

Audit Panel

Wednesday, 2nd April, 2008

MEETING OF AUDIT PANEL

Members present: Councillor Hartley (Chairman); and
Councillors Ekin, Mullaghan, Rodway and Dr. Smith.

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

Minutes

The minutes of the meeting of 11th March were taken as read and signed as correct.

Ms. Cathy Haughey

The Head of Audit, Governance and Risk Services introduced to the Panel Ms. Cathy Haughey, a member of staff of the Audit, Governance and Risk Services Section who had received specialist training from the National Audit Office in London in the area of value-for-money. He indicated that Ms. Haughey would be leading the value-for-money initiative which would result in a number of reviews being undertaken throughout the Council.

Indicative Programme of Work 2008/2009

The Panel considered an indicative programme of work which had been prepared by the Head of Audit, Governance and Risk Services, a copy of which is set out hereunder:

**Audit Panel,
Wednesday, 2nd April, 2008**

**“BELFAST CITY COUNCIL AUDIT PANEL –
INDICATIVE PROGRAMME OF WORK 2008/09**

APRIL 08	JUNE 08	SEPTEMBER 08
<ul style="list-style-type: none"> • Approve LGA (external) Audit Plan and note interim management letter (if applicable) • Report on programme of value for money work • To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice. 	<ul style="list-style-type: none"> • Consider the Head of Audit, Governance and Risk Services’ annual report and opinion and summary of internal audit activity. • Annual review of the effectiveness of Audit, Governance and Risk Services. • To review the draft annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. • To oversee the production of the Council’s Statement on Internal Control / Governance Statement and to recommend its adoption. 	<ul style="list-style-type: none"> • Report on risk management arrangements • Overview of the Council’s constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour. • Report on Council policies on whistleblowing and the anti-fraud and corruption strategy. • Report on value for money audit work
DECEMBER 08	JANUARY 09	MARCH 09
<ul style="list-style-type: none"> • To receive the Local Government Auditor’s annual letter, management letter and relevant reports • Review of Audit Panel training needs 	<ul style="list-style-type: none"> • Audit Panel training day 	<ul style="list-style-type: none"> • Review of Audit Panel terms of reference and Audit, Governance and Risk Services terms of reference. <ul style="list-style-type: none"> • Approve Audit, Governance and Risk Services (internal audit) Strategy and Annual

After discussion, during which the Director of Corporate Services indicated that the indicative programme would not preclude the Panel from holding additional meetings to discuss urgent business, the Panel approved its indicative programme of work as set out above.

**Northern Ireland Audit Office – Audit Strategy
for Belfast City Council 2007/2008**

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 2007/2008 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; and
- (v) timescales which would be involved.

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. He indicated that the reserves which a local authority held should be balanced and that it would be acceptable for a Council to operate with a level of reserves which was equivalent to one month's expenditure.

In answer to a further question, the Director of Corporate Services indicated that, since Belfast City Council was a borrowing, rather than an investing, organisation, it was at little risk from the current turmoil in the money markets.

Following further discussion, the Panel agreed to note the contents of the Audit Strategy for the Council for the 2007/2008 financial year and the comments thereon of the Chief Local Government Auditor.

Value-for-Money Audit Programme 2008/2009

The Audit Panel considered the undernoted report:

“Relevant Background Information

The Audit, Governance and Risk Services (AGRS) Annual Strategy and Plan for 2008/09 was presented to the Audit Panel in March 2008. The Plan included a provision of 75 auditor days for a programme of value-for-money studies. In addition, a further 40 days had been set aside for analysis and other audit work in relation to travel, giving a total of 115 days. It should be noted that the provision of AGRS time did not preclude the use of other resources to undertake reviews or the possibility of reviewing the AGRS plan during the course of the year. However, it is important that value-for-money work does not negatively impact on the ability of AGRS to fulfil its primary purpose in relation to delivery of an independent assurance on the Council's risk management, internal control and governance arrangements.

The Panel approved the Audit Strategy and Plan at its meeting in March and also agreed with a proposal that a programme of value-for-money studies would be developed and presented to the Panel at its next meeting. The purpose of this paper is therefore to present a programme of proposed value-for-money audits for 2008/09 and invite Audit Panel comments on this programme of work.

The proposed programme of value-for-money audits should not be viewed in isolation to other initiatives that are ongoing to help the Council secure economy, efficiency and effectiveness in its use of resources. Indeed, as reported to Strategic Policy and Resources Committee on 14 March 2008, a scoping report is to be externally commissioned to identify areas in which savings can be realised in time for the 2009/10 budget. Routine internal audit work also has a value-for-money aspect to it and we routinely review arrangements to ensure compliance with contracts, tendering procedures etc.

Key Issues

1. Concept of Value-for-Money

In simple terms Economy means how much we pay for people, assets, goods and services; Efficiency is about how much we get out of the combination of people, assets and goods and services and Effectiveness is a measure of what difference it makes. Value-for-money audits seek to review the arrangements to achieve these 3 'E's.' They may also cover income-generating activities.

2. Key Considerations in Selecting Areas for Review

It is important in considering areas for review to consider issues such as:

- The *importance* of the area in terms of income/expenditure, Member/management concerns, reputational risk etc
- The *feasibility* of undertaking the review at a particular point in time. For example, are the resources and expertise available to conduct a review, how long will it take, is adequate information available to conduct the review successfully, is the timing of the review appropriate?
- *Implementation prospects*. What are the prospects for the review resulting in a successful outcome? i.e. resulting in the achievement of significant savings/efficiencies.

3. Stages of a Value-for-Money review

Value for money studies involve a number of key stages:

- Planning the review
- Completion of the review / reporting
- Agreement of recommendations to make improvements
- Follow-up reviews to ensure that recommendations have been implemented
- Subsequent re-review of the area to see if improvements have translated into improved economy, efficiency and effectiveness

It is important to understand that, depending on the area being reviewed, it can take time to implement improvements. It is also important to ensure that value-for-money studies do not end with the issue of an audit report. The Panel, with the assistance of AGRS, has a key role to play in continual monitoring of whether changes are implemented and whether efficiencies or savings actually materialise.

4. Proposed Programme of Value-for-Money Studies

Having taken account of the above issues there are a number of areas that we are proposing to undertake value-for-money reviews of. These can be divided into:

- Priority areas i.e. work already underway or where the area has already been referred to the Panel. These are set out in Table 1 of Appendix 1.
- Other possible areas which could be considered, subject to the approval / views of the Panel. These are set out in Table 2 of Appendix 1.

Resource Implications

The 'priority' areas set out in Table 1, Appendix 1 can be resourced through the existing AGRS Plan. Other possible areas will be considered and, where possible, accommodated into the AGRS Plan. Where the studies cannot be resourced by AGRS we will consider alternative means of resourcing these studies and will report back to Members on any significant resource implications.

Recommendations

That the Audit Panel approves the areas set out as 'priority' areas for value-for-money studies set out at Table 1, Appendix 1.

That the Audit Panel considers whether it wishes AGRS to embark on reviews of the other possible areas, such as those set out at Table 2, Appendix 1 or wishes to recommend reviews of other areas.

Key to Abbreviations

AGRS – Audit, Governance and Risk Services
VFM – Value-for-money

Documents Attached

Appendix 1 – Value-for-Money Audit Programme 2008/09

Appendix 1 – Value-for-Money Audit Programme 2008/09

Table 1 – Priority Areas

These are value-for-money studies that AGRS is committed to or have been referred to the Audit Panel/Audit, Governance and Risk Services.

<u>Area</u>	<u>Scope of Work*</u>	<u>Estimated Days</u>	<u>Timescales (quarters of financial year 2008/09)</u>
Travel	<ul style="list-style-type: none"> • Analysis of travel costs • Input to group reviewing processes • Review of effectiveness of <u>new</u> processes • Review of travel costs / budget to identify whether savings or efficiencies are projected 	40	Quarter 1 Quarter 1 Quarter 4 Quarter 4
Procurement	<ul style="list-style-type: none"> • Review of arrangements to ensure the achievement of economy, effectiveness and efficiency in the purchasing of goods/services • Review of corporate procurement strategy and operational plans 	25	Quarters 1-2

<u>Area</u>	<u>Scope of Work*</u>	<u>Estimated Days</u>	<u>Timescales (quarters of financial year 2008/09)</u>
Overtime	<ul style="list-style-type: none"> • Review of action taken to implement corporate audit report recommendations on overtime • Review of actions taken by departments to implement departmental audit report recommendations on overtime • Review of overtime costs / budget to identify whether savings made 	25	Quarter 3
Absence Management	<ul style="list-style-type: none"> • Review of action taken to implement corporate audit report recommendations on absence management • Review of actions taken by departments to implement departmental audit report recommendations on absence management • Review of cost of absence information/reporting and link to budgeting (Note: review of effectiveness of new attendance policy not appropriate until 2009/10). 	25	Quarter 2 Quarter 2 Quarter 2
Publications	<ul style="list-style-type: none"> • Review of action taken to implement new protocol on publications / review of effectiveness of policy • Review of current publications costs and comparison with prior year budgets 	25	Quarters 1 / 2 Quarters 1 / 2
Advertising	<ul style="list-style-type: none"> • Review of effectiveness of advertising policy and compliance therewith (including general advertising and job advertisements) • Review of advertising costs and comparison with prior year costs 	25	Quarter 4

Table 2 – Other Possible Value for Money Reviews

Other possible areas for review are as follows. We would welcome Member comments / views on the priority of these areas. Subject to comments further consideration will then be given to the scope of these reviews and the resources required to complete them.

<u>Areas*</u>	<u>Comment</u>
Cemetery charges / services	<ul style="list-style-type: none"> • review of charging structure (income generation)
Stores	<ul style="list-style-type: none"> • review of economy, efficiency and effectiveness of stores
Mobile Phones	<ul style="list-style-type: none"> • review of contracts/economy • review of arrangements for re-payment of personal calls
Utility costs (inc fuel)	<ul style="list-style-type: none"> • review of economy, efficiency and effectiveness of current arrangements

*** Note – detailed terms of reference will be developed for approved reviews.”**

The Acting Corporate Assurance Manager indicated that the analysis in connection with the value-for-money audit into travel was being undertaken at present, with the intention that new processes would be presented to a meeting of the Chief Officers’ Management Team later in the month, following which a new Policy regarding travel would be put in place.

In answer to a Members’ questions, the Director of Corporate Services indicated that the City Investment Strategy was being funded through the rationalisation of Council-owned property and that it was anticipated that at least £30 million could be raised from the sale or lease of such property over the next three-year period.

After discussion, the Panel approved the value-for-money audit programme for the period 2008/2009 and agreed to receive a report at a future meeting regarding other possible audits as set out in Table 2 in Appendix 1.

Audit, Governance and Risk Services – Progress Report

The Panel considered a report regarding the work which Audit, Governance and Risk Services had undertaken since the Panel’s meeting on 10th December.

The Acting Corporate Assurance Manager informed the Members that, following comments made at that meeting, the progress report had been amended to provide more information regarding the Section’s recommendations contained within finalised audits, investigations and value-for-money reviews. Accordingly, a revised tabular

layout had been adopted which showed the original recommendation, the management response and implementation dates. In addition, for finalised reports it indicated the detailed “high” priority recommendations, together with a brief summary of the scope of audit work, audit opinion and when follow-up reviews would be held.

Following discussion, the Panel noted the comments of the Acting Corporate Assurance Manager and the contents of the progress report.

Annual Governance Statement 2007/2008

The Panel considered the undernoted report:

“Relevant Background Information

Regulation 2 of the Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 required councils to review the “effectiveness of their system of internal control” at least once a year and to publish a statement of internal control (SIC) each year along with the authority’s financial statements. It also required the findings of the review to be considered by a Committee of the council (or the whole council).

To this end BCC had instituted a number of measures in order to be compliant within the timescales as determined by the DOE.

However, on 29th February 2008 DOE issued Circular LG/04/08 effectively stating that proper practices in relation to internal control relates to the guidance in two documents:

- Statement of Internal Control in Local Government; meeting the requirements of the above legislation, published by CIPFA in 2004**
- Delivering Good Governance: Framework produced by CIPFA/SOLACE in 2007**

The new CIPFA/SOLACE governance requires an annual governance statement and DOE has confirmed that the annual governance statement will replace the SIC with effect from 2007/08 reporting year (i.e. from April 2007). As a result the council is required to prepare an Annual Governance Statement without having completed a SIC.

The Framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. The Framework emphasises that good governance and therefore the process and statement should be corporately owned.

The degree to which the council follows the six core principles should be declared in an Annual Governance Statement.

There is an existing process for the review of the internal control system, and significant progress has been made in establishing a process for the collation of information and compilation of the Statement of Internal Control. The Annual Governance Statement goes much wider than the SIC but the assurance gathering process is similar

The DOE has recognised as in the case of the Council that even though the preparatory work in relation to the SIC can be carried forward to the Annual Governance Statement additional requirements may be placed on the council in order to achieve full compliance.

It would be the intention of the council to produce the Annual Governance Statement for 2007/08 and to include within its disclosure the intention to be compliant by 1 April 2009 (or earlier)

Action required to fully comply by 1st April 2009

Key actions that should be taken to ensure that the Council is fully compliant with the new regulations include:

- Ongoing embedding of risk management framework within the Council, including the risk reporting framework
- Implementation of an 'assurance chain', i.e. assurance statements which build up through various levels of management until the final one prepared by the Chief Financial Officer
- Approval and communication of the Belfast City Council Code of Governance within the context of the Council wide Assurance Framework

AGRS is leading the implementation of the above actions.

Key Issues

There are no key issues.

Resource Implications

The AGRS plan of work for 2008/09 has taken account of the action required to help the Council meet the requirements of the new Annual Governance Statement.

In addition Directors and Heads of Service have a role to play in terms of:

- embedding risk management within their departments / services / projects
- working with AGRS to develop the quarterly risk reporting framework
- preparing and signing the annual assurance statements
- maintaining the existing systems, processes and documents that provide evidence of compliance with the Code, in addition to undertaking the planned improvement actions derived from the corporate plan portfolio. AGRS will review the Code annually to ensure its continued adequacy and effectiveness and will report findings to the Assurance Board and Audit Panel.

Recommendations

That the Audit Panel notes the implications of the new Regulations.

Key to Abbreviations

AGRS	Audit, Governance and Risk Services
CIPFA	The Chartered Institute of Public Finance and Accountancy
SIC	Statement on Internal Control
DOE	Department of the Environment
SOLACE	Society of Local Authority Chief Executives”

Following discussion, the Panel adopted the recommendation set out in the foregoing report.

Dates of Future Meetings

The Panel agreed that the dates of its meetings in the coming year be set by the Chairman, in conjunction with the Head of Audit, Governance and Risk Services.

Chairman