Land and Buildings – 2008-09 Accounts

- 20. The Council operates a rolling programme for its revaluation of land and buildings with approximately 25% of these assets being revalued each year and the remainder are indexed in line with construction costs and land value inflation indices. The accounting for these revaluations was examined as part of the audit, and no issues were identified.**

Transition to International Financial Reporting Standards (IFRS)

- 21. In central government, International Financial Reporting Standards (IFRS) apply to the 2009-10 accounts and the Central Government 2008-09 accounts were prepared for the last time on the UK Financial Reporting Standard basis. In preparation for the change the 2008-09 accounts of Central Government have been prepared again on a shadow IFRS basis in September 2009 with an audit review to be undertaken before the end of December 2009.**
- 22. For Local Government the change to IFRS will take place a year later (i.e. from 2010-11). The Chartered Institute of Public Finance Accountancy (CIPFA) issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the implementation of IFRS. This included a Project Plan with key steps and dates. The DoE commissioned CIPFA (NI) to provide training and support to local government bodies in Northern Ireland to help take forward IFRS issues. A series of training days will be held in late 2009 and early 2010. A new IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010 is being developed by CIPFA. As was the case in Central Government, Councils will be required to re-state their final UK Financial Reporting Standard based accounts (2009-10) on an IFRS basis and have this subject to audit review.**

Council Performance

Scope of my audit

23. My audit is conducted in accordance with a Code of Audit Practice (the Code) issued by the Chief Local Government Auditor. The Code prescribes the standards, procedures and techniques which comprise a local government audit. The Code notes that due to the special accountabilities attached to public money and the conduct of public business:

'the scope of auditors' work is extended to cover not only the audit of financial statements but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources.'

24. Throughout the public sector the economic, efficient and effective use of resources is known as Value for Money (VFM). More particularly in the context of the Local Government (Best Value) Act (Northern Ireland) 2002 'a council shall make arrangements for continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness'. Part of the way Councils monitors this is by benchmarking aspects of its financial data against other Councils and this information is also provided to the Department of the Environment.
25. A review of the council's corporate governance and VFM arrangements for 2008-09 was carried out separately from the audit of the accounts. The finding from the review was included in my audit file and a summary report, prepared for me, was copied to the Chief Executive. I used this information, together with information obtained during the course of the audit of the accounts, to examine the Governance Statement.
26. The Council noted the following in its Governance Statement as significant governance issues:

'Following the introduction of the Corporate Manslaughter Act, in 2008 the Council has reviewed its health and safety function and has appointed a Corporate Health and Safety Manager, with enhanced responsibilities, however, further work needs to be undertaken to implement a Health and Safety assurance framework and to implement actions arising from a corporate review of health and safety management arrangements.'

The risk to the Council of being unable to comply with the targets of the Northern Ireland Landfill Allowance Scheme (NILAS) is still a significant issue. We are continuing to take all appropriate measures to address this risk and in particular to highlight the need for residual waste treatment facilities to be in place in accordance with the Waste Plan timetable. Without this there is a greater risk that the Council would exceed its allowance and the targets would not be met, this situation could result in substantial fines.

The Council still considers that despite actions undertaken in the past year the need to implement effective governance of all projects still remains a significant issue, in particular to fully manage the resource requirements of large projects, for example, the Titanic Signature Project, North Foreshore and Connswater Greenway. The Council is now working with experts in this field to determine how best this risk can be managed.

There are concerns that the extreme volatility of the current economic climate impacts negatively on the Councils finances and our ability to deliver services, in particular in the following areas:

- Reduction in external income streams including Building Control, Business Improvement Section and Information Services Belfast
- Rising debt level as a consequence of customers finding it difficult to make payments including commercial waste customers or council tenants
- A collapsing or redundant market to purchase recyclables leads to a reduction in income
- High utility costs; and the potential for a reduction of income if attendance at our facilities is not maintained.

The review of public administration (RPA) is seen as a major issue for the Council.'.....'The Council has already put in place necessary governance and accountability frameworks to support the effective implementation of the RPA process including, for example, the designation of the Strategic Policy and Resources Committee as the Council's RPA Transition Committee who are responsible for providing overall political direction to the process. The Council's Chief Officers' Management Team has been designated as the RPA Transition Management Team and is responsible for coordinating and managing RPA implementation. Necessary project management and support structures are in place; with a high level RPA implementation (transition) plan developed which sets out the key strands of work required and the delivery timetable.'

27. I will keep the above issues under review as part of my 2009-10 audit.

There were no significant matters arising from the corporate governance and VFM arrangements review.

Absenteeism

28. The Chief Local Government Auditor may, in accordance with the Local Government (Northern Ireland) Order 2005, undertake and publish studies which examine the provision of services by local government bodies. A study of absenteeism in Northern Ireland councils was completed in respect of 2007-08 and published in January 2009. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2007-08 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
29. A 2008-09 absenteeism study was published in December 2009. In this the Chief Local Government Auditor analysed absenteeism for each council over the three year period (2006-07, 2007-08 and 2008-09) and derived an average annual absenteeism rate for this period. This analysis counters the impact of annual fluctuations in absenteeism which would distort the findings, particularly within smaller councils.
30. The Chief Local Government Auditor recommends that councils monitor their absenteeism regularly as part of an ongoing process of absenteeism management. To facilitate this I attach Annex A which contains the most recent absenteeism rates for your Council. This includes annual rates of absenteeism for the last six years and the three-yearly absenteeism rate for the period ending 31 March 2009 which was included in the Chief Local Government Auditor's 2008-09 report.
31. The 2008-09 absenteeism figure for the Council is 11.22 days. This represents an improvement of 2.69 days on the previous year.
32. Whilst Belfast City Council's three-year absenteeism rate has improved by 2.73 days from 16.11 days in 2003-06 to 13.38 days in 2006-09 it is still slightly higher than the Northern Ireland average of 13.31 for this latter three year period.

Waste Minimisation and Recycling

33. The DoE, as Allocating Authority under the Waste and Emissions Trading Act 2003, allocates Biodegradable Municipal Waste (BMW) allowances to district councils for the amount of waste which can be sent to landfill. The Council's allowance for the year was 97,033 tonnes and the volume of waste disposed of to landfill was 85,586 tonnes.
34. The Landfill Allowance Scheme (NI) Regulations 2004 place a statutory responsibility on district councils, in each scheme year, to landfill only the quantity of BMW they have allowances for. To exceed this may result in financial penalties of £150 per tonne of exceeded allowance (Landfill Allowance Scheme (Amendment) Regulations (Northern Ireland) SR 2005/588).
35. While there is some provision for the re-allocation of allowances, the Council needs to give careful consideration as to the risk of incurring penalties under the scheme.

Payment of invoices

36. In November 2008 the Minister at the Department of Finance and Personnel reduced the target for the payment of invoices by the public sector from 30 days to 10 days. This was to assist small business in the changed financial circumstances prevailing, thus assisting businesses with their cash flow.
37. While district councils have not yet been formally required to comply the Council is encouraged to review its arrangements in this regard and to have in place steps for measurement against such a target.

Equality

38. The Council has an established Equality Scheme and Policy and has developed a process for undertaking equalities impact assessments of its strategies so that it understands the likely impact on its diverse population. During the financial year, no impact assessments were carried out.

Other Audit Work

Joint Committee

39. 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 £191,634 towards funding the expenditure of the Joint Committee.

40. The Joint Committee is a partnership of eleven councils established to collaborate in implementing the Waste Management Plan to develop an integrated network of regional waste management facilities which would be cost effective to the public. Total expenditure by the Committee for the year was £27 million. In relation to the Residual Waste Treatment Project, Arc21 expect to be in a position to acquire land and property for the construction of facilities to provide the necessary waste treatment services. Such acquisitions will be subject to independent valuations undertaken by the Land and Property Services Agency of the Department of Finance and Personnel and will be accounted for in the relevant financial year.
41. The Joint Committee accounts for its funding by the provision of a statement of accounts which is prepared under the Local Government (Northern Ireland) Order 2005 and subject to statutory audit by a local government auditor.
42. The Council also participates in Joint Committees for the purpose of delivering programmes funded by the European Union. Under this arrangement Peace III and INTERREG IVA funding will be available from the Special EU Programmes Body and the Department of Agriculture and Rural Development through to 2013. It is anticipated that a statement of accounts for the Joint Committee will be prepared for 2009-10.

District Policing Partnership (DPPs)

43. Under the Police (Northern Ireland) Act 2000, DPPs have been established by each district council. The Policing Board for Northern Ireland provide a grant equal to three-quarters of approved DPP expenses. The set-up arrangements provide for DPP expenditure to be audited annually by Local Government Auditors.
44. The 2008-09 DPP audit, comprising expenditure of £520,947, was completed in June 2009.

Grant Claims

45. The Chief Local Government Auditor in accordance with Article 25 of the Local Government (Northern Ireland) Order 2005 has made arrangements for the certification of local government body grant claims. These arrangements, which are not an audit but a different form of engagement designed to provide reasonable assurance, apply where their application has been agreed with 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 and grants below £25,000 are not examined.

Looking Ahead

- 46. The Environment Minister in March 2008 announced as part of the Review of Public Administration in Northern Ireland that the current 26 council areas will be rationalised to create 11 new council areas. The Minister also outlined the functions to transfer to local government.**
- 47. While Belfast City Council will not be joined with any other Council, it is currently anticipated that the new Council will come into effect in May 2011. In moving towards this the Council participates in a Transition Committee (legislation anticipated to give it a statutory footing) with officers working in a Transition Management Team, to take forward the change process.**

Conclusion

- 48. This Audit Letter has been discussed and agreed with the Chief Executive and Chief Financial Officer.**
- 49. 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.**

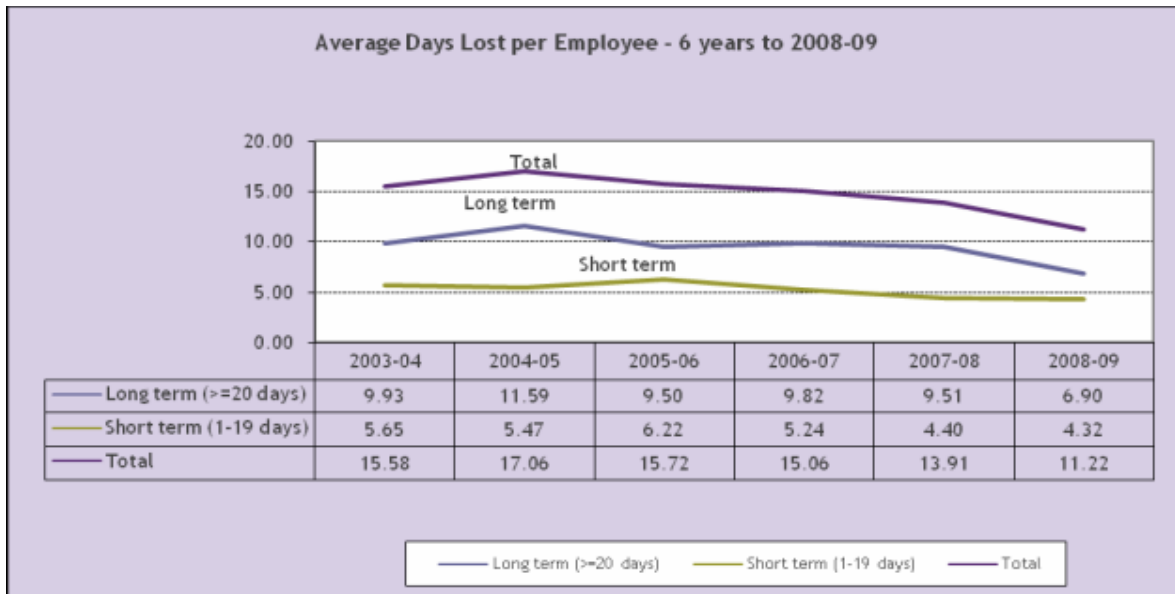
**Local Government Auditor
25th January 2010**

Annex A

Belfast City Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2008-09 for total days lost per employee.



<i>2008-09 absenteeism compared to Northern Ireland councils as a whole*</i>				
	<u>Belf ast</u>	<u>NI Council s</u>	<u>Varia nce</u>	<u>Varianc e %</u>
Average total days lost per employee	11.2 2	12.43	-1.21	-10%
<i>3-year absenteeism (2006-09) compared to Northern Ireland councils as a whole*</i>				

	<u>Belfast</u>	<u>NI Councils</u>	<u>Variance</u>	<u>Variance %</u>
Average total days lost per employee	13.38	13.31	0.07	1%
<p>* The Northern Ireland Council position is derived from figures as at 4th November 2009. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2008-09."</p>				

The Director of Finance and Resources highlighted various aspects of the report and outlined in detail the measures which had been taken to address recent reductions within the Council's reserves. At the request of a Member, she undertook to submit to the next meeting of the Panel a list of the buildings leased by the Council, including the former Lord Mayor's Offices at the Clarendon Dock, and all associated costs. She undertook also to provide details in relation to the costs associated with all decants undertaken by the Council over the past three years, together with information on all of the Council's investments.

The Panel noted the information which had been provided.

Local Government Auditor's Management Letter 2008/2009

The Director of Finance and Resources advised the Panel that the Annual Audit of the Council's accounts for 2008/2009 had now been completed. 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 a draft management letter.

The Local Government Auditor outlined to the Panel some of the issues which had been raised and indicated that the relevant senior officers had completed their responses to the draft management letter and prepared action plans to address issues which had been raised. The Director 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 the next meeting of both the Audit Assurance Board and the Audit Panel.

After discussion, the Panel noted the contents of the Local Government Auditor's management letter for 2008/2009 and the actions to be taken thereon.

Date of Next Meeting

The Panel noted that its next meeting would take place in the Conor Room at 1.00 p.m. on Monday, 7th June.

Meeting with Local Government Auditor

(At this point, all of the officers who had been in attendance, with the exception of the Committee Administrator, left the meeting.)

The Local Government Auditor indicated that it would be beneficial for him to meet privately once a year with the Panel in order to discuss any issues which Members might wish to bring to his attention. He suggested that such a meeting should be held immediately prior to that at which his management letter for each financial year would be presented initially. This would usually be during the months of February or March.

The Panel agreed to this course of action.

Chairman