

# Audit Panel

Monday, 15th June, 2009

## MEETING OF AUDIT PANEL

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

In attendance: Mr. T. Salmon, Director of Corporate Services;  
Mr. A. Wilson, Head of Audit, Governance and  
Risk Services;  
Mrs. G. Ireland, Corporate Risk and Governance  
Manager;  
Mr. A. Harrison, Acting Corporate Assurance  
Manager;  
Mr. P. Starkey, Management Accounting Manager; and  
Mr. N. Malcolm, Committee Administrator;

### Apologies

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

### Minutes

The minutes of the meeting of 28th April were taken as read and signed as correct.

### Annual Governance Statement 2008/2009

The Panel considered the undernoted report:

#### “Relevant Background Information

**The Local Government (Account and Audit) Regulations 2006 and subsequent Local Government (Account and Audit) (Amendment) Regulations 2006 required the Council to publish a Statement of Internal Control along with the annual accounts for the year ending 2007/08.**

**Subsequently however on 29 February 2008 in line with local authorities in England, the DOE issued Circular guidance LG/04/08 requiring bodies to prepare an Annual Governance Statement in 2007-2008, without having previously completed a Statement on Internal Control. The Statement is consistent with the principles of the CIPFA/Solace Framework – ‘Delivering Good Governance in Local Government’.**

Some aspects of the Statement on Internal Control are carried forward to the Annual Governance Statement. However the Annual Governance Statement provides additional requirements and therefore local government bodies are required to disclose one of the following in relation to the additional requirements:

- Compliance
- Intention to comply by 1 April 2009 (or earlier)
- Intention not to fully comply and reasons why.

In our statement for the year ending 2008, we disclosed that it was our intention to comply by 1 April 2009 (or earlier), we can now report that the Council was fully compliant from 1<sup>st</sup> April 2009.

#### **Key Issues**

The Annual Governance Statement is attached at Appendix 1. This has been prepared in line with the template provided in the Accounts Directive provided by DOE. This sets out:

- The scope of responsibility of the Council in relation to its Governance
- The purpose of the Governance Framework
- The Governance Framework in place
- The results of the review of effectiveness of the framework
- Significant Governance issues to be disclosed

Over the past year there has been considerable effort put into developing and implementing the key elements of a Governance Framework within the Council to meet the requirements of the Annual Governance Statement. Significant progress has been made in terms of:

- Embedding the process which gives Directors, Heads of Service and senior officers assurances that their key risks are being managed and allows them to sign annual assurance statements. These statements set out the risk control framework in place within their area of responsibility and disclose any significant risks.
- Enhancing our risk challenge and reporting framework.
- Ensuring our business continuity and pandemic plans are robust, reviewed, tested and reflect the needs of the Council.

#### **Resource Implications**

There are no significant resource implications.

### Recommendation

The Panel is asked to read and note the Annual Governance Statement which is appended to this report.

### Key to Abbreviations

AGRS – Audit, Governance and Risk Services  
CIPFA – Chartered Institute of Public Finance Accountants  
DOE – Department of the Environment  
Solace – Society of Local Authority Chief Executives

### Document Attached

Annual Governance Statement.

### Appendix 1

#### Annual Governance Statement 2008/2009

#### Scope of responsibility

Belfast City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under Local Government (Best Value) Act (Northern Ireland) 2002 to make arrangements for continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has prepared an Annual Governance Statement which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. This statement explains how the Council has complied with this, their statutory duties under the 2005 Order and also meets the requirements of Regulation 2A of the Local Government Accounts and Audit (Amendment) Regulations (Northern Ireland 2006) in relation to the publication of a statement on internal control.

### The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

In 2007 CIPFA revised its corporate governance guidance and published the joint CIPFA/SOLACE 'Delivering Good Governance in Local Government: A Framework.' This requires the publication of an Annual Governance Statement on an ongoing basis. As a result of the revised proper practice requirements, Local Authorities prepared an Annual Governance Statement for the first time in 2007/08.

To acknowledge the changes in requirement and timeframe, the Department of the Environment did not require Local Authorities to be fully compliant with the requirements in the year 2007-2008 but stated that they must be either fully compliant from 1<sup>st</sup> April 2009 or state why. We can report that, in accordance with requirements, the Council is fully compliant from 1<sup>st</sup> April 2009.

### The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

Belfast City Council has developed a corporate plan for the period 2008-2011, which was approved by Chief Officers Management Team in May 2008 and by the Strategic Policy and Resources Committee on 13 June 2008.

The plan was developed over a ten-month period with significant engagement with Members, ratepayers, officers, and partners. In addition, there has also been significant engagement with party groups. An annual plan is in place setting out clear objectives and targets for the coming year.

The Corporate plan helps the Council focus on the future. It sets out the values that the Council wants to create in the city and the key issues that the Council intends to focus on over the next three years. In doing this, the Corporate plan provides a sense of direction for the Council. By having an outward focus, the Corporate plan helps the Council deal with a changing external environment and helps to ensure that the Council's plans stay relevant and connected to what is happening in Belfast.

As outlined in the Council's Standing Orders, the Corporate Plan and the processes which underpin it act as the Council's main instrument of policy. The development and implementation of the Corporate Plan therefore embraces a number of processes including, for example:

- The establishment of agreed corporate priorities and strategic plan
- Strategic finance, human resources, asset management, information management and planning and performance frameworks to ensure resources are effectively allocated for implementation of the strategic plan
- The development and prioritisation of the capital programme and the city investment strategy
- The continuing integration and alignment of the key planning processes in the organisation, including, finance, HR, information management, performance management, asset management, risk management, business planning and programme management
- The development and implementation of strategies for effective partnership and working with key stakeholders, through the development of community planning and the supporting Council processes
- The development and implementation of an effective performance management framework
- Communication of the plan is via the Council's internet website; a communication plan has been agreed to ensure the plan is effectively communicated.

Our political governance structures include:

- Committee decision-making system; this includes the Strategic Policy and Resources Committee with responsibilities for dealing with corporate finance, planning, performance and policy
- Council minutes system on [www.belfastcity.gov.uk](http://www.belfastcity.gov.uk).

Our key mechanisms for measuring the quality of services for users and for ensuring that they represent the best use of resources include:

- Key performance questions, surveys and indicators
- The development of a performance management system which will become operational during 2009/10
- The development of a customer focus strategy, elements of which will be implemented during 2009/10
- An annual VFM programme of audit work
- A corporate complaints system.

In order to define and document key council roles and responsibilities, a Scheme of Delegation is in place. This has been approved by the Council. The Scheme is explicitly linked to the objectives of the Council as they state that the purpose of delegation is to achieve economies of scale and minimise costs. The levels of authority and responsibility are set out in the Scheme of Delegation.

Standing Orders are in place and are documented on the Council's website.

The corporate objectives of the Council are linked to levels of responsibility and individual staff through the Strategic Plan and annual business planning processes and through the use of personal development plans.

A Code of Governance was developed; this was reviewed, updated and reported to COMT, the Assurance Board and the Audit Panel in the year 2008/9. The Code is based on the six principles set out in the CIPFA/SOLACE 'Delivering Good Governance in Local Government: A Framework'.

The Council budget is set in line with the need to deliver the Corporate plan. A budgetary control system is in place.

Terms and conditions of employment and job descriptions are available for all staff.

The following structures, which facilitate staff development, conduct and good governance, are in place:

- New political governance structures which were implemented in the year 2007/08
- Committee reporting protocol
- Party Group Briefing sessions to facilitate and coordinate contact with officers

- The development of corporate values and their integration into the corporate plan
- The agreement of the customer focus strategy, an element of which is to develop corporate and service standards
- Code of conduct for staff
- Staff receive induction training including an introduction to the Code of Conduct
- Fraud awareness programme for staff which is due to be rolled out in 2009/10
- The NI Code of Local Government Conduct for Members
- Policy for acceptance and Provision of Gifts and Hospitality by Council Officers
- Policy for Potential Conflict of Interest Situations Encountered by Council Officers
- An Equality Reference Guide
- Sustainable Development Plan
- Fraud and corruption and whistle blowing policies.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:

- Standing Orders
- Financial Regulations
- Scheme of Delegation
- Accounting Manual
- Codes of Conduct for officers and Members
- Corporate and budgetary planning
- The preparation of relevant regular financial reports
- Regular reviews of periodic and annual financial reports which indicate financial performance
- A programme of capital expenditure with clearly defined guidelines
- An Asset Management Group
- Formal project management disciplines.

Continued effort has been put into developing and implementing the key elements of an assurance framework within Belfast City Council with the key elements being:

- A process whereby managers are required to sign annual assurance statements
- Embedding risk management
- Developing business planning and related performance reporting arrangements

**Audit Panel,  
Monday, 15th June, 2009**

- **A re-constituted Audit Panel**
- **Further developing the professionalism of the internal audit function, including the implementation of risk-based audits**
- **Review and update of the Code of Governance.**

In addition during 2008/09, an Information Panel and appropriate sub-groups were established to enhance IT governance arrangements within the Council.

The Council has an established Audit Panel which was re-constituted during 2007/08 with revised terms of reference. The terms of reference set out a clear statement of purpose that it will provide an independent assurance on the adequacy of the Council's risk management framework and associated control environment. It will provide an independent scrutiny of the Council's financial and non-financial performance to the extent that it exposes it to risk and weakens the control environment. The Audit Panel received formal audit committee training in January 2009. The Audit Panel reports to Strategic Policy and Resources Committee.

The Audit Panel agrees an annual programme of work, for Audit, Governance and Risk Services, the year 2009/10 includes a number of value for money audits, with support from the Assurance Board, they oversee the work of the Audit Governance and Risk Services section. This section provides an internal audit service, which operates to the standards published in the CIPFA code of practice for internal audit in local government.

Audit, Governance and Risk Services have taken the lead on risk management activities within the Council. These have continued in line with the Council's Risk Management Strategy. Activities have focused on the development, management, monitoring and reporting of risk registers. Corporate, departmental and operational risk registers are in place in addition to registers relating to major projects and key services.

A system of assurance reporting by Directors, Heads of Service and senior staff within the Council continued during 2008/09. These signed assurance statements form part of the evidence to enable the sign off of the governance statement by the Accounting Officer.

A Business Continuity Policy is in place. Business Continuity strategies and plans are in place for the Council's key services; these are reviewed, updated and tested on an annual basis. In addition, in order to ensure that the Council is prepared to meet the threat of a pandemic, a Strategic Business Continuity Pandemic Plan with supporting operational plans have been prepared and are subject to ongoing review.



**Managers are aware of their responsibility for ensuring:**

- **Compliance with relevant laws and regulations, internal policies and procedures**
- **That expenditure is lawful within their area of responsibility**
- **That staff conduct council business in accordance with the law and proper standards**
- **That public money, for which they are responsible, is safeguarded and properly accounted for, and used economically, efficiently and effectively.**

**The Financial Regulations include an explicit reference to management responsibility for internal control and set out the delegated powers of the Chief Financial Officer in ensuring expenditure is lawful. The Chief Financial Officer is the designated officer responsible for the proper administration of the Council's financial affairs.**

**The Council has a Director of Legal Services and a Legal Services Department to provide advice and support to Council staff and Members.**

**A Public Interest Disclosure ('Whistleblowing') policy is in place and has been communicated to all staff. The policy is posted on the Council's intranet. In addition, this policy is also included in the Code of Conduct for Local Government Employees.**

**A Corporate Complaints system is in place.**

**The following activities underpin the identification and support of the development needs of members and senior officers:**

- **Induction training for all staff which includes an introduction to the Code of Conduct**
- **Code of procedures on recruitment and selection**
- **Introduction of personal development plans**
- **Member development programme with induction sessions for Members**

**The following are channels of communication which focus on all sections of the community and other stakeholders. These channels ensure accountability and encourage open consultation:**

- **The Corporate plan**
- **'One Council' corporate communication guidelines**
- **The Council's website found at [www.belfastcity.gov.uk](http://www.belfastcity.gov.uk) and the interlink site for staff**
- **Work is underway to develop corporate and service standards**

- Ongoing development and use of Citistats
- The council is engaging with the DOE re development of a community planning framework
- Ongoing consultation processes
- City Matters magazine
- Complaints handling system
- Council meetings are open to the public
- The Assurance Framework.

#### **Review of effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, which gives an opinion on the Councils risk and control environment and by comments made by the external auditors and other external reviews.

The Audit Panel provides an independent assurance on the adequacy of the council's risk management framework and associated control environment. It provides an independent scrutiny of the Council's financial and non-financial performance to the extent that it exposes it to risk and weakens the control environment. In accordance with a Local Government Audit recommendation, a review is in progress which measured the effectiveness of the Audit Panel against a CIPFA "best practice" checklist; this will be reported to the Audit Panel in June 2009.

Following a benchmarking exercise the Audit Panel has made a commitment to a minimum of four meetings through the year. During the course of 2008/09 the Audit Panel met six times.

The Assurance Board which comprises the Chief Executive, Director of Corporate Services and Director of Legal Services has the purpose of identifying areas of particular concern within the Council. It addresses issues of non compliance of Council staff in particular around internal control or governance matters. The Assurance Board met four times during 2008/09.

The Code of Governance for Belfast City Council is based on the 6 core principles set out in the CIPFA/SOLACE Framework. The key systems, processes and documents are summarised in a table; the monitoring of these activities provides evidence of compliance with the core and supporting governance principles, along with the individual or committee responsible for monitoring and reviewing the same.

As set out in our Code of Governance, AGRS undertook a review of the Code in January 2009. The main purpose of this review was to determine the progress being made to fully embrace the 6 governance principles. This included contacting various officers and determined whether the systems, processes and documents continued to provide evidence of compliance with the principles and also determined the progress made in implementing the planned improvement actions. The Code was then updated as appropriate following these discussions with officers and reported to COMT on 2<sup>nd</sup> March 2009, the Assurance Board on 11<sup>th</sup> March 2009 and the Audit Panel on 28<sup>th</sup> April 2009.

This review of the Code has informed the preparation of this Annual Governance Statement. In addition it forms one of the assurances that senior managers and Members receive on the Council's internal control environment.

In the year 2008/09 AGRS reviewed the various sources of assurance and the key elements of the Council's internal control framework and will report to managers, COMT, the Assurance Board and the Audit Panel on these areas.

Local Government Audit have also provided a level of assurance through the provision of the annual external audit and provision of the management letter. An action plan is in place to address the issues identified.

Other sources of assurance include assurances from management and external review bodies.

In the year to the 2009/2010, the Strategic Policy and Resources Committee and the Audit Panel intend to monitor the actions taken by management to address identified weaknesses in the Council's internal control environment, and the management of key risks.

#### **Significant governance issues**

In response to the issues raised in the Annual Governance Statement for 2007/08, we can confirm that these issues were highlighted in appropriate risk registers, risk owners allocated and actions were put in place to address them. In addition we prepared an action plan to monitor progress in managing these issues; progress was reported to COMT, the Assurance Board and Audit Panel. However, given the nature of some of the risks identified, some actions are still ongoing, we have outlined the actions that we have taken so far to manage the significant issues identified in the Annual Governance Statement for 2007/08 at Appendix 1.

As part of the process of preparing this year's Annual Governance Statement all Directors and senior officers have been asked to consider significant governance issues that require action and disclosure. The most significant issues for the Council are detailed below:

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.

In order to better manage this risk the Council has established a Budget and Transformation Panel which is comprised of one Member from each of the party groupings. The Panel will report its work to the Strategic Policy and Resources Committee.

The review of public administration (RPA) is seen as a major issue for the Council. Key concerns exist around:

- Ensuring that council input into RPA related discussions including the drafting of necessary legislation is timely and secures the interests of both the citizen and the local government sector
- General uncertainty and delays in the RPA process and the external decision-making processes in place could make it difficult for the Council to effectively prepare for the transition process and ensure that necessary succession planning is taking forward
- Inadequate or late information could restrain our ability to undertake appropriate and timely due diligence reviews of emerging policy/legislative proposals and to consider associated organisational consequences
- Inadequate or untimely information could limit our ability to effectively engage, at both Elected Member and officer level, in the policy development and implementation phase of the RPA
- That transferring functions would be insufficiently resourced at point of transfer which could significantly jeopardise future service delivery
- That emerging legislation and associated guidance to be issued by the Department of Environment could impact upon the Council's own modernisation agenda pre and post RPA.

In order to ensure that the aforementioned risks are managed, 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.

The Council is represented also on the established external RPA delivery structures including the Strategic Leadership Board, Policy Development Panels and Regional Transition Coordination Group.

In addition, to further enhance our governance arrangements we propose over the coming year to take steps to address all issues which were raised in Annual Assurance Statements. These issues have been identified in the appropriate risk registers. The ongoing management of the existing actions and the implementation of proposed actions to manage these issues will be appropriately reviewed and reported and will form part of our next annual governance review.

Signed: .....

On behalf of the Committee of Strategic Policy and Resources, the Chief Executive Officer and by the Chief Financial Officer.

**Appendix A**

**Significant risk and internal control issues declared in the  
Annual Governance Statement 2007/8**

<u>Risk</u>	<u>Actions agreed or implemented to manage risk</u>
That the Council will be unable to comply with the targets of the Northern Ireland Landfill Allowance Scheme (NILAS).	<p>Agreement was reached on a protocol for sharing unused allowances among the eleven arc21 councils thereby giving protection against NILAS targets until around 2012/13 on current projections.</p> <p>Monitoring performance against NILAS targets ongoing</p> <p>Liaison with arc21 to monitor timescale for introduction of the necessary waste infrastructure</p> <p>Introduction of a food waste collection pilot scheme (7000) houses.</p>
During the course of 2007/08 the Council implemented a new financial system and associated business processes. It is perhaps inevitable that implementation of a major and complex new system and new business processes results in teething problems.	<p>The integration of the SAP system has progressed and improved through the last year. This was supported by the two internal audits carried out on the system and which focused on accounts receivable and accounts payable the audits made a number of recommendations which when implemented would improve the control environment. An external consultant was engaged to take forward the implementation of these recommendations and internal audit have been monitoring progress made, however, we acknowledge whilst progress has been made further work still remains.</p> <p>Risk management activities were implemented to identify and manage project risks, after the system was handed over these risks were reallocated into the appropriate operational registers, where they are currently being addressed.</p> <p>A policy development group for accounts receivable was set up.</p>

<u>Risk</u>	<u>Actions agreed or implemented to manage risk</u>
The Council identified the risk of over-reliance on a small number of key staff in Financial Services.	This issue was included in a structural review of Financial Services, a recruitment exercise was carried out and staff have now been appointed.
The Council has identified the need to ensure the effective management, at a corporate level, of the resource requirements of large projects, for example, the Titanic Signature Project, North Foreshore and Connswater Greenway. In order to address this need it is intended to commission a review to develop an approach regarding the governance of all projects. At an operational level, this framework would be supported by the measures being put in place to manage identified capital project risks.	An asset management group was set up, with appropriate membership and reporting. Ongoing monitoring and reporting of Capital Programme Construction projects methodology in place A review was undertaken which considered the governance aspects of large Projects, it is anticipated that this report will be submitted in the near future.”

In answer to Members' questions, the Director of Corporate Services indicated that the Council was not risk averse and that the risks which it did take were measured.

Following discussion, the Panel approved and recommended to the Strategic Policy and Resources Committee the contents of the Annual Governance Statement.

**Head of Audit, Governance and Risk Services**  
**Annual Assurance Statement**

The Head of Audit, Governance and Risk Services presented a report regarding his Annual Assurance Statement, which constituted his professional opinion on the Council's internal control environment and which demonstrated that the Council had in place adequate and effective systems of risk management, governance and control.

He informed the Members that, during the year, his staff had undertaken seventeen audits, three of which had received green assurance, eleven amber assurance and three red assurance. He indicated that follow-up audits to those which had received a red level of assurance had indicated that the relevant management had given serious attention to the original recommendations and that progress had been made to ensure that the assurance level was improved. He pointed out that a report regarding the necessity for Members to make declarations of interest at meetings would be presented at the next meeting of the Panel. In addition, the Chairman requested that a report on the number of contracts with mobile telephone operators held by the various Council Departments be presented to a future meeting of the Audit Panel.

During discussion, a Member suggested that it would be beneficial for the Audit Panel to be advised as to how long red assurance levels on audit reports had been in place to enable the Panel to monitor improvements more closely.

In response, the Head of Audit, Governance and Risk Services indicated that the Service had been reviewing aspects of its reporting process and that such information would be provided at future meetings of the Panel.

Following further discussion, the Panel approved and recommended to the Strategic Policy and Resources Committee the contents of the Annual Assurance Statement.

**Review of the Effectiveness of Internal Audit 2008/2009**

The Panel considered the undernoted report:

**“Relevant Background Information**

The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 which came into effect during 2007/08 make local government bodies explicitly responsible for their financial management, internal control and risk management systems

The Regulations place four main requirements on authorities:

1. Ensure financial management is adequate and effective and establish a sound system of control including arrangements for the management of risk
2. Conduct a review at least once a year of the effectiveness of the system of internal control
3. Publish a statement on internal control\* as part of the statement of accounts. This statement must be considered by a committee of the local government body, or by the members of the body meeting as a whole, and following that consideration, approved by the Chief Executive
4. Maintain an adequate and effective system of internal audit in accordance with proper practices (and ensure an annual review of the effectiveness of the system of internal audit).

\* - Now replaced by Annual Governance Statement

Regarding the fourth requirement, this means both that the internal audit function (which is provided by Audit, Governance and Risk Services) must work to professional standards and that the organisation should undertake an annual review of the effectiveness of the system of internal audit.

In a sense the Council is ahead of the Regulations. Audit, Governance and Risk Services has been working to professional standards for internal audit for a number of years. In 2006/07 the Council commissioned an external review of the work of the Audit, Governance and Risk Services section. This review was undertaken by CIPFA (NI). The results of this review were reported



to the Council's Audit Panel in January 2007 and the review confirmed that the service complied with the CIPFA 'Code of Practice for Internal Audit in Local Government' (2006). The review involved CIPFA (NI) consulting with key stakeholders including AGRS staff, the then Chair of the Audit Panel, Assurance Board members and a sample of other stakeholders and reviewing audit files/documentation.

Further arrangements are in place to monitor the effectiveness of the internal audit function:

- the work of Audit, Governance and Risk Services may be relied upon by the Local Government Auditor as the basis for obtaining information/assurances around the Council's systems of internal control.
- effectiveness is also measured through management satisfaction questionnaires which AGRS issue at the end of each completed systems audit. Responses to these during 2008/09 have been positive.
- The service reports regularly to a senior management Assurance Board and the Audit Panel on audit, governance and risk matters and routinely reports on its performance against key priorities and targets.

In order to comply with the Regulations for 2008/09, the Local Government Auditor has advised that the Council should undertake a self-assessment of its service against a compliance checklist included in the CIPFA Code of Practice for Internal Audit in Local Government (2006) and that this assessment should be considered by the Audit Panel.

### **Key Issues**

#### **Annual Review of Effectiveness of internal audit 2008/09**

We have completed the recommended self-assessment checklist and our overall conclusion is that the internal audit service complies with the CIPFA Code of Practice for internal audit in local government.

#### **Future Plans**

In developing the Audit, Governance and Risk Services plan for 2009/10, we have identified further scope for consulting with stakeholders on the effectiveness of our Service and, during 2009/10, will be developing a communication / stakeholder engagement plan to enable further assurances to be obtained regarding the effectiveness of the Service and also to identify areas for improvement.

It is the intention of the Service to ensure that independent reviews of the effectiveness of the Service are undertaken every three years, with the next review scheduled for early in 2010. This process has already been approved by the Audit Panel (June 2008).

#### **Resource Implications**

None.

#### **Recommendations**

That the Audit Panel notes that a review of the effectiveness of the internal audit service has been undertaken and that this review confirms compliance with the CIPFA Code of Practice for Internal Audit in local government.

That the Audit Panel approves the review of the effectiveness of the Internal Audit Service, taking account of the completed checklist and the other arrangements for ensuring the effectiveness of the Service, as highlighted in this report.

That the Audit Panel notes the proposed arrangements for future reviews of the Service, specifically the process of commissioning external reviews once every three years (with the next review scheduled for early 2010).

#### **Key to Abbreviations (including in attached paper)**

**CIPFA (NI) – Chartered Institute of Public Finance and Accountancy (Northern Ireland)**

**LGA – Local Government Auditor.”**

Following discussion, the Panel adopted the recommendations.

#### **Review of the Effectiveness of the Audit Panel 2008/2009**

The Panel was informed that the Local Government Auditor, who had been auditing aspects of the Council's management arrangements including those for internal audit and the Audit Panel, had recommended that the Council undertake a self-assessment of the Panel based on guidelines issued by the Chartered Institute of Public Finance and Accountancy. The Director indicated that, in order to ensure an effective review of the Panel was undertaken, it would be important that the Panel of Members' views were taken into account. He therefore proposed that the following persons be asked to complete a questionnaire:

- the Chairman of the Audit Panel;
- the Members of the Audit Panel, both Elected and External;
- the Director of Corporate Services;
- the Chief Local Government Auditor; and
- the Head of Audit, Governance and Risk Services

He pointed out that a more detailed assessment of the effectiveness of the Panel could be undertaken by independent reviewers. He suggested, therefore, that, since an external review of Audit, Governance and Risk Services would be undertaken in 2010, this review be extended to consider the effectiveness of the Audit Panel.

Following discussion, the Panel agreed that the foregoing persons be asked to complete the self-assessment questionnaire, that the responses be submitted no later than 31st July, that the Panel receive at its next meeting a report on the outcome of the responses contained within the questionnaire and that the effectiveness of the Audit Panel be examined by the independent company which would undertake the external Review of Audit, Governance and Risk Services during 2010.

### **Budget Monitoring for the Year Ended 31st March, 2009**

The Panel considered the undernoted report:

#### **“Relevant Background Information**

##### **Revenue Budget 2008/09**

**At the monthly Meeting of Belfast City Council held on the 4th February, 2008, the Council determined an increase in the Revenue Estimates of the Council for the forthcoming financial year of 4.83% resulting in a Non-Domestic Rate of 22.1853 pence and a Domestic Rate of 0.2540 pence in the pound. This amounted to departmental net expenditure of £117,946,210 inclusive of capital charges.**

##### **Capital Programme 2008/09**

**The Capital Programme for 2008/09 and future years was agreed by Strategic Policy and Resources Committee on 13th June, 2008.**

**In order to align the Capital Programme to corporate priorities and affordability, Committee adopted a two strand approach:**

- 1. For 2008/09 all projects that are underway or are contractually committed would proceed – this equates to £26,732,000; and**
- 2. The remaining projects would have to go through the gateway process to be progressed.**

**On 21st November, 2008, the Strategic Policy and Resources Committee agreed to the inclusion of an additional seven schemes. This increased the capital financing requirement by £1,609,000 to £28,341,200 for 2008/09.**

The Capital Programme was agreed on the basis that expenditure to be financed by loan remain within the Council target of £15million.

#### BCC Summary Revenue Outturn 2008/09

BCC Departments have a net budget for the year of £117,946,210. Outturn for the year was £117,175,670 giving a net under-spend for the year of £770,540 (0.65%) on Departmental activity – This is well within good practice guidelines of 3%.

#### Key Issues

The economic downturn has had a significant impact on the Council's financial performance, particularly in the second half of the financial year. During this period financial performance was closely monitored with monthly budget reports with year end forecasts presented to the Director of Corporate Services. The economic downturn was felt most severely in two areas – loss of external income and in the price of oil.

#### Loss of external income

Three Services incurred significant loss in external income as a direct result of the economic downturn:

*Business Improvement Service* budgeted for £688,600 in external income but received £251,350, a reduction of £437,250. The Service has budgeted for external income of £300,000 in 2009/10.

*Information Services Belfast* budgeted for £3,106,400 in external income but received £2,472,770 a reduction of £633,600. The Service has budgeted for external income of £2,220,000 in 2009/10.

*Building Control* budgeted for £3,575,700 in external income but received £2,632,690, a reduction of £943,010. The Service has budgeted for external income of £2,696,000 in 2009/10.

#### Utility Costs

Inflationary pressures on such costs have resulted in such costs being over-spent by £1,519,470 for the year against the budget agreed by Council on 4th February 2008. While this has impacted on all Departments it has been felt most severely in Parks and Leisure Services where there has been an increase of £1,152,150 over budgeted expenditure.

### Unbudgeted Expenditure

In the current year Member decisions have been made in respect of Grove and Beechmount Leisure Centres which required expenditure of £429,900 in the Parks and Leisure Department for which no budgetary provision had been made.

The Development Committee at its meeting on 14th May, 2008, agreed to make available £120,000 for the Community Festivals Fund, subject to the Strategic Policy and Resources Committee agreeing to provide the finance required. Strategic Policy and Resources Committee, at its meeting on 20th June, 2008, agreed to increase from reserves the cash limits of the Development Committee by £120,000 in order to finance the Community Festival Fund.

Member decisions have also been made in respect of the Elite Facilities Programme which may require revenue expenditure of approximately £400,000.

### Virements

As part of the budgetary control exercise virements were carried out for those Services most affected by the issues outlined above. In total £2.675m was vired between Services to address the impact of the economic downturn and to finance unbudgeted expenditure.

A further £256,600 was vired from Health and Environmental Services Department to finance the shortfall in the Gas Pension Fund following the tri-annual review by Hewitt Bacon and Woodrow.

### Income

Rate income of £106,987,180 was budgeted for the year. These monies are paid to the Council monthly throughout the year with a finalisation adjustment made after Land and Property Services have completed their accounts.

Finalisation of rate income has shown a recent trend of significant variation in recent years. The finalisation on 2005/06 was £3.9m compared to a claw back of £630,000 on 2006/07 and a claw back of £4,128,550 in 2007/08. The fluctuation in the finalisation is due to Central Government miscalculating the product of a penny which was principally brought about by policy changes in respect of industrial de-rating and vacant properties. In 2008/09 Land and Property Services overpaid the Council £191,279 which will be paid back over a four year period.

When setting the rate for the year BCC was advised that the General Exchequer Grant would be £4,040,980. The actual grant received was £4,002,600 – £38,380 less than budget. The loss of grant was attributed to the impact of rating policy.

After considering Departmental outturn, the reduction in the General Exchequer Grant and the impact of finalisation on rate income the Council has a net under-spend on the year's activity of £797,250 – Table 1.

<b>Table 1 - BCC Income and Expenditure 2008/09</b>			
	<u>Budget</u> (£)	<u>Actual</u> (£)	<u>Variance</u> (£)
Net Dept. Expenditure	117,946, 210	117,175, 670	-770,540
Capital Charges	- 9,005,96 0	- 9,005,96 0	0
Capital Financing	4,487,91 0	4,394,27 0	-93,640
Gen Exchequer Grant	- 4,040,98 0	- 4,002,60 0	38,380
Contribution from Reserves	- 2,400,00 0	- 2,400,00 0	0
Rate Income	- <u>106,987,</u>	- <u>106,958,</u>	<u>28,550</u>
Under-spend for	180	630	-797,250

the year	Nil	-797,250	
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### **BCC Summary Capital Outturn 2008/09**

Expenditure on capital projects was £23,725,350 for the year.

This high level of expenditure was driven by City Hall Major Works (£6.8m), Ulster Hall Major Works (£3.6m), Vehicles (£2.8m) and Adelaide Exchange Fit Out costs (£2.2)m.

The Capital Programme was financed by grants (£5.6m), revenue contributions (£2.7m) and capital receipts (£0.5m). At 31st March, 2009 the capital account was over drawn by £15,068,080. Loan sanction applications for £15.10m have been made to the Department of Environment to finance Roselawn Cemetery Extension, Ulster Hall Major Works, the Waste Transfer Station, Adelaide Exchange Fit Out and the City Hall Major Works.

### **Revenue Outturn 2008/09**

#### **Strategic Policy and Resources Committee**

The Strategic Policy and Resources Committee has a net budget of £16,854,540 including £1.0m for the City Investment Fund. The Committee's net expenditure for the year was £16,104,860 giving a net under-spend on the years activity of £749,680. The performance of each of the Committee's Departments is summarised below:

### Chief Executive's Department

The Chief Executive's Department has a net budget of £5,011,980. The Department's net expenditure for the year was £4,751,340 giving a net under-spend on the year's activity of £260,640. The main reason for this variance is the Department is now accounting for grant income on an accruals basis. Consequently grant income for quarter four which previously had been accounted for on a cash basis in the next financial year is now included in the 2008/09 accounts.

### Legal Services Department

Legal Services Department has a net budget of £90,620. The Department's net expenditure for the year was £34,680 giving a net under-spend on the year's activity of £55,940. This position has been achieved by the Department earning additional external income.

### Corporate Services Department

Corporate Services Department has a net budget of £12,600,500. The Department's outturn was £12,460,510 giving a net under-spend of £139,990. The main reasons for this variance are:

1. ISB is £29,440 over budget for the year. This is due to a loss in external income which was not quite matched with reductions in expenditure and increased income from internal projects.
2. BIS have suffered a loss in external income of £437,250 which is closely linked to the economic climate. However, the Service has reacted quickly to this situation with reductions in direct employee costs of £387,770. This has enabled the Service to operate close to budget with a year end surplus of £8,430 below budget.
3. The Department budgeted for £1,000,000 District Fund interest for the year. Interest received was £1,563,600, giving a surplus of £563,600 for the year.
4. Facilities Management had a net over-spend of £437,630 for the year. This was mainly due to an overspend of £306,810 in Building Maintenance. The overspend was incurred in completing work on the building upgrade programme which had commenced in 2007/08.



### Improvement Department

The Improvement Department has a net budget of -£1,848,560. The Department's outturn for the year was -£2,141,670 giving a net surplus on the year's activity of £293,110. The surplus for the year is due to:

1. There is an under-spend of £190,000 in the CIT Operations Unit due to posts not being filled. These posts have not been budgeted for in 2009/10.
2. The Estates Management Unit received £100,000 income for rent reviews above that anticipated.

### City Investment Fund

The City Investment Fund budget of £1.0m was applied to the Fund at the year end. The fund has a balance of £4.39m at the 31st March, 2009.

### Health and Environmental Services Committee

Health and Environmental Services Department has a net budget of £45,265,780. The Department's net expenditure for the year was £45,322,680 giving a net over-spend on the year's activity of £56,900. There are a number of significant variations which explain this net over-spend:

1. Building Control income fell sharply during the second half of the financial year as a result of the economic downturn. Despite the Service identifying alternative income sources, including SLA income from Land and Property Services, total income for the Building Control Service was £948,000 below the estimate for the year. Reductions in expenditure across a range of headings, including employee costs and hired and contracted services, lessened the impact of the reduced income. However, net expenditure was still £779,250 above the annual estimate.
2. Cleansing Services had a net under-spend of £167,570. This included the receipt of additional Service Level Agreement income of £122,000 and overall reductions in expenditure of £50,000 including savings in employee costs arising mainly from the introduction of the food waste pilot in place of the segregated waste collection scheme and reduced compensation claims.

3. Waste Management had an under-spend of £647,240. The major area of expenditure variance within Waste Management related to the landfill disposal charges contract. This is one aspect of adaptive consumer behaviour which has resulted in a reduction in domestic waste being discarded. This is reflected in a dramatic reduction in tonnages of waste required to be disposed of by landfill. This reduction in tonnages resulted in savings of £629,800 in disposal charges during the year.

#### Parks and Leisure Services Committee

Parks and Leisure Services Department has a net budget of £31,669,430. The Department's net expenditure for the year was £32,300,140 giving a net over-spend on the year's activity of £630,710. There are a number of significant variations which explain this position:

1. Utility costs increased significantly during the year. As part of the in year budgetary control £680,000 was vired to the Department to meet increased utility costs. Despite this the Department's expenditure of £2,676,060 on utilities was £472,150 above budget. Of this amount £200,270 related to Leisure Services and £271,880 related to Parks and Cemeteries.
2. Due to the closures of both Beechmount and Grove Leisure Centres being delayed over-spends of £314,130 and £115,780 respectively were incurred.
3. The repairs to property budget, was over-spent by £754,460 despite the Departments attempts to limit expenditure to priority one work and agreed projects. Included in this expenditure is work required to ensure compliance with DDA. Other essential work, including work at Cavehill Country Park and the Zoo, was required as a result of the floods last summer.
4. Additional income of £1.0m was generated within Parks and Cemeteries which made a significant contribution towards the increased expenditure incurred in the Department.

Income from managing DOE Street Trees was £180,000 greater than expenditure. Ormeau Park generated an additional £70,000 through Events in the Park. Hanging Baskets brought in £63,000 additional income. Grants of over £60,000 were brought in for playground development and diversionary activities to counter antisocial behaviour. The Zoo brought in £173,000 additional income and the cemeteries and crematorium brought in additional income of £166,000.

### Development Committee

Development Department has a net budget of £23,306,460. The Department's net expenditure for the year was £23,191,380 giving a net under-spend on the year's activity of £115,080. There are a number of significant variations which explain this position:

1. Community Services has an under-spend of £124,940. This is principally due to the ongoing work with the Community Support Plan and the high level of vacant posts within the Service. To address this issue a structural review was completed by BIS and approved by Council on 3/11/08. This review has not yet been implemented.
2. There is a net under-spend of £71,760 in Directorate which relates to employee costs in Policy and Business Support. This has been brought about by vacant posts remaining unfilled. The structure was ratified by Council in November 2008 and was subject to a 90 day consultation period with the Trade Unions. This is now complete and the vacant posts are now out to recruitment.

### Capital Outturn 2008/09

The Council had a programme of capital expenditure for 2008/09 of £28,341,200.

Expenditure on capital projects was £23,725,350 for the year. This high level of expenditure was driven by City Hall Major Works - £6.8m, Ulster Hall Major Works - £3.6m, Vehicles - £2.8m and Adelaide Exchange Fit Out costs - £2.2m.

The Capital Programme was financed by grants (£5.6m), revenue contributions (£2.7m) and capital receipts (£0.5m). At 31st March, 2009, the capital account was over drawn by £15,068,080. Loan sanction applications for £15.10m have been made to the Department of Environment to finance Roselawn Cemetery Extension, Ulster Hall Major Works, the Waste Transfer Station, Adelaide Exchange Fit Out and the City Hall Major Works.

### General Reserves

General reserves were reported at £6.27m in the 2007/08 annual accounts. The draft 2008/09 annual accounts report reserves at £3.1m. The reduction in reserves has been brought about mainly because of the £2.4m contribution to support the district rate and a reduction in specified reserves of £741,000.

**Resource Implications**

**Financial**

None

**Human Resources**

None

**Asset and Other Implications**

None

**Recommendations**

1. Economic conditions have worsened since Departments prepared their 2009/10 budgets. It is therefore recommended that Department's assess their budgetary assumptions and where budgetary risks are identified action must be taken.
2. Reports on capital and revenue expenditure and budgetary risks must be presented to Strategic Policy and Resources Committee and Standing Committees quarterly.
3. Reports on capital and revenue expenditure and budgetary risks must be presented to COMT monthly.
4. General reserves have reduced to £3.1m at 31 March 2009. The budget for 2009/10 is supported by a contribution of £2.4m which will effectively account for the reserve balance. It is recommended that the Council develop a reserves strategy to build up reserves during 2009/10 with further consideration being given as part of the 2010/11 rate setting process.
5. The 'review of the centre' will look at new ways of working within the Council. Two areas will require addressing as part of this process. The first, accounting for support services (internal trading), must review the relationship between service provider and service user in terms of budgetary responsibility and the governance arrangements required to support these relationships. The second, capital financing, must consider how the Council will invest for the future and the impact that will have on the rates. It is recommended that COMT give consideration to these issues prior to the completion of the 2010/11 Capital Programme and Revenue Estimates."

**Audit Panel,  
Monday, 15th June, 2009**

The Director of Corporate Services explained various aspects of the report and indicated that the under-spend of £770,540 would be transferred into the Council's Reserve. He pointed out that there were a number of aspirational schemes included in the Capital Programme which were, at this time, beyond the Council's affordability and that, since the City was not growing in economic terms, the amount of rateable income would tend to level out in the coming years. In response to a Member's question, the Director of Corporate Services indicated that he would ensure that a report regarding the costs of repairing the Mullholland Organ in the Ulster Hall would be submitted to a future meeting of the Development Committee.

Following further discussion, the Panel adopted the recommendations contained within the foregoing report.

**Annual Accounts 2008/2009**

The Panel considered the undernoted report:

**“Relevant Background Information**

**The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 require Belfast City Council to approve by resolution the statement of accounts as soon as reasonably practical and in any event before the 30<sup>th</sup> June immediately following the end of the financial year.**

**This legislation is in effect from 1 April 2006 and applies to accounting periods ending 31 March 2007 onwards.**

**The Financial Report and accounts for the year ended 31 March 2009, has been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) 2008 and the Department of the Environment Accounts Direction, Circular LG 05/09 dated 20 March 2009.**

**The report explains the Council's finances during the financial year 2008/09 and its financial position at the end of that year.**

**The Statement of Accounts are signed and certified by the Chief Financial Officer of the Council, i.e. the Director of Corporate Services, to indicate that they present fairly the financial position of the Council at the year end and the income and expenditure for that year.**

**I can confirm that the Statement of Accounts for the year ended 31 March 2009 has been prepared in the form directed by the Department of the Environment and in my opinion the Statement of Accounts presents fairly the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.**

### Key Issues

During the year the Council reported a reduction on the District Fund Balance of £3,274,966. This has reduced the credit balance on the District Fund Reserves to £3,069,851 which is approximately 1.7% of annual gross expenditure, or 2.1% of the net operating expenditure.

This reduction is made up as follows:

Contribution from Reserves	£2,400,000
Transfer to Provisions	£306,012
Reduction in specified reserves	£713,724
Loss of General Grant/Rate Income	£66,920
Departmental Surplus	£(770,540)
Accrual for Wages paid in 09/10	£361,430
Prior Year Adjustment	£197,420

The Council currently aims to maintain the level of District Fund Reserves in the region of 5% of annual gross expenditure.

Currently CIPFA does not define a minimum or maximum level of reserves and believes that Local Authorities, on the advice of their finance directors, should make their own judgement on such matters taking into account all the relevant local circumstances.

### Reserves

District Fund	£3,069,851
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The District Fund Reserves can be used to supplement income and unexpected expenditure in future years.

City Investment Fund	£4,385,110
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The City Investment Fund has been created to give a clear demonstration of the Council's propensity to action and its wish to contribute to the vibrancy, prosperity, culture and attractiveness of the City. As agreed at its meeting of 14 December 2007 the Strategic Policy & Resources Committee agreed the cash flow requirements to establish the Fund and indicated that in the 2008/09 financial year £1m was to come from reserves and income received from the sale of land to DRD re M1 upgrade. This amounted to £1,428,885. £118,775 was drawn down from this reserve during the year in relation to Connswater Greenway and Titanic projects.

Capital Receipts Reserve	£860,000
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**Audit Panel,  
Monday, 15th June, 2009**

These are capital receipts which have originated primarily from the sale of assets and which have not yet been used to finance capital expenditure. This amount relates to the sale of land & buildings at Loop River which has been ring-fenced for the development of the capital scheme 'Loop River – New Facilities'.

Repairs and Renewals Fund                      £14,617,208

This Fund was established under section 56 of the Local Government Act (NI) 1972 and has an approved limit of £22m and is to fund the closure of the landfill site.

Other Fund Balances and Reserves    £515,778

This relates to the Election Reserve which has been set up to smooth the cost of running Council elections.

Rates Claw-Back Reserve                      £(191,279)

This relates to the Minister for Finance's decision to allow Local Authorities to defer the impact of the revaluation of MOD properties over a 4 year period, smoothing the impact on the District Fund Reserve.

**Financial Standing**

The Council's financial position remains generally sound; however financial pressures continue to present the Council with challenges. The Council recognises these challenges and will need to maintain levels of reserves to help manage future pressures.

**Resource Implications**

**Financial**

None.

**Human Resources**

None.

**Asset and Other Implications**

None.

**Recommendations**

The Audit Panel is requested to note the Council's Financial Accounts and report for the year ended 31 March 2009."

Following discussion, the Panel approved and recommended to the Strategic Policy and Resources Committee the Council's financial accounts and report for the year ended 31st March, 2009.

**Dates of Future Meetings**

The Panel agreed that it would hold its next two meetings on Wednesday, 2nd September and Monday, 9th November, commencing at 1.00 p.m.

Chairman