

Local Government Auditor's Report – 2015





Northern Ireland Audit Office

Report on the exercise of the Local Government Auditor's functions

In the year to 31 March 2015

Published 23 June 2015

The Department of the Environment may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate a member of Northern Ireland Audit Office staff as the Local Government Auditor.

The Local Government Auditor has statutory authority to undertake comparative and other studies designed to enable her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies and to publish her results and recommendations.

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This report has been prepared under Article 4 of the Local Government (Northern Ireland) Order 2005.

Louise Mason
Local Government Auditor
23 June 2015

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Abbreviations

| | |
|------|---------------------------------|
| C&AG | Comptroller and Auditor General |
| EU | European Union |
| FTE | Full Time Equivalents |
| NFI | National Fraud Initiative |
| NIAO | Northern Ireland Audit Office |
| STC | Statutory Transition Committees |
| UK | United Kingdom |

Introduction



493 535

407 429

86 10

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30 43 18 61 47

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Introduction

1. Before 1 April 2015, Northern Ireland's 26 former councils had a key role to play in providing public services to local communities. This same role, with additional functional responsibilities¹, is now performed by 11 new councils.
2. Council services until 31 March 2015 mainly fell under two broad headings of 'Leisure and Recreation services' and 'Environmental services'. In addition, councils undertook a range of regulatory activities such as building control and environmental health. Councils also had important roles to play in other areas such as economic development, tourism and community development.
3. In providing such a broad range of services, either directly or in partnership with others, councils require substantial resources. In the 2013-14 financial year they spent £825 million, employed over 9,600 full time equivalent staff and utilised assets worth more than £1,900 million.
4. Councils are independent of central government and are accountable to their local electorate and ratepayers. They consider local circumstances as they seek to make decisions in the best interests of the communities they serve. All councils have the same basic legislative powers, although each council has the discretion to place a different emphasis on the services delivered.
5. The Local Government (Northern Ireland) Order 2005, as amended by the Local Government Act (Northern Ireland) 2014, provides that the Department of the Environment (the Department) may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate a member of staff of the Northern Ireland Audit Office as the Local Government Auditor. I have been designated Local Government Auditor for all local government bodies in Northern Ireland.
6. My role as the Local Government Auditor for the year included a number of statutory duties which included the responsibility for auditing the accounts and providing audit opinions of the previous 26 councils, 11 Statutory Transition Committees², 18 Joint Committees³, the Local Government Staff Commission, and the Northern Ireland Local Government Officers' Superannuation Committee. In total, audit opinions were issued on 57⁴ sets of financial statements relating to the 2013-14 financial year. From April 2015 I will have additional statutory duties in relation to the audits and assessments of performance improvement within each of the 11 new councils.

1 From April 2015 the range of functions and services increased to include local planning functions, off-street parking and local economic development. Further powers on community development and urban regeneration will follow in April 2016.

2 The Local Government (Statutory Transition Committee) Regulations were approved by the Assembly on 1 July 2013. They were 'made' and came into operation on 2 July, allowing for 11 Statutory Transition Committees (STCs) to be established. STCs led convergence between merging councils and undertook preparatory work for the new councils in advance of the shadow period (which commenced after the local government elections on 22 May 2014).

3 A Joint Committee is made up of two or more participant councils and constituted as a body corporate. The total number of Joint Committees will reduce to four by 1 April 2016.

4 The audits of two councils and one STC were not completed on time during the year as a result of delays by the corresponding councils.

Abbreviations

7. As part of my audits I also seek to examine that each council has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for. I can, if considered appropriate, make a report in the public interest on any matter coming to notice in the course of an audit. No public interest reports were made during the year and my audit findings were issued to each council in an annual audit letter.
8. In respect of each financial year I am required to –
 - prepare a report on the exercise of the local government auditor's functions in that year; and
 - send a copy of the report to each council and to the Department.
9. This report provides my perspective on the audits of local councils based on the key messages from audits performed up to 31 March 2015, covering the local government financial period from 1 April 2013 to 31 March 2014 (the 2013-14 financial year). I have also considered important issues that may affect the new councils in the near future.
10. My report highlights areas of strength and areas for improvement within local councils. Both councillors and officers should consider this report and review how their new council is managing the issues I have highlighted.
11. The annual audit letters issued to the previous councils highlight important issues that arose during the course of the audits. These letters detail how the matters I have set out in my annual reports apply locally and where more actions are required.

Part One: Local Government Reform



| | | | | |
|------|------|------|-------|------|
| 493 | 535 | | | |
| 407 | 429 | | | |
| 86 | 10 | | | |
| 47 | | | | |
| 51 | | | | |
| 12 | 11 | | | |
| 39 | 61 | | | |
| 39 | 61 | 44 | | |
| 37 | 60 | 42 | 82 | |
| 7 | 17 | 24 | 20 | 13 |
| 30 | 43 | 18 | 61 | 47 |
| | | | | |
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| 6.0% | 8.0% | 3.2% | 11.4% | 7.8% |

Part One: Local Government Reform

Overview

- 1.1 The local government sector in Northern Ireland is experiencing significant reform and this has a substantial impact on my role as the Local Government Auditor. It impacts on the number of council accounts which will require a financial audit from 2014-15 and the complexity of these audits. More significantly, with the introduction of a performance improvement framework for councils, it has expanded my audit and assurance roles and responsibilities.
- 1.2 The Local Government Act (Northern Ireland) 2014 (the Act) provided for a reduction in the number of local councils from 26 to 11 on 1 April 2015. Legislation also defined the boundaries of the 11 new local government districts (see **Figure 1**) and names of the wards into which each new district has been divided.
- 1.3 The Act forms the legislative framework for the new councils. This includes how decisions are made, how positions of responsibility are shared across political parties, how improvements in the delivery of council functions can be achieved to reflect the needs of local communities, and how efficiently and effectively council services are delivered. It provides for statutory governance in councils and introduced a new ethical standards framework which includes a mandatory 'Code of Conduct for Councillors'.
- 1.4 Following local government elections in May 2014, 11 'shadow' councils (which operated in parallel to the 26 outgoing councils) became operational. These 'shadow' councils were responsible for appointing senior staff, striking rates for 2015-16 and approving business and financial plans, prior to them taking on full powers and responsibilities on 1 April 2015.
- 1.5 Every aspect of the governance, management and provision of local government services has been impacted. The new councils are now taking the lead in community planning and are expected to deliver high quality services in an effective and efficient manner under the new performance improvement framework. Powers such as planning and local economic development have begun to transfer from central government and others, such as urban regeneration, will follow.
- 1.6 The Local Government (Transitional, Supplementary, Incidental Provisions and Modifications) Regulations (Northern Ireland) 2014 made transitional provision with respect to local government reorganisation, including positions of responsibility within the new council, and for the winding up and final accounts of previous councils.



Figure 1: New local government districts and councils



Source: NIAO

Additional financial audits

- 1.7 As a result of the transitional arrangements I was required to perform additional financial audit work in relation to the Statutory Transition Committees and the 'shadow' councils (which will be carried out in 2015-16). This required 11 additional audit opinions this year (relating to the 2013-14 financial year) and an additional 22 audit opinions next year, the results of which will be published in next year's report, my last report relating to the previous councils. The number of audits on financial statements will therefore peak in 2015-16.

Part One: Local Government Reform

- 1.8 Changes to the number of audits are summarised in **Figure 2**. The latter two years of the period show a marked reduction in the number of audit opinions that will be provided. From 2016-17, 22 audits relating to the 'shadow' councils and the Statutory Transition Committees and 15 audits relating to Peace III and Rural Development Joint Committees may not be required

Figure 2: Number of Local Government Financial Audits

| Years in which the audits will be performed by the Local Government Auditor | | | | |
|---|-----------|-----------|-----------|-----------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| Previous councils | 26 | 26 | - | - |
| Other local government accounts ¹ | 20 | 20 | 5 | 5 |
| Statutory Transition Committees ² | 11 | 11 | | |
| Shadow councils ³ | - | 11 | | |
| New councils | | | 11 | 11 |
| Total financial audits | 57 | 68 | 16 | 16 |

Source: NIAO

- 1 For example Peace III and Rural Development Joint Committees.
- 2 The work of the Statutory Transition Committees straddles two financial years and therefore requires a set of audit opinions for each year.
- 3 Operating in 'shadow' form to 31 March 2015.

- 1.9 Despite this reduction in the number of audits, I do not anticipate significant audit resource savings in the short term. My view is influenced by the challenges of transferring functions alongside the merging of new entities. As a result, I expect more challenging audits of a local government sector that will, in total, be responsible for an increased level of expenditure and income. The Northern Ireland Audit Office's previous experience in similar public sector restructurings has shown that stable financial management, reporting and governance by new entities takes time. Therefore there tends to be a period of heightened audit risk until new structures, practices and systems are in place, embedded and operating properly.

Performance Improvement audits and assessments

- 1.10 The Act assigned substantial additional audit functions to the Local Government Auditor's role. It requires me to undertake performance improvement audits and assessments each year. These will specifically entail:
- undertaking improvement audits, to review whether councils have discharged their duties for publishing improvement plans and performance information;



- conducting improvement assessments, to determine whether councils are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
- reporting on improvement audit and assessment work.

1.11 Council responsibilities, in relation to the new performance management framework, are to be phased in, beginning in the 2015-16 financial year, and my responsibilities are aligned to this (see **Figure 3**).

Figure 3: Performance Improvement audits and assessments

| | Years in which the audits will be performed | | | |
|--|---|---------|---------|---------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| Performance Improvement audits and assessments | – | 11* | 11 | 11 |

Source: NIAO

*The first year of the performance improvement audit and assessments will be an introductory year with a limited scope. Full implementation of the new performance improvement regime and the corresponding audit and assessment work will commence from 2017-18.

1.12 Last year, in preparation for the performance improvement audits and assessments, I began a process of engagement with relevant external stakeholders and appointed a team to manage and develop a best practice audit approach and methodology. This will enable my staff to carry out their work with independence, integrity and objectivity, in accordance with the key principles set out in my 'Code of Audit Practice' (the Code). I continue to liaise with the Department on the detailed implications and timings for this new work stream.

1.13 During the year, work commenced to refresh the Code for 2016 and it is my intention to reflect the additional roles and functions of the Local Government Auditor as an aligned Appendix to the Code. I plan to issue this new Code for consultation later this year.

1.14 I have also continued to liaise with the Department, particularly in considering various consultation documents that are shaping the regulations, supplementary legislation and guidance underpinning the performance improvement framework.

1.15 Any potential future resource savings in my financial audits will be more than offset by my new audit and assessment responsibilities in relation to the performance improvement framework which will mainly be effective from 2016-17.

Part Two: Managing Resources



| | | | | |
|------|------|------|-------|------|
| 493 | 535 | | | |
| 407 | 429 | | | |
| 86 | 10 | | | |
| 47 | | | | |
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| | | | | |
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| 6.0% | 8.0% | 3.2% | 11.4% | 7.8% |

Part Two: Managing Resources

2.1 This section provides information on how councils managed their resources in the 2013-14 financial year.

Income and Expenditure

2.2 Revenue expenditure relates to day-to-day costs involved with providing services. It includes staff costs, waste disposal costs, supplies such as fuel, and materials used for repair and maintenance. Capital expenditure is the cost of acquiring and upgrading assets. It includes building property and acquiring equipment which will be used to provide services to local communities. Capital expenditure is considered further at paragraph 2.8.

2.3 In the financial year 2013-14 (see **Figure 4**), councils received income of £794 million from rates, charges and grants. Council expenditure in the same year amounted to almost £825 million. Accounting adjustments and transfers from reserves accounted for the £31 million variance.

Figure 4: Councils' Income and Expenditure 2013-14⁶

| Where the money came from | (£ million) |
|---|-------------|
| General revenue funding from government | 45 |
| Service fees and charges | 190 |
| Capital grants | 28 |
| District Rates | 531 |
| Total Income | 794 |
| How the money was spent | (£ million) |
| Leisure & Recreational Services | 342 |
| Environmental Services | 298 |
| Corporate Management | 57 |
| Other expenditure | 78 |
| Finance & Investment | 50 |
| Total spending on services | 825 |
| Accounting adjustments and transfers from reserves | -31 |
| Total expenditure and transfer from reserves | 794 |

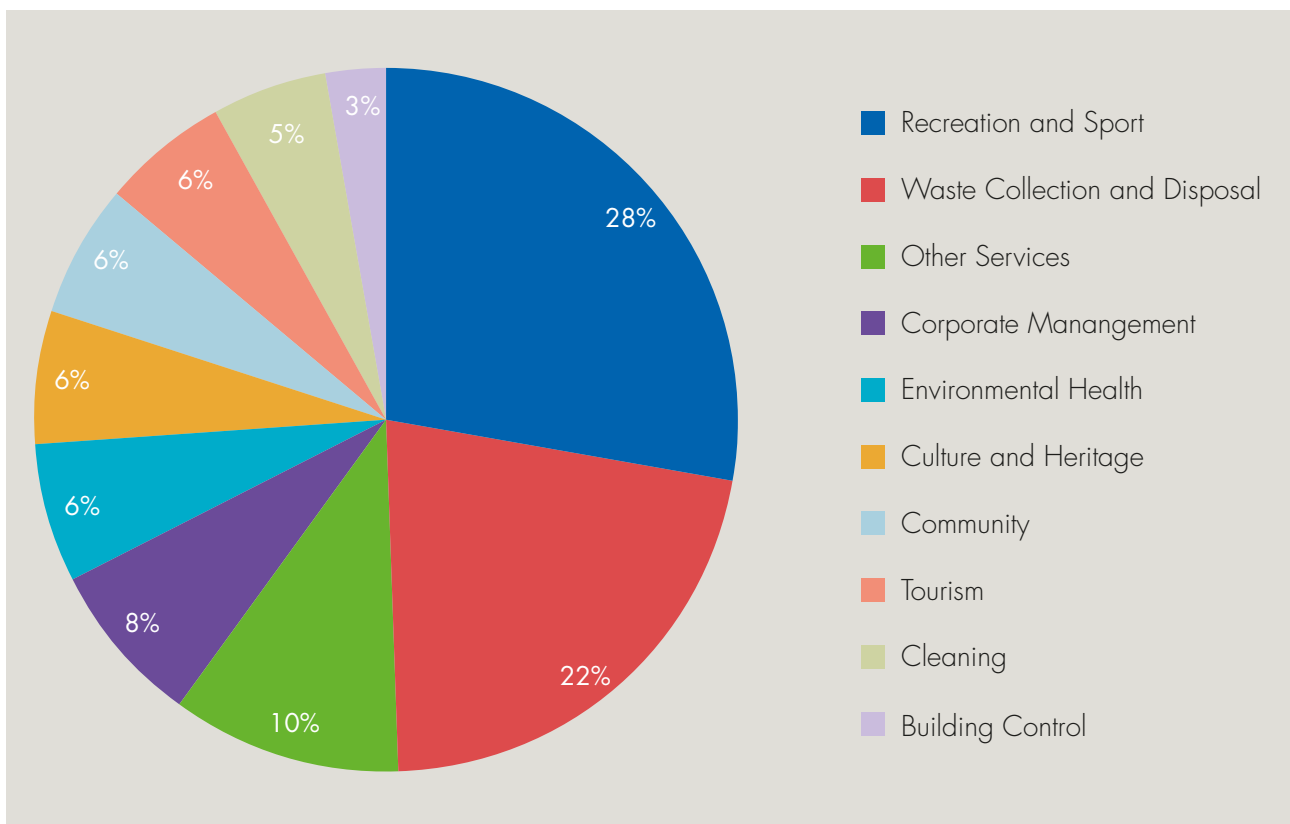
Source: Councils' audited financial statements for 2013-14

⁶ **Figure 4** is a high level summary of 26 councils' 'Comprehensive Income and Expenditure Statements' extracted from the 2013-14 financial statements.



- 2.4 The majority of councils' income, 66 per cent (64 per cent in 2012-13), was received from district rates. Fees and charges accounted for almost 24 per cent (28 per cent in 2012-13) of income over the period for services such as building control, waste collection and use of leisure facilities. General revenue funding from government⁷ and capital grants accounted for 6 per cent and 4 per cent of income respectively.
- 2.5 **Figure 5** provides additional detail on the categories of expenditure on services incurred by councils in the financial year. The largest single area of expenditure related to Recreation and Sport⁸, where councils spent £209 million (£199 million in 2012-13). This category, combined with that of Waste Collection and Disposal (£162 million) accounted for half of all expenditure incurred on services by councils.
- 2.6 Other categories of service expenditure incurred by councils included Tourism (£42 million), Culture and Heritage (£46 million), and Building Control (£20 million).

Figure 5: Councils' expenditure by service during 2013-14



Source: Councils' audited financial statements

⁷ General revenue funding from government is paid to compensate councils for the statutory de-rating of certain property and to provide additional resources for those councils whose needs exceed their wealth base.

⁸ By way of example, the 'Recreation and Sport' service is one of a number of 'sub' services, which also include 'Culture and Heritage', 'Community' and Tourism, making up the 'Leisure and Recreational Services' category in **Figure 4**.

Part Two: Managing Resources

Loans

2.7 Loans outstanding at 31 March 2014 totalled £471.3 million and are shown in **Figure 6**. This represents a decrease from the position as at 31 March 2013 of £1.9 million (0.4 per cent). Total council borrowing was approximately £258 per person (£260 in 2012-13) based on the estimated Northern Ireland population at June 2013⁹. The loan amounts vary considerably between councils.

Figure 6: Councils' loan position as at 31 March 2014

| Council | Loans Outstanding as at 31 March 2013 (£ million) | Loans Outstanding as at 31 March 2014 (£ million) | Change (£ million) |
|-------------------------|---|---|--------------------|
| Antrim | 19.5 | 18.9 | -0.6 |
| Ards | 13.3 | 12.8 | -0.5 |
| Armagh | 27.7 | 26.1 | -1.6 |
| Ballymena | 25.5 | 24.6 | -0.9 |
| Ballymoney | 10.0 | 10.5 | 0.5 |
| Banbridge | 20.7 | 19.7 | -1.0 |
| Belfast | 27.7 | 23.9 | -3.8 |
| Carrickfergus | 22.3 | 22.8 | 0.5 |
| Castlereagh | 18.8 | 18.4 | -0.4 |
| Coleraine | 33.8 | 31.9 | -1.9 |
| Cookstown | 1.4 | 1.3 | -0.1 |
| Craigavon | 7.9 | 6.3 | -1.6 |
| Derry | 25.8 | 31.6 | 5.8 |
| Down | 27.5 | 30.7 | 3.2 |
| Dungannon | 4.9 | 4.5 | -0.4 |
| Fermanagh | 3.2 | 2.8 | -0.4 |
| Larne | 17.6 | 19.3 | 1.7 |
| Limavady | 12.3 | 13.2 | 0.9 |
| Lisburn | 19.0 | 18.0 | -1.0 |
| Magherafelt | 0.0 | 0.0 | 0.0 |
| Moyle | 8.3 | 8.8 | 0.5 |
| Newry | 20.2 | 21.7 | 1.5 |
| Newtownabbey | 44.6 | 43.8 | -0.8 |
| North Down | 49.4 | 47.7 | -1.7 |
| Omagh | 9.6 | 8.9 | -0.7 |
| Strabane | 2.2 | 3.1 | 0.9 |
| Northern Ireland | 473.2 | 471.3 | -1.9 |

Source: Councils' audited financial statements

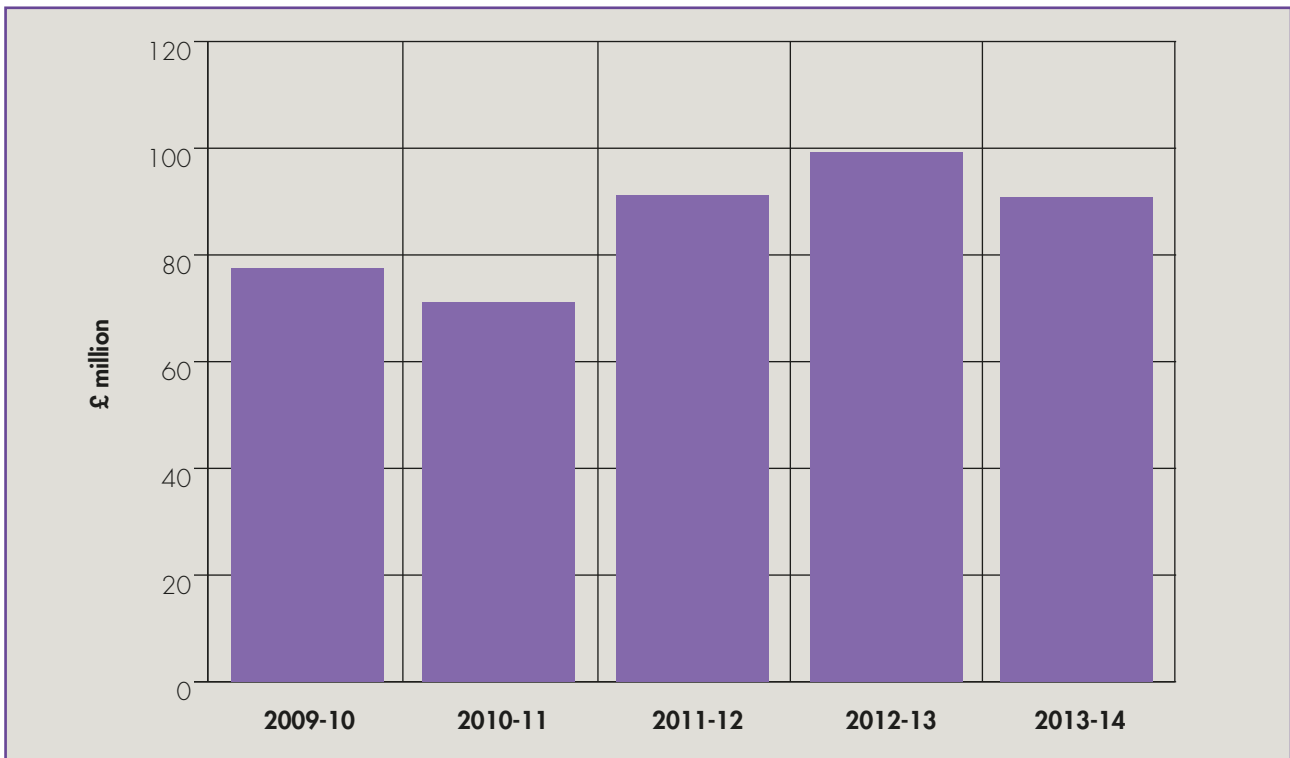
⁹ Statistical Bulletin: Annual Mid Year Population Estimates 2013, Office for National Statistics, 26th June 2014



Capital Expenditure

2.8 **Figure 7** shows that total capital expenditure in 2013-14 amounted to £91 million. This represents a decrease of 8 per cent from the previous year (£99 million) and is similar to the total expenditure in 2011-12.

Figure 7: Councils' capital expenditure from 2009-10 to 2013-14



Source: Councils' audited financial statements

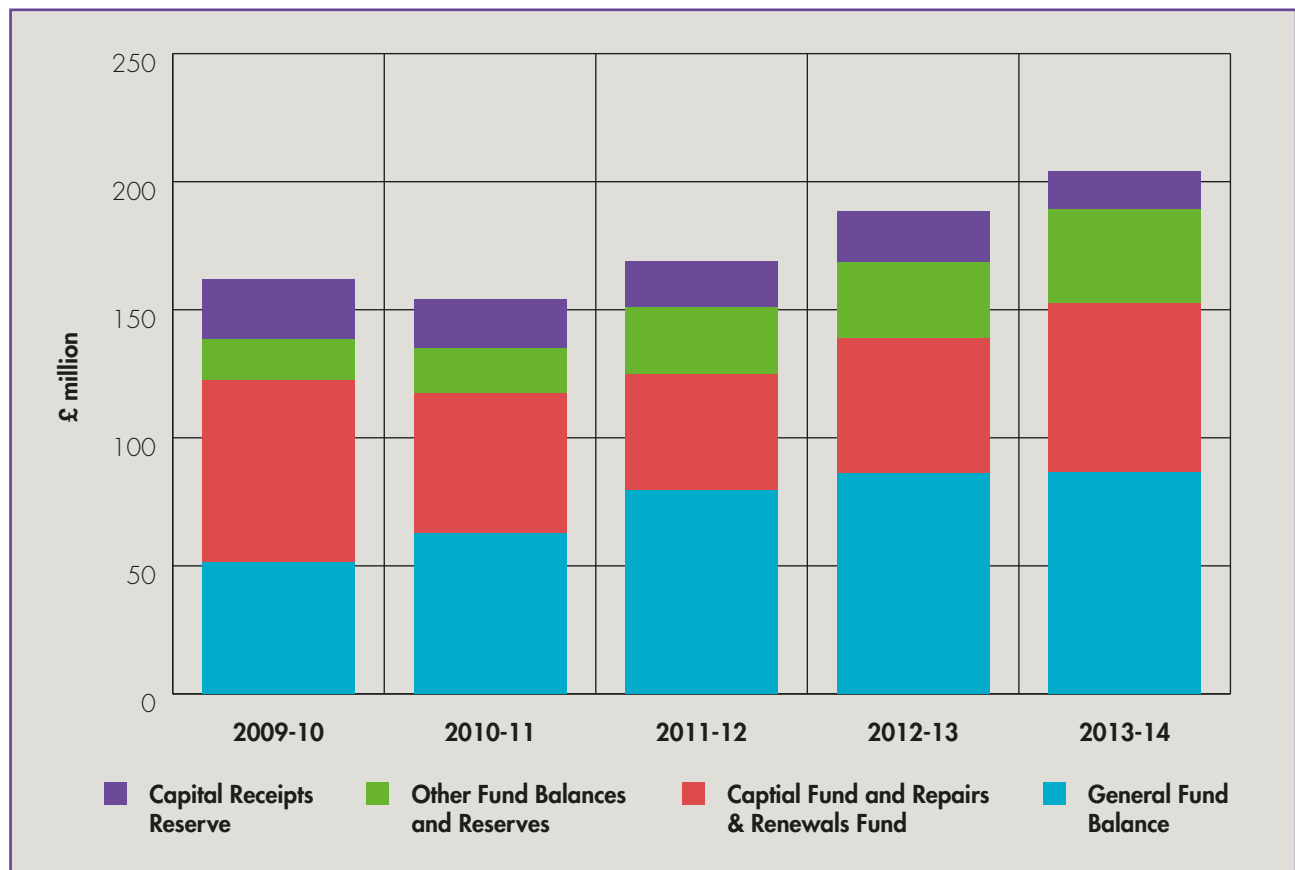
Reserves

2.9 Councils' financial statements disclose both the level of usable and unusable reserves. Unusable reserves are the result of the interaction between legislation and accounting requirements such as depreciation and revaluation. Unusable reserves are not supported by resources.

2.10 **Figure 8** shows that the overall level of usable reserves increased by approximately £16 million in the year to 31 March 2014. This represented an increase of over 8 per cent. Total usable reserves for all councils at 31 March 2014 were £204 million, compared to the prior year's total of £188 million. In 2013-14, 16 councils increased their usable reserves.

Part Two: Managing Resources

Figure 8: Councils' total usable reserves and balances



Source: Councils' audited financial statements

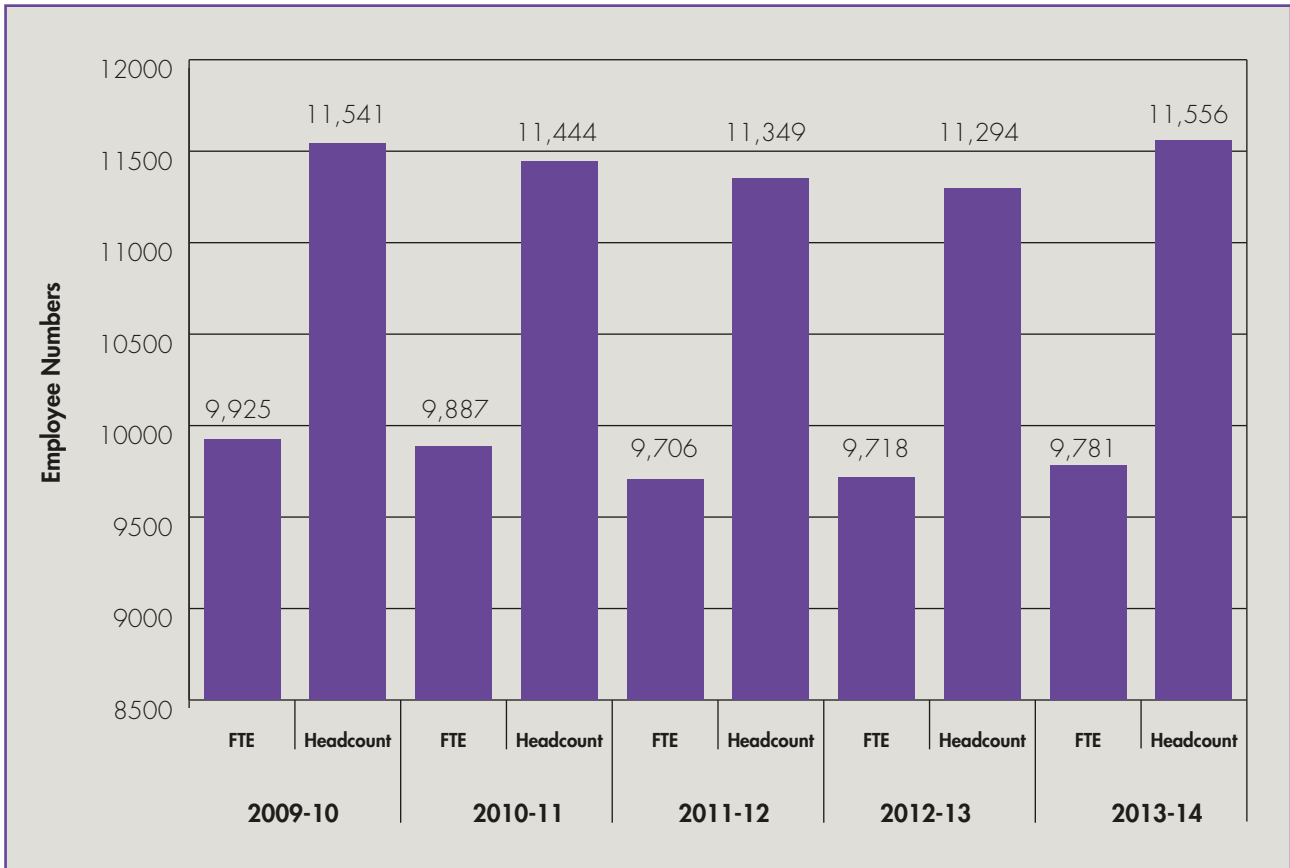
- 2.11 The General Fund is the main usable reserve. Overall, the total General Fund balance held by all councils has increased by almost £0.5 million (0.6 per cent) compared to the previous year and now totals £86.5 million. The total General Fund balance held by all councils has increased by more than 68 per cent since 2009-10.
- 2.12 Whilst the average balance held by councils in their General Fund is £3.3 million, the level varies considerably across councils from £0.6 million to £20 million.

Workforce

- 2.13 Between 1 April 2013 and 31 March 2014 there was a small increase (2.3 per cent) in the number of staff employed by councils as measured by headcount and a small increase (0.6 per cent) in the number of Full Time Equivalents (FTE) (see **Figure 9**).



Figure 9: Staff numbers in councils



Source: Councils' audited financial statements

- 2.14 Staff costs represent almost 37.5 per cent of gross expenditure in councils amounting to over £309 million in 2013-14, an increase of 3.1 per cent from 2012-2013.
- 2.15 The average cost of staff increased slightly from £30,823 to £31,597 - an increase of 2.5 per cent. Across councils, changes in average staff costs ranged from an increase of 7 per cent to a decrease of 9 per cent. There are also considerable average staff cost variations across councils, with the lowest in Armagh and the highest in Carrickfergus. Differences can be influenced by various factors such as the timing of single status settlements (see paragraph 5.5).

Agency staff

- 2.16 I note that in many councils significant expenditure continues to be incurred on the engagement of agency staff. Total expenditure on agency staff increased by 12.7 per cent to £15.8 million

Part Two: Managing Resources

(2012-13, £13.8 million). Agency costs represent 5 per cent of staff costs overall, however, in three councils, these costs amounted to more than 10 per cent of total annual staff costs, with the highest at 18 per cent.

- 2.17 I have previously commented that this is significant expenditure. Councils must be satisfied that they are receiving value for money and that this is the best means of providing the relevant services.

Exit Packages

- 2.18 Councils are required to disclose the number and costs of staff exit packages. These costs include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. Over the four financial years from 2010-11 to 2013-14 councils have paid a total of £8.5 million in exit packages to staff (see **Figure 10**).

Figure 10: Exit Packages paid between 2010-11 and 2013-14

| | Number of Exit Packages | Cost of Exit Packages £m | Number of Packages greater than £100,000 |
|--------------|-------------------------|-----------------------------|---|
| 2010-11 | 67 | 2.6 | Not Available |
| 2011-12 | 71 | 2.5 | 5 |
| 2012-13 | 55 | 1.5 | 2 |
| 2013-14 | 49 | 1.9 | 5 |
| Total | 242 | 8.5 | |

Source: Councils' audited financial statements

- 2.19 In 2013-14, councils agreed 49 exit packages at a cost of £1.9 million. This represents a small decrease (6) in the numbers from 2012-13 as well as an overall declining trend, but at an increased cost over the prior year (£0.4 million).
- 2.20 Of the £1.9 million of expenditure, nearly 76 per cent was paid by three councils. Eleven councils paid no exit packages in 2013-2014.

Part Three: Good Governance



A photograph showing a silver calculator and a silver pen resting on a spreadsheet. The spreadsheet contains numerical data in a grid format. The calculator is positioned on the right side, and the pen is on the left side. The data is organized into rows and columns, with some cells containing percentages.

| | | | | |
|------|------|------|-------|------|
| 493 | 535 | | | |
| 407 | 429 | | | |
| 86 | 10 | | | |
| 47 | | | | |
| 51 | | | | |
| 12 | 11 | | | |
| 39 | 61 | | | |
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| 7 | 17 | 24 | 20 | 13 |
| 30 | 43 | 18 | 61 | 47 |
| | | | | |
| 6.0% | 8.0% | 3.2% | 11.4% | 7.8% |

Part Three: Good Governance

Review of governance statements

- 3.1 The annual governance statement explains a council's governance arrangements and controls to manage the risks of failure to achieve strategic objectives. It is a key statement by which a council demonstrates to its ratepayers, elected members and other external stakeholders that it is complying with the basic tenets of good governance. Annual governance statements should explain the key elements in a council's governance arrangements, the process for reviewing the effectiveness of the governance arrangements, and outline actions taken to deal with any significant governance issues. Councils have been provided with guidance by the Department which set out what is required in their annual governance statements.
- 3.2 For the past few years some councils have adhered too rigidly to the Department's guidance example format, making it difficult to distinguish between different councils' governance statements. I recommended that guidance should not be seen as a template, but rather that governance statements should accurately reflect the local priorities and circumstances of individual councils. To assist with this process, I included a factsheet with my 2013-14 audit strategy, outlining best practice and key recommendations to be considered in preparing a governance statement.
- 3.3 This year's review found that, although most councils have made some positive improvement to the content and quality of their governance statements, in general there is still room for improvement, where more information would increase transparency.
- 3.4 Councils are required to detail significant issues about their governance arrangements. A significant governance issue for one council may not be significant for another. This will depend on an individual council's governance framework, how effectively it is operating and the extent to which the issue has the potential to prevent a council from achieving its strategic objectives.
- 3.5 My last two reports noted that in several instances councils had not given sufficient details of the issues they had highlighted as significant. I also found that only a few councils provided any details on the actions that they would take to address significant issues, despite guidance stating that they should provide *"an outline of the activities taken, or proposed, to deal with significant governance issues, including an agreed action plan."* This year's review found that most councils provided basic background detail on each issue and a brief outline as to how they were going to be tackled. However, one council provided no information relating to its significant issues and only one council made reference to an action plan.
- 3.6 A total of 110 significant governance issues were identified across all councils. Three councils did not highlight any current significant issues. This may be wholly reasonable, however, councils must be content that this reflects the results of a rigorous and robust management and review of their governance framework rather than a desire to avoid criticism.
-



Significant issues highlighted by councils in their governance statements

3.7 A wide and varied range of significant governance issues was highlighted by councils, most of which can be summarised under themes. The most common themes and their frequency are summarised in **Figure 11** below. A number of councils also highlighted matters raised by their Internal Auditor, however not all of these were easily classified due to the varying level of detail provided within their annual governance statements.

Figure 11: Governance issue themes

| Theme | Number of Councils |
|-----------------------------|--------------------|
| Local Government Reform | 20 |
| Waste Management | 11 |
| Procurement | 8 |
| Funding/Financial pressures | 7 |
| Absenteeism | 5 |
| Capital Programmes/Projects | 4 |

Source: *Council Annual Audit Letters*

3.8 The following two case studies highlight two of the most significant issues arising in my review of the annual governance statements.

Case Study 1- Fatality at a civic amenity site

In October 2013, Coleraine Borough Council was convicted of three offences under the Health and Safety at Work (NI) Order 1978 following the death of a council employee at one of the Council's civic amenity sites in 2011. The written judgement in the case made a number of recommendations which could result in an improved level of health and safety for staff and customers. Since October 2013, discussions have been ongoing with the Health and Safety Executive for Northern Ireland to consider the implications of the judgement in this case, not only in relation to the Council but how the entire local government sector in Northern Ireland should respond. In December 2013 the Council tendered for an independent audit of the current health and safety management systems in place throughout the Council.

Source: *Coleraine Borough Council Annual Governance Statement (adapted)*

Part Three: Good Governance

Case Study 2 - Waste management facility contract

Since 2009, my predecessor and I have made a number of significant observations and recommendations to Fermanagh District Council relating to its management of a waste management facility construction contract and the governance framework around it which has led to prolonged legal proceedings, including arbitration. Last year I indicated that I would continue to monitor the developments with the arbitration process, including the final outcome, and may report on this matter at a later date.

Following contract adjudication and subsequent court judgement the council paid £2.2 million above the original contract cost. It also incurred additional costs of £718,619 (£455,976 interest and £262,643 fees). Court costs relating to a hearing in June 2014 have yet to be determined. The council has advised me it has fully evaluated this project but I have not been provided with a post project evaluation report in line with good practice in the public sector.

The council has also advised me that, having taken further independent legal advice, it is now taking steps against its specialist contract advisors with a view to recovering its losses. I will not be making any further comments or recommendations at this stage but I will continue to monitor and may report later.

Source: Fermanagh District Council Annual Audit Letter (summary)

Proper arrangements to ensure economy, efficiency and effectiveness

- 3.9 The Local Government (Northern Ireland) Order 2005 requires me to be satisfied each year that proper arrangements have been made for securing economy, efficiency and effectiveness (value for money) in the use of resources.
- 3.10 Based on my risk assessment of each council I review the relevant areas from the ten areas outlined in my Code of Audit Practice, see **Figure 12**, to determine if these arrangements are in place.



Figure 12: the Code of Audit Practice outlines ten arrangements for securing Value for Money

| Ten arrangements for securing Value for Money | |
|---|---|
| 1. | Financial Planning - Planning finances effectively to deliver strategic priorities and secure sound financial health. |
| 2. | Financial Performance - Having a sound understanding of costs and performance and achieving efficiencies in activities. |
| 3. | Financial Reporting - Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people. |
| 4. | Procurement - Commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money. |
| 5. | Data to support decision making and manage performance - Producing relevant and reliable data and information to support decision making and manage performance. |
| 6. | Good governance - Promoting and demonstrating the principles and values of good governance. |
| 7. | Risk - Managing risks and maintaining a sound system of internal control. |
| 8. | Natural Resources - Making effective use of natural resources. |
| 9. | Asset Management - Managing assets effectively to help deliver strategic priorities and service needs. |
| 10. | Workforce Management - Planning, organising and developing the workforce effectively to support the achievement of strategic priorities. |

Source: Code of Audit Practice 2011

- 3.11 I was satisfied that 25 councils had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources for the 2013-14 financial year. This is an improvement on the prior year when, in my opinion, two councils did not have proper arrangements in place. I am pleased to note that Carrickfergus had been able to demonstrate that they had proper arrangements in place. However, I was still not satisfied that Larne had sufficient proper arrangements in place. My concerns related to matters of asset management, financial planning and reporting, procurement, risk and workforce management.
- 3.12 My recommendations have been discussed with council officers and I welcome their comments. The matters have also been discussed at the audit committee and a willingness was shown to develop and improve the processes, procedures and understanding of officers and members. I encourage the new Mid and East Antrim Council to fully consider and implement the recommendations I have detailed in my report.

Part Three: Good Governance

- 3.13 With the introduction of my new performance audits and assessments as part of the local government reform programme from 2016, there will be a legislative overlap with regard to some aspects of this work. I will therefore endeavour to manage this work as efficiently as possible.

Audit committees

- 3.14 The main purpose of an audit committee is to give independent assurance to elected members and the public about the governance, financial reporting and performance of a council. It also scrutinises the council's financial management and reporting arrangements and provides an independent challenge to the council.

Strengthening the role of an audit committee

- 3.15 In 2014 I reported on the ongoing progress councils had made in strengthening the role of audit committees. I highlighted that the appointment of independent members to an audit committee was one means of strengthening its independence and widening the range of specialist skills. Despite my ongoing encouragement of these benefits, there were still eight audit committees without any independent members for the 2013-14 financial year. In my view it is imperative that the new councils have independent members on their audit committees.
- 3.16 I had previously recommended that constituting an audit committee as a full committee reporting directly to the council was a means of enhancing its objectivity and independence. My latest review of the councils' annual governance statements found that audit committees in a small number of councils are still not operating as a full committee.

Arrangements for the review of effectiveness of the system of internal audit

- 3.17 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 require councils to maintain an adequate and effective system of internal audit and to conduct a review of the effectiveness of their system of internal audit at least once a year. This review should form a key part of a council's assurance that its system is operating effectively.
- 3.18 I am encouraged that all but two councils conducted the required annual review during the year, which is a significant improvement on the previous year.
- 3.19 I recommend that all councils continue to undertake this annual review and that the eleven new councils adhere to best practice in their audit committees.



Conflicts of interest

- 3.20 Councils should have in place arrangements to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and should ensure that these arrangements operate effectively. The Northern Ireland Audit Office has recently published a good practice guide on conflicts of interest¹⁰.
- 3.21 From 2013-14 the Department of Finance and Personnel encouraged central government bodies to publish, within their governance statements, how any identified conflicts of interest and potential conflicts, were managed. As part of my local government audits for this year I encouraged similar good practice. No conflicts were reported within governance statements.

Code of Conduct

- 3.22 The Local Government Act (Northern Ireland) 2014 contains a number of provisions for the reform of local government. These include a new ethical framework, a key element of which is the introduction of a mandatory Code of Conduct for Councillors.
- 3.23 The Code of Conduct is based on 12 principles of conduct which are intended to promote the highest standards of behaviour for councillors. These draw on the Nolan principles of public life as well as further principles adopted by the Northern Ireland Assembly and are listed at **Figure 13**.

Figure 13: Principles of Conduct

| | |
|----------------|----------------------------|
| Public Duty | Honesty |
| Selflessness | Leadership |
| Integrity | Equality |
| Objectivity | Promoting Good Relations |
| Accountability | Respect |
| Openness | Good Working Relationships |

Source: *The Northern Ireland Local Government Code of Conduct for Councillors, Department of the Environment, May 2014*

- 3.24 The Code of Conduct came into effect in May 2014. Each council had to establish and maintain a register of members' interests. A register for gifts and hospitality is required, along

¹⁰ 'Conflicts of Interest – A Good Practice Guide', NIAO, March 2015

Part Three: Good Governance

with procedures for dealing with declarations of interest. Further requirements, specifically addressing council members' obligations relating to planning matters, came into force on 1 April 2015.

- 3.25 It is the Northern Ireland Ombudsman's statutory responsibility, in his capacity as the Northern Ireland Commissioner for Complaints, for enforcing the Code of Conduct, including the investigation of, and adjudication on, alleged failure to comply with it. Where there are any resource implications arising from non-compliance of the Code, I may decide to report on this and in advance of this it is my intention to establish a Memorandum of Understanding with the Northern Ireland Ombudsman.

Statutory Transition Committee audits

- 3.26 A Statutory Transition Committee was formed for each of the eleven new council areas to ensure that each council would be ready to adopt its full range of powers and functions from 1 April 2015. These Committees existed during the period July 2013 to June 2014.
- 3.27 Each Committee was a statutory local government body and during the year I was responsible for auditing their financial statements, in accordance with the Local Government (Northern Ireland) Order 2005 and my Code of Audit Practice. I gave an unqualified opinion on all eleven 2013-14 financial statements.

Part Four: Theft, Fraud and Whistleblowing



| | | | | |
|------|------|------|-------|------|
| 493 | 535 | | | |
| 407 | 429 | | | |
| 86 | 10 | | | |
| 47 | | | | |
| 51 | | | | |
| 12 | 11 | | | |
| 39 | 61 | | | |
| 39 | 61 | 44 | | |
| 37 | 60 | 42 | 82 | |
| 7 | 17 | 24 | 20 | 13 |
| 30 | 43 | 18 | 61 | 47 |
| | | | | |
| | | | | |
| 6.0% | 8.0% | 3.2% | 11.4% | 7.8% |

Part Four: Theft, Fraud and Whistleblowing

- 4.1 This section highlights councils' responses to a number of frauds and whistleblowing incidents that have come to my attention during the year through voluntary disclosure and which have been disclosed in annual governance statements.
- 4.2 Unlike central government public bodies, which are required to report all cases of suspected and actual fraud to the Comptroller and Auditor General, there is no equivalent requirement for local government bodies to report such matters to me. However, as part of my audit planning process, I undertake a formal assessment of fraud and whistleblowing arrangements at each council. I am grateful to a number of councils who advised me of suspected frauds when they arose and I welcome that practice.

Theft and Fraud

- 4.3 It is important that all instances of suspected, attempted and actual fraud are reported. This will help identify novel or new types of fraud and the way they are perpetrated, enabling information to be shared with the wider public sector. Last year, I became aware of several instances of attempted bank mandate fraud against local government bodies, with a significant fraud perpetrated against Belfast City Council in July 2013. Due to the potential high value nature of this particular type of fraud, it is important that councils remain vigilant and learn lessons from the handling of such cases.
- 4.4 More common examples of suspected, attempted and actual frauds (including thefts) in councils during the year have included missing lodgements, stolen cash and equipment and attempted fraud perpetrated by persons outside the councils.
- 4.5 As well as councils noting what they consider to be significant suspected, attempted and actual frauds in their governance statements, I was encouraged by two councils, who, as a result of fraud and subsequent investigative work, have highlighted how they are managing their external fraud risk by strengthening controls, which should help reduce their susceptibility to fraud in the future (see **Case Studies 3, 4 & 5**).

Case Study 3 - Management of external fraud risk

A number of further attempts have been made to commit fraud, whereby external fraudsters have made false representations to councils regarding changes in bank details. During 2014-15, as well as further delivery of fraud awareness training, the Council's Audit, Governance and Risk Services Unit will be working with their Financial Services Unit to review the fraud risk action plan and associated controls to ensure that this risk is mitigated as much as possible.

Source: Belfast City Council – Annual Audit Letter 2013-2014 (extract)



Case Study 4 - Management of internal fraud risk

Following an earlier fraud, Craigavon Borough Council completed a governance review relating to its Environmental Services function, which focused on reporting and accountability arrangements. As well as identifying areas of good practice at a senior level, the review identified areas of governance which could be improved. A total of 24 recommendations were made which were actioned by designated staff.

Source: Craigavon Borough Council – Annual Audit Letter 2013- 2014 (summary)

Case Study 5 - Missing lodgements from a leisure services facility

During January and May 2013 an investigation into missing lodgements at a leisure facility was completed. The report raised serious concerns over the control of, and accountability over income and cash and concluded that the absence of a managerial presence on site between April and December 2012 undoubtedly contributed to the control weaknesses identified. Weaknesses in control resulted in lack of accountability for income and the opportunity to misappropriate income without immediate detection. Missing income for the period 26 August 2012 to 2 September 2012 (£1,931.94) was not discovered until the end of September 2012 and missing income for the period 25 October 2012 to 31 October 2012 (£657.00) was not discovered until December 2012. The Northern Ireland Audit Office and PSNI were informed of the missing income. A subsequent review of controls resulted in seven recommendations for immediate improvement. A disciplinary case is currently being carried out.

Source: Craigavon Borough Council Annual Audit Letter 2013- 2014 (extract)

- 4.6 It is widely accepted that the risk of fraud increases significantly during times of organisational change. In light of the extensive changes associated with the reform of local government, it is particularly important that councils continue to review their policies and procedures to prevent and detect fraud and ensure that controls are appropriate and operating effectively. Better prevention and detection of fraud and recovery of losses will also help reduce the ongoing financial pressures on councils.
- 4.7 I continue to strongly encourage the Department to consider the current structures in place to monitor frauds, gather and collate information and bring trends and lessons to the attention of the sector as a whole. I appreciate the actions of those councils who voluntarily bring suspected, attempted and actual frauds to my attention.

Part Four: Theft, Fraud and Whistleblowing

Whistleblowing

- 4.8 Whistleblowers have an important role to play in bringing information to light about matters of concern in relation to; the proper conduct of public business; fraud and corruption; and value for money. The proper and timely investigation of such matters is a vital component of good governance arrangements, which instils confidence that, where wrongdoing exists, those responsible are held to account, mistakes are remedied and lessons learnt.
- 4.9 All councils may receive whistleblowing concerns in line with their own policies. It is important that councils ensure they have procedures in place to deal quickly and robustly with concerns raised. Councils should also ensure that whistleblowers are supported and protected from any form of victimisation.
- 4.10 As the Local Government Auditor within the Northern Ireland Audit Office, I am a prescribed person to whom protected disclosures can be made under the Public Interest Disclosure (NI) Order 1998. In that capacity I receive a significant number of whistleblowing concerns relating to local government bodies (see **Figure 14**).

Figure 14: Whistleblowing concerns reported directly to the Local Government Auditor

| | 2012-13 | 2013-14 | 2014-2015 |
|--|---------|---------|-----------|
| Number of concerns reported directly to the Local Government Auditor | 22 | 21 | 21 |

Source: NIAO

- 4.11 In dealing with concerns, I will consider a range of possible actions, from discussing the issues raised with the audited body to carrying out a full audit investigation and including relevant comments in our audit reports.
- 4.12 During the year the four supreme audit agencies of the UK, including the Northern Ireland Audit Office, jointly issued a good practice guide on whistleblowing in the public sector¹¹. A key message in the guide is the need for a culture change in public sector organisations, from the top down. The agencies highlighted that:
- "Whistleblowing needs to be encouraged by employers as 'the right thing to do'. It is clear that there needs to be a cultural change throughout the public sector and a very clear message must come from the top of every organisation that senior management supports workers who raise genuine concerns and that all such concerns raised will be taken seriously and investigated appropriately."*
- 4.13 I encourage all of the 11 new councils to follow the guidance outlined in the good practice guide.

¹¹ 'Whistleblowing in the Public Sector: A good practice guide for workers and employers', NIAO, November 2014.



National Fraud Initiative

- 4.14 The National Fraud Initiative (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.
- 4.15 The Comptroller and Auditor General for Northern Ireland published a report on the outcome of the third NFI exercise in Northern Ireland in June 2014¹². A copy of the report is available on the Northern Ireland Audit Office's website.
- 4.16 Councils continue to participate, with the fourth round of the exercise currently underway. Matches were released in January 2015 for review and investigation. A total of almost 15,500 matches, 1,500 of which are recommended for particular attention, have been forwarded to councils and they are expected to have completed any investigation work by January 2016. Outcomes will be reported on by the Comptroller and Auditor General in June 2016. An example of an investigated data match is shown in Case Study 6.

Case Study 6 - National Fraud Initiative match

The third National Fraud Initiative data matching exercise (2012-13) produced 505 matches in relation to one council. It highlighted a number of payroll issues and the council undertook an investigation, raising one issue which substantiated a whistleblowing claim that an employee was double-jobbing. The NFI identified a weakness in that contracts of employment did not require council approval for second jobs.

Source: Newry and Mourne District Council – Annual Audit Letter (summary)

- 4.17 The NFI provides the councils with valuable management information which they would not otherwise have access to. To get the best out of the exercise, it is essential that councils review their matches using a risk based approach so that investigative resources can be applied in the most effective way. They should also maximise the deterrent effect of the NFI by publicising their participation in it and their successful results.

Part Five:
General Matters



| | | | | | |
|--|------|------|------|-------|------|
| | 493 | 535 | | | |
| | 407 | 429 | | | |
| | 86 | 10 | | | |
| | 47 | | | | |
| | 51 | | | | |
| | 12 | 11 | | | |
| | 39 | 61 | | | |
| | 39 | 61 | 44 | | |
| | 37 | 60 | 42 | 82 | |
| | 7 | 17 | 24 | 20 | 13 |
| | 30 | 43 | 18 | 61 | 47 |
| | | | | | |
| | 6.0% | 8.0% | 3.2% | 11.4% | 7.8% |

Part Five: General Matters

- 5.1 Following the conclusion of the audit of council accounts, I provide each council with an annual audit letter and a report to those charged with governance. These detail the results of my audits and the actions agreed by management to address the issues raised.
- 5.2 A council is required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 to publish the annual audit letter *"as soon as reasonably possible after [it] has received an annual audit letter from the local government auditor"*. Whilst councils normally satisfy this legislative requirement by making the document available on their websites, I would remind all councils of the need to ensure this is completed in a timely manner. From the 1 April 2015-16 new regulations have strengthened this requirement¹³.
- 5.3 In my previous reports, I identified a number of common themes brought to my attention during the audits of councils, for example procurement and contract management. These common themes are now disclosed by councils within the annual governance statement (see paragraphs 3.7 – 3.8).
- 5.4 My focus in this section is to highlight other common themes which may not necessarily be regarded by individual councils as significant, but which I believe, in totality, deserve attention. These are:
- single status;
 - prompt payment; and
 - absenteeism.

Single status

- 5.5 The Single Status Agreement is a UK national agreement on pay and conditions signed in 1997 between local government employers and trade unions. The aim is to ensure equal pay for work of equal value, regardless of gender and to harmonise pay and terms and conditions between manual and non-manual workers by 2007.
- 5.6 My understanding of the current position in respect of the implementation of Single Status Agreement is that:
- Single status has been adopted and related liabilities have been paid by 19 councils at 31 March 2015. This compares with 18 councils at 31 March 2014.
 - While the other seven councils have all now made single status payments, some liabilities remain as of 31 March 2015, including appeals for which negotiations are on-going.

¹³ The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, regulation 17



5.7 With the 26 outgoing councils replaced by the 11 new councils on 1 April 2015, some councils have inherited the outstanding liabilities. In my view, it is important that the new councils should act quickly to ensure that these are resolved in full at the earliest opportunity.

Prompt payment

5.8 As a result of UK and EU legislation, all public bodies are required to pay suppliers for goods or services received within 30 days of receiving an undisputed invoice. Paying within this timeframe is regarded as 'prompt payment'. This section compares prompt payment performance in Northern Ireland councils with that of central government bodies¹⁴. This is a subject that I have monitored and reported on for a number of years.

5.9 In 2013-14 councils processed nearly 325,000 invoices, representing an increase of around 10 per cent on the number of invoices processed in 2012-13. Overall, 16 councils reported improvements in paying valid invoices within the 30 day and 10 day targets (accepted benchmarks set by legislation and the Department¹⁵, see **Figures 15 and 16**). However, with an average of 42 per cent of all invoices being paid within 10 working days, and 81 per cent within 30 working days, performance continues to fall short of central government bodies.

5.10 Although I still intend to report on prompt payment in my next report (which will be my last report relating to the outgoing 26 councils), looking forward, my attention will focus on the new councils. It is my opinion that they should strive to build on the improvements of the old councils and aim to match the performance of central government.

Figure 15: Comparison of 30 day payment performance against central government bodies

| Sector | 2012-13 Sector Average % | 2013-14 Sector Average % | Movement % |
|--------------------|--------------------------|--------------------------|------------|
| Central government | 97 | 97 | – |
| Councils | 81 | 81 | – |

Source: Department of the Environment and Account NI data (unaudited)

14 The central government bodies include the 12 Northern Ireland Civil Service departments and 18 other bodies, including 12 agencies, 5 arms length bodies, and 1 non-ministerial government department.

15 European Union Directive on Combating Late Payment in Commercial Transactions (EU Directive 2011/7/EU), Department of the Environment circular LG 17/12.

Part Five: General Matters

Figure 16: Comparison of 10 day payment performance against central government bodies

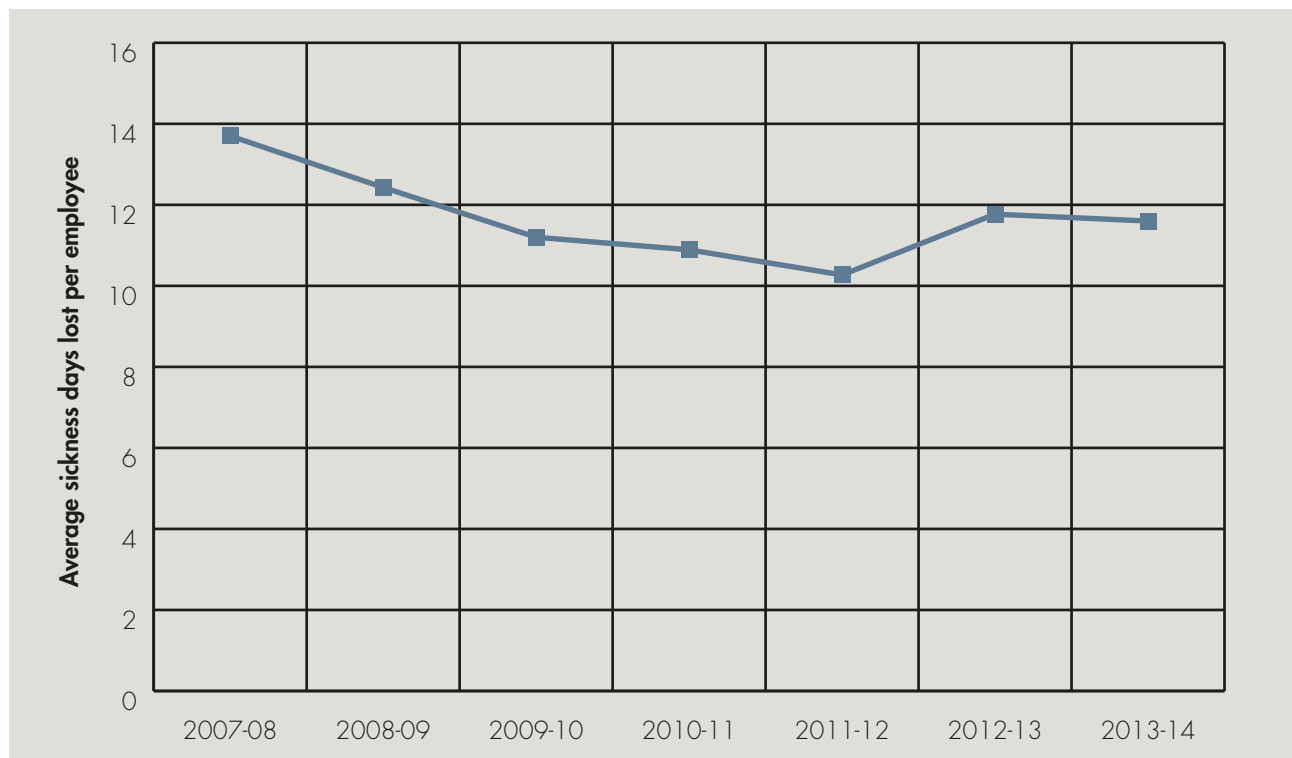
| Sector | 2012-13 Sector Average % | 2013-14 Sector Average % | Movement % |
|--------------------|-----------------------------|-----------------------------|---------------|
| Central government | 90 | 89 | -1 |
| Councils | 37 | 42 | +5 |

Source: Department of the Environment and Account NI data (unaudited)

Absenteeism

- 5.11 I am pleased to report that 2013- 2014 saw a small fall in absenteeism from 2012-13, resulting in an increase in productivity.
- 5.12 The average sickness absence rate in 2013-14 was 11.63 days a year compared with 11.76 days the previous year (see **Figure 17**), a marginal decrease of just over 1 per cent per employee. The days lost per employee range from 15.88 in Ballymoney to 5.91 in Fermanagh.

Figure 17: Sickness absence trend 2007-08 to 2013-14



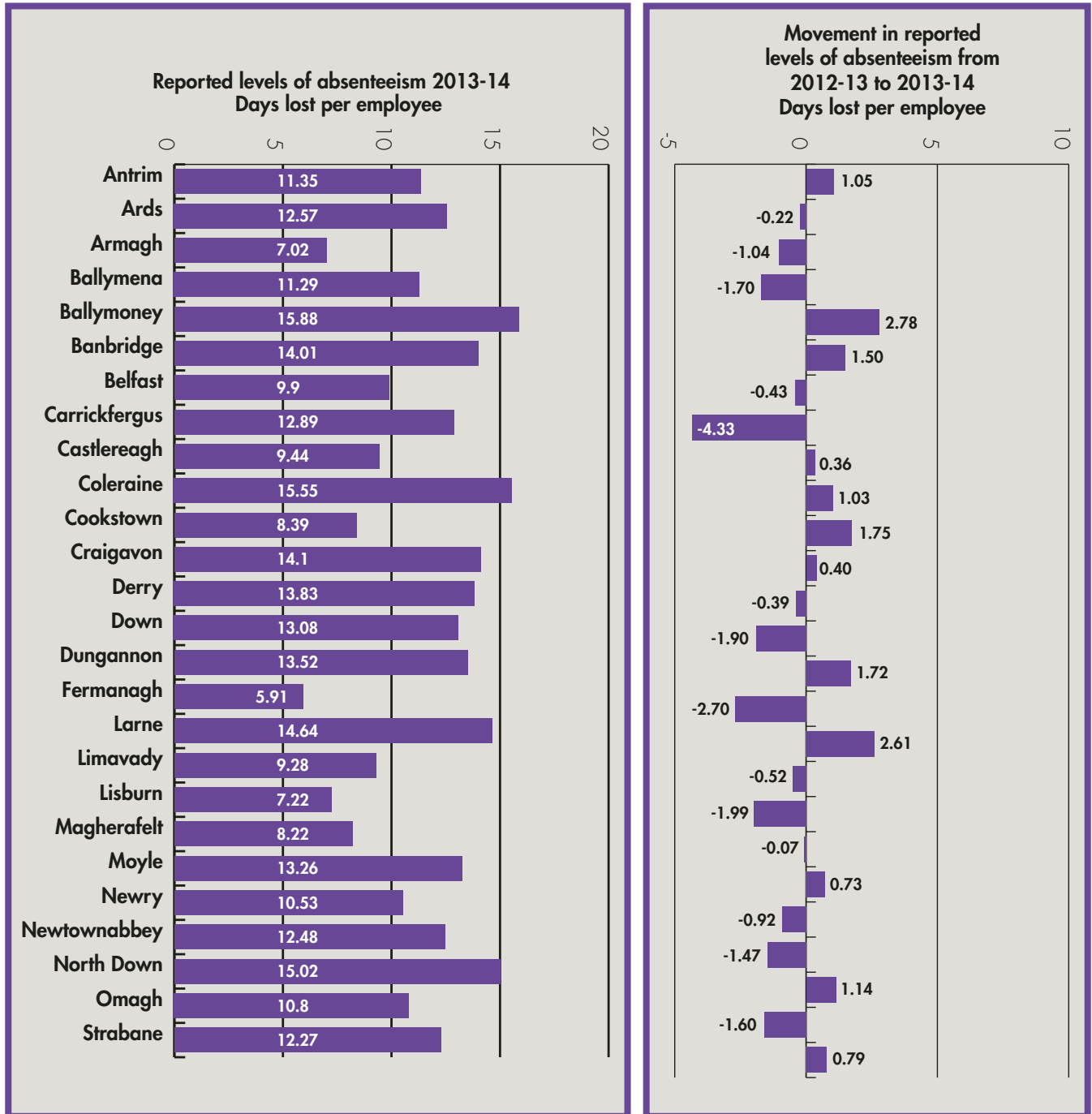
Source: Northern Ireland Council data (unaudited)



- 5.13 My annual audit letters for 2013-14 contained an unaudited summary of the results of each council's absenteeism statistics for the year, alongside trends over a six year period. I have summarised the results in **Figure 18**. Levels of absenteeism have decreased, with 14 of the 26 councils reporting improved performance from 2012-13.
- 5.14 Two councils reported an increase in absence rates of more than 2.5 days per employee. Of these, Ballymoney had the biggest increase of 2.78 days per employee. The greatest decrease was in Carrickfergus, where the absenteeism rate fell significantly by 4.33 days per employee.
- 5.15 Most of the councils provided a reason for the variance in sickness absence rate, for example:
- Seven of the twelve councils experiencing a rise in absence rates indicated that this was due to an increase in long term absence; and
 - Seven of the fourteen councils reporting a decrease in absence rates attributed this to proactive management of sickness absence.
- 5.16 It is encouraging to see that the break, in 2012-13, of the downward trend in sickness absence rates has reversed to some degree and that the number of councils reporting an increase in sickness absence rates has reduced. Of particular note is the improvement made by Carrickfergus.
- 5.17 It is likely that the new council structure, combined with reduced funding from central government, will bring about a period of uncertainty for councils and their staff. Therefore, it is important that councils rigorously manage absence to ensure that staff welfare is protected and that the delivery of front line services is not adversely affected.
- 5.18 I will continue to monitor on absenteeism data, both as part of the final audits of the old 26 councils in next year's report and on the new 11 councils after that.

Part Five: General Matters

Figure 18: Absenteeism in Northern Ireland Councils 2013-14, compared with 2012-13



Source: Northern Ireland Councils data (unaudited)



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