2011-12

To the Members of
Belfast City Council

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

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

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

This report provides a summary of the findings from my 2011-12 audit.

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

Summary of Audit Findings

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

The financial statements were signed by the Chief Financial Officer on 29 June 2012 which was within the statutory timeframe of 30 June 2012. Following the audit, the accounts were re-signed on 29 October 2012 and published in accordance with the regulations on the website of Belfast City Council by 31 October.

For the year ended 31st March 2012 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 2011-12, of the financial position of Belfast City Council as at 31 March 2012 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 and the Department of the Environment directions issued thereunder.

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

There was one area of difficulty that arose during the audit. The Council is required to disclose its fixed assets at fair value. The Council operates a programme for the revaluation of its land and buildings, with approx 25% of these assets being revalued by physical inspection each year and the remainder being revalued using a desktop exercise by Land and Property Services (LPS). In the accounts submitted for audit the Council’s Land and Buildings had been revalued using a valuation date at 1 April 2011. No account had been taken of the movement in asset values during the 2011-12 year as the Council felt the asset values represented a fair value view based on information available at the balance sheet date. However following receipt of the valuation at 1 April 2012 (provided by LPS late in the audit process) the Council agreed to process the updated valuations for its land and building assets in order to better reflect a fair valuation as at 31 March 2012.
Financial Performance

The Statement of Comprehensive Income and Expenditure of Belfast City Council shows that during the year ended 31 March 2012 the Council spent £175,563,949 on the provision of services. It also received income of £37,391,280.

The major items of expenditure were:

- Staff salaries - £77.7m
- Depreciation - £10.7m

The major areas of income were:

- District Rates - £126m
- Revenue Grants - £4.1m

The Council currently has long term assets of £494,818,952 and the Council told me that it plans to purchase additional capital items of £75m. The majority of these non-current assets are in the Property Plant & Equipment category. The main project undertaken during the 2012-13 year to date has been the redevelopment of the Mary Peters Track to include an eight lane track and stand, as well as work progressing on Woodvale Park and Dunville Park. The total of loans outstanding at year end is £28,465,855. During the year the Council incurred £1,531,869 on loan charges and interest payments. The Council has an annual capital financing budget, made up of revenue contributions, loan charges and interest payments, which it intends to use to fund the additional capital expenditure.

At 31 March 2012 the council has usable reserves of £34,254,808 made up of:

<table>
<thead>
<tr>
<th>Usable Reserve</th>
<th>£</th>
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<tr>
<td>Capital Receipts</td>
<td>950,040</td>
</tr>
<tr>
<td>Capital Fund</td>
<td>13,043,663</td>
</tr>
<tr>
<td>Other balances and reserves</td>
<td>6,356,409</td>
</tr>
<tr>
<td>District Fund</td>
<td>13,904,696</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34,254,808</strong></td>
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3. Governance

The Good Governance Standard for Public Services\(^2\) sets out the following key principles of good governance. Good governance means:

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

Annual Governance Statement

The Council is required to conduct a review at least once in a financial year of the effectiveness of its governance framework (including its system of internal control) and to then approve an Annual Governance Statement\(^3\).

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 2011-12;
- 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 had no inconsistencies to report as a result of my review of the statement.

The Council noted the following significant governance issues in its Governance Statement:

- **Management of the City’s waste (Non-achievement of NILAS target)** - There is a continuing risk that the Council could incur financial penalties arising from failure to meet the Landfill reduction (NILAS) targets in 2013 and 2020. In order to limit the impact of this, the waste management service has produced a ‘Towards Zero Waste Action (ZAP) Plan’ which contains actions to be taken by Belfast City Council, in conjunction with arc21 where appropriate. Work is also continuing with arc21 to ensure that appropriate waste treatment facilities are procured (and interim arrangements made until this happens) to allow for sufficient levels of residual biodegradable waste to be diverted from landfill in order that the targets will not be exceeded. In addition, an internal waste programme board and supporting structure has

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\(^2\) The Good Governance Standard for Public Services, OPM and CIPFA, 2004

\(^3\) Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08
been set up involving the Director of Health and Environment Services, Director of Finance and Resources and the Town Solicitor and Assistant Chief Executive to oversee the management of controls and action put in place to manage this risk.

- **Strategic Management of the Council’s Assets** - Asset Management has been identified as a strategic risk and it will become even more important over the coming months with the completion of phase 2 of the development of an Asset Management Strategy and implementation of this strategy. A number of activities have been identified and recommendations will be reported to the corporate management team during 2012-13. This should result in a number of work streams and projects being undertaken by a reconstituted Asset Management Group.

- **Meeting the challenges by local government reform/ review of public administration** - The Council faces considerable challenges to address the challenges presented by local government reform and the implementation of the review of public administration (RPA). Over the next year it will be particularly important for the Council to effectively plan for change and deliver the transition programme, which will be crucial to implementing the reform. To this end the director of finance and resources has been nominated with the overall responsibility for managing this risk. The Council has already established its voluntary transition committee and is developing and implementing the appropriate action plans to ensure that the Council successfully addresses its new responsibilities.

- **Continued embedding of health & safety management** - The Council acknowledges that Health and Safety continues to be a serious issue and remains committed to ensuring the health, safety and welfare of all its employees and service users. Hence, although many improvements in health and safety management have been made over the last number of years, there will be no reduction in effort during 2012-13 by the Health and Safety Assurance Board and the Corporate Health and Safety Manager to ensure the Health and Safety Assurance Framework is fully embedded and functioning throughout the Council.

- **Uncertainty of the rate base** - A major financial risk for the Council continues to be the potential decline in the Council’s rate base arising from the current economic situation. Key strands of the Council’s Finance Strategy are the development of an external resources strategy, and ways to maximize the collection of rates and minimise rate losses.

- **Delivery of the investment programme and, related to this, governance of major council projects** - The Council has committed to delivering an Investment Programme for the city for 2012-15. A significant risk is that the Programme is only partly delivered. To manage this risk, resources are being realigned to deliver the major projects, programme management arrangements are being put in place and project briefs are being developed for all key projects. The Council’s Strategic Policy and Resources Committee will monitor delivery on a quarterly basis and Area Working Groups have been established to take forward local delivery projects. The Council continues to consider the management and controls of major projects to be a significant risk for the Council. The need to ensure effective governance is
key to the successful mitigation of risk and work has been ongoing to put in place governance structures for all our projects.

- **Information management risks in relation to compliance with legislation/best practice** - A significant risk for the Council is that the council’s information needs are not managed in a strategic and secure manner. Related to this risk, during the course of 2011-12, the Council experience a data breach, whereby personal information relating to Members was accidentally emailed to a member of the public and subsequently reported in the media. Steps were taken immediately to address this breach. Furthermore, in order to manage the risk a number of actions are being carried out:
  
  a. ISB will continue to promote and maintain a secure ICT infrastructure,
  b. ISB will work towards the adoption of a formal security management system ISO27001,
  c. A number of reviews are in the process of being carried out or have been carried out, including:
     i. Freedom of Information review;
     ii. Payment card industry gap analysis;
     iii. Data Protection Audit; and
     iv. A Scan of personal information held outside major corporate systems.

The findings of these reviews will be combined to form the council’s programme for improved information management. A new risk action plan will be developed to address the risk that ineffective systems and procedures result in non compliance with legislation and best practice standards, such as Freedom of Information Act and Data Protection Act.

**Internal Audit**

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires councils to maintain an adequate and effective system of internal audit and to conduct a review at least once in a financial year of the effectiveness of its system of internal audit. The Council has an in-house Internal Audit Department. A review of the effectiveness of the system of internal audit was carried out during 2011-12 by the Council and the findings of the review were considered by the Audit Committee.

**Audit Committee**

It is essential that Members exercise effective scrutiny of the internal control processes and procedures in place within the Council. One way that Members carry out this function is through the Audit Committee. This Committee met four times during the year and the agenda items included:

- Base rate uncertainty;
- Staff numbers, overtime and agency costs;
- Business Continuity Management;
- Corporate Risk Management;
- Absence Management; and
- Review of the effectiveness of Internal Audit.
4. **Proper arrangements**

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

My review of the Council’s arrangements for securing value for money covered the following ten areas:

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. Our Report to those charged with Governance outlines procurement issues identified during the 2011-12 audit. The Council have responded to each of the weaknesses identified.

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.

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

⁴ Local Government (Northern Ireland) Order 2005
5. **Other Audit Work**

**Absenteeism**
The average number of day’s sickness absence per full time employee for 2011-12 was 10.47 days and represents a slight increase of 0.16 days on the previous year. The Council told me that this is due to an increase in the number of staff absent in 2011-12 (59.1%) compared to the previous year (58.5%). However absence classified as long term (20 days +) reduced slightly in 2011-12 (58.2%) compared to the previous year (58.6%).

The trend over the years 2006-07 to 2011-12 is shown below.

![chart](chart.png)

There has been a considerable reduction in sickness absence since 2005 and the robust, fair and consistent management of attendance continues to be a key priority for Belfast City Council.

**National Fraud Initiative (NFI)**
In the current economic climate with unprecedented budgetary pressures on public services, it is essential that public bodies use every means at their disposal to prevent and detect fraud and error. The NFI exercise, which is carried out every two years, is a highly effective tool which helps public bodies identify potentially fraudulent and duplicate transactions using sophisticated computer based data matching techniques The Serious Crime Act 2007 inserted provisions dealing with data matching exercises into the Audit and Accountability (Northern Ireland) Order 2003. Local Councils were involved in the last NFI exercise which was conducted throughout 2011. The outcome of the NFI exercise can be found in the report produced by the Comptroller and Auditor General for Northern Ireland, published on 26 June 2012. A copy can be obtained from the Northern Ireland Audit Office’s website. Suggestions would be welcome for further potential data matches that could help in the prevention and detection of fraud.
Joint Committees

The Council is a member of:

- The arc21 Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £15,342,076 towards funding the expenditure of the Joint Committee.

Separate accounts have been prepared by the arc21 Joint Committee and are audited by me. A separate Annual Audit Letter is issued to the Joint Committee.

Grant Claims

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

District Policing Partnership (DPPs)

Under the Police (Northern Ireland) Act 2000, DPPs were established by each council up to 31 March 2012. 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 and I reported to the Northern Ireland Policing Board.
6. Future Challenges

Implications of the Local Government Finance Act 2011

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

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

Local Government Reform

It is planned that from April 2015 the number of local councils in Northern Ireland will reduce from 26 to 11.

The Local Government (Boundaries) Order 2012 sets the boundaries of the 11 new local government districts and was approved by the Northern Ireland Assembly in June 2012. This legislation also includes the number and names of the wards into which each district will be divided.

Prior to the new councils coming into effect, it is anticipated there will be `shadow’ councils. These `shadow’ councils are expected to have the power to make key decisions on striking rates and approving business and financial plans for the new councils which are planned to begin in 2015. Elections to the `shadow’ councils are expected to take place in 2014.

The re-organisation of local government, including areas such as the introduction of new governance arrangements, an ethical standards regime, community planning powers and the improvement of well being are anticipated within the Local Government (Reorganisation) Bill. This Bill is due to be introduced to the Northern Ireland Assembly in the near future.
Financial Pressures on the Public Sector

The economic forecast remains difficult. The downturn has significantly changed the financial environment in the Northern Ireland public sector including reduced budgets and pay freezes. This has the potential to adversely impact the funding streams of councils and the ability to provide services. It is critical therefore that in this environment, councils make best use of funds available and provide a sharp focus on improving the value for money of the services which are delivered.
7. Closing Remarks

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

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

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

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

Louise Mason

Local Government Auditor

December 2012