

REPORT BY THE CHIEF LOCAL GOVERNMENT AUDITOR
23 June 2010





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

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

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Chief Local Government Auditor
23 June 2010



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Abbreviations

aasbni	www.aasdni.gov.uk is the website of the Accountability and Accountancy Services Division (AASD). AASD is a division of the Department of Finance and Personnel (Northern Ireland Civil Service).	ICT	Information and Communications Technology
		LAAP	Local Authority Advisory Panel
		LPS	Land and Property Services
AAL	Annual Audit Letter	NFI	National Fraud Initiative
arc21	11 councils had joined together to form the Eastern Region Waste Management Group, which was eventually renamed arc21.	NIAO	Northern Ireland Audit Office
		NIHE	Northern Ireland Housing Executive
BMW	Biodegradable Municipal Waste	NILAS	Northern Ireland Landfill Allowance Scheme
C&AG	Comptroller and Auditor General	NILGA	Northern Ireland Local Government Association
CCTV	Closed Circuit Television	NIPB	Northern Ireland Policing Board
CIPFA/LASAAC	Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee	OE	Operating Expenditure
		OJEU	Official Journal European Union
CIPFA/SOLACE	Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives	PAC	Public Accounts Committee
		PSNI	Police Service Northern Ireland
CLGA	Chief Local Government Auditor	PWC	PriceWaterhouseCoopers
DETI	Department of Enterprise, Trade and Investment	RPA	Review of Public Administration
DF	District Fund	Section 115	Section 115 Local Government Act (NI) 1972
DFP	Department of Finance and Personnel	SLA	Service Level Agreement
DoE	Department of the Environment	SORP	Statement of Recommended Practice
FRAB	Financial Reporting and Advisory Body	SWaMP2008	Southern Waste Management Partnership
FSA	Financial Services Authority	TOIL	Time Off In Lieu
IFRS	International Financial Reporting Standards	VAT	Value Added Tax
IT	Information Technology	WDA	Waste Disposal Authority



Introduction

1. Statutory Framework

- 1.1 The Audit and Accountability (Northern Ireland) Order 2003 established arrangements for the transfer of local government audit staff from the Department of the Environment (DoE) to the Northern Ireland Audit Office (NIAO).
- 1.2 In July 2005 the DoE introduced the Local Government (Northern Ireland) Order 2005 which brought a number of changes to 'the principal Act', the Local Government Act (Northern Ireland) 1972. The Order provides that:
 - the DoE, with the consent of the Comptroller and Auditor General for Northern Ireland (C&AG), may designate persons who are members of staff of the NIAO as local government auditors - Article 4(1); and
 - the DoE may also designate a local government auditor as chief local government auditor - Article 4(3)
- 1.3 The Chief Local Government Auditor (CLGA) is empowered to:
 - prepare and keep under review a code of audit practice prescribing the way in which auditors are to carry out their functions - Article (5);
 - prepare, annually, a report on the exercise by local government auditors of their functions - Article 4(4);
 - make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Northern Ireland department or public authority - Article 25; and
 - undertake comparative and other studies designed to enable him to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies - Article 26.

- 1.4 This report is the fourth to be prepared under Article 4(4) of the Local Government (Northern Ireland) Order 2005.

2. Main Aim of the Report

- 2.1 While the main aim of this report is to provide key messages from audits performed during the past year, it also highlights a number of important issues that will impact on councils in the future. The accounts under audit during the year were mainly the financial statements for the year to 31 March 2009.
- 2.2 Elected members and officers should review this report and identify how their council is dealing with the issues raised and where rectification or other action may be required.

3. The Role of Local Government

- 3.1 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.
- 3.2 Local Government in Northern Ireland comprises 26 district councils and a number of joint committees. Local government auditors are responsible for the audit of these bodies, the Local Government Staff Commission, and the Northern Ireland Local Government Officers' Superannuation Committee.
- 3.3 Councils vary widely in size, with populations ranging from about 16,000 in Moyle to over 260,000 in Belfast. Taken together they spend over £750 million and employ over 9,700 full-time equivalent staff. Council services fall under the two broad headings of Leisure & Recreational Services and Environmental Services. Councils also undertake regulatory activities such as Building Control and Environmental Health.

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- 3.4 The Best Value (Northern Ireland) Act 2002 placed a duty on councils to make arrangements for continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Local Government Companies (Best Value) Order (Northern Ireland) 2006 provided for a council to “establish or participate in companies in order to carry out its duty” under section 1(1) of the 2002 Act.
- 3.5 Following the Review of Public Administration (RPA) a decision was announced to move to an eleven council model in 2011 (see also 13.3).



General Issues

4 Management of Resources

Net revenue expenditure

- 4.1 The 26 district councils had net revenue expenditure of £480 million in the year to 31 March 2009 and a decrease of £7 million in District Fund reserves financed as follows:

	£m
General Grant from DoE	46
Rates	427
Total	473

- 4.2 The net revenue spending equates to £272 per head of population in Northern Ireland (£269 in 2007-08).

- 4.3 In preparing their estimates councils planned net revenue expenditure as follows

Year to	31 March 2007	427.6m	
	31 March 2008	458.0m	+7.1%
	31 March 2009	489.3m	+6.8%
	31 March 2010	508.6m	+3.9%
	31 March 2011	530.4m	+4.2%

Assets and liabilities

- 4.4 At 31 March 2009, councils had

- collective long term assets valued at £2,168 million;
- long term loans outstanding of £383 million;
- current assets of £247 million;
- current liabilities of £183 million; and
- cash-backed reserves, mostly Capital Funds and Renewal & Repair Funds, totalling £74 million.

- 4.5 The total loans outstanding of £411 million (including £28 million for loans due for repayment within 12 months) are shown by council in Table 1. These loans, expressed 'per head of population', average £234 per head of population and range from Moyle District Council at £528 to Magherafelt District Council at nil, as this Council has no loan debt.

Table 1:
Council Loan position at 31 March 2008

Council	£m	Population	£ Per Head
Antrim	21.7	52,621	412
Ards	14.5	77,117	187
Armagh	26.1	57,685	452
Ballymena	29.1	62,118	468
Ballymoney	9.2	29,741	308
Banbridge	17.4	46,449	375
Belfast	20.6*	267,535	77
Carrickfergus	20.3	40,026	507
Castlereagh	19.7	65,562	300
Coleraine	32.2	56,815	567
Cookstown	1.7	35,429	47
Craigavon	8.2	88,820	92
Derry	24.1	108,535	222
Down	14.7	69,188	212
Dungannon	4.3	54,306	80
Fermanagh	2.4	61,291	39
Larne	8.8	31,344	279
Limavady	10.0	34,428	291
Lisburn	20.0	113,520	176
Magherafelt	0.0	43,099	0
Moyle	8.8	16,740	528
Newry and Mourne	21.7	95,494	227
Newtownabbey	35.8	81,690	438
North Down	27.0	78,657	343
Omagh	10.3	51,508	201
Strabane	2.5	39,430	63
Total	410.9	1,759,148	234

*mostly (£18m) in respect of Housing loans recoverable from NIHE.
A number of other councils also have similar loans in their systems.

Level of reserves in the run up to the implementation of RPA

- 4.6 At 31 March 2009 a number of councils had significant District Fund balances. Balances for all 26 councils totalling £49 million are shown in Table 2. The Table also shows the level of reserves in Capital Funds and Renewal and Repair Funds. As I indicated last year each council should continue to give careful consideration to the level of reserves held as it plans

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its expenditure in the run up to the implementation of RPA. Consideration should also be given to any unfunded elements of capital expenditure.

- 4.7 On 9 December 2009 the DoE issued circular LG20/09 providing guidance on financing of council expenditure. This was aimed at assisting councils in the preparation of their estimates and budgets for

2010-11 as the last full financial year of the existing structure before reorganisation.

- 4.8 It should be noted that, as some councils have incurred capital expenditure not yet financed by loan and contributions from District Fund balances may still have to be made, the District fund balances could be artificially high.

Table 2
Balances in Council Accounts at 31 March 2009

Council	Population	Net Operating Expenditure £m	District Fund		District Fund Balance (DF) £m	% DF of OE £m	Balance Sheet	
			*Proper Practices Adjustment £m	Adjusted Net Operating Expenditure OE £m			Capital & Renewal & Repair Funds £m	Other Balances & Reserves £m
Antrim	52,621	15.0	0.1	14.9	0.9	5.9	0.1	1.2
Ards	77,117	9.9	-6.3	16.2	1.7	10.8	2.6	0.0
Armagh	57,685	15.5	1.4	14.1	3.2	22.3	0.0	0.1
Ballymena	62,118	18.1	1.0	17.1	2.2	12.8	1.8	1.0
Ballymoney	29,741	8.2	1.4	6.8	0.2	3.0	1.1	0.0
Banbridge	46,449	12.5	1.1	11.3	2.2	19.6	0.4	0.0
Belfast	267,535	141.1	29.1	112.0	5.3	4.8	11.8	0.5
Carrickfergus	40,026	15.8	5.9	9.8	1.0	10.1	0.3	0.0
Castlereagh	65,562	13.8	0.0	13.8	2.2	16.2	2.4	0.1
Coleraine	56,815	18.6	2.5	16.1	0.5	3.4	0.6	0.0
Cookstown	35,429	9.5	1.1	8.4	2.4	28.5	0.7	0.0
Craigavon	88,820	29.7	3.9	25.9	3.1	11.8	1.6	0.0
Derry	108,535	38.2	6.3	31.9	2.3	7.1	23.5	0.2
Down	69,188	20.6	4.4	16.2	3.4	21.0	4.8	0.1
Dungannon	54,306	12.2	0.5	11.8	1.2	10.5	0.1	3.5
Fermanagh	61,291	12.5	0.5	11.9	1.1	9.6	0.8	0.0
Larne	31,344	13.5	4.3	9.2	1.5	16.0	0.0	0.0
Limavady	34,428	10.2	2.1	8.0	0.5	6.5	2.9	0.0
Lisburn	113,520	25.1	-1.1	26.1	3.5	13.6	2.3	0.3
Magherafelt	43,099	11.5	4.1	7.4	0.6	8.1	3.8	0.0
Moyle	16,740	8.0	3.2	4.8	1.2	25.7	0.0	0.0
Newry and Mourne	95,494	31.2	8.2	23.0	0.5	2.2	0.5	0.0
Newtownabbey	81,690	55.9	33.1	22.8	4.1	18.0	0.0	0.0
North Down	78,657	23.7	5.2	18.5	2.0	10.7	3.3	0.4
Omagh	51,508	13.7	0.9	12.9	1.4	10.7	0.0	0.0
Strabane	39,430	8.9	0.2	8.7	0.9	10.6	1.4	0.0
Totals	1,759,148	592.9	113.1	479.6	49.1	10.3	66.8	7.4

*The 'proper practices' adjustment largely relates to capital expenditure entries which adjust the UK Gaap based accounts to actual monies required to resource the council, hence depreciation is reversed out and fixed asset funding entries are included e.g. revenue contributions to capital and capital loan repayments.



5. Financial Statements

- 5.1 Councils are required to prepare their accounts in a form outlined by the DoE under an Accounts Direction. In preparing the Direction the DoE consults with local government practitioners and local government auditors. Central to the Accounts Direction is a requirement for councils to comply with the Code of Practice on Local Authority Accounting in the United Kingdom – the Local Government Statement of Recommended Practice (SORP) issued by CIPFA/LASAAC for all councils and the Best Value Accounting Code of Practice. Subject to complying with the directed layout for the accounts, councils are free to expand the supporting notes by way of explaining the detail for the benefit of interested electors and ratepayers.
- 5.2 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 require local government bodies to publish their statements of accounts together with any certificate, opinion, or report issued by the local government auditor, before 31 October, immediately following the end of the financial year. Where no such opinion has been given, publication of the statement of accounts should proceed together with a declaration and explanation that the local government auditor has given no such opinion (Regulation 6).
- 5.3 At 31 October 2009 the statement of accounts for 25 of the 26 councils (all 26 at 31 October 2008) had been certified and published with the auditor's opinion. The accounts of Ballymoney Borough Council were outstanding due to the need to finalise the position on the funding of landfill costs and capital expenditure. (These accounts have since been certified).
- 5.4 Strabane District Council instructed the District Valuer to revalue the council's land and buildings at 1 April 2008 for the 2008-09 accounts. For a number of reasons, this valuation was not completed in time for the revaluation to be incorporated into the accounts. Consequently, the Council was not in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 requirement to revalue properties every five years and the audit opinion was qualified accordingly.
- 5.5 The 2009-10 financial statements currently being prepared by local government bodies will be the last under the present SORP. The SORP will be replaced by International Financial Reporting Standards (IFRS) code of practice on local authority accounting for the 2010-11 financial statements. As part of the move to IFRS based accounts the 2009-10 accounts will, later in 2010, have to be restated on to an IFRS basis and thus provide comparative figures for the 2010-11 Balance Sheet. The move to IFRS financial statements applies to other local government bodies throughout the UK currently operating under the SORP.
- 5.6 A significant change under IFRS will require fuller disclosure with regard to the accounting and reporting of a local government body's participation in the Northern Ireland Local Government Officers' Pension Committee's pension scheme. Each council's financial statements will have to disclose its share of any deficit or surplus that the scheme has from year to year.

6. Code of Audit Practice

- 6.1 The Local Government (Northern Ireland) Order 2005 introduced a requirement for the CLGA to prepare and review a Code of Audit Practice (the Code). The Code is to embody best professional practice with respect to the standards, procedures and techniques to be adopted by auditors.
- 6.2 Following consultation with interested parties the Code was laid in the Assembly on 28 March 2006 (NIA 290/03) and is available on the NIAO website (www.niauditoffice.gov.uk).
- 6.3 The Code must be approved by the Assembly every five years. In the intervening period the CLGA may update the Code where this is thought to be necessary. To date no such updates have been made.

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7 Financial Management Arrangements

- 7.1 The Local Government (Northern Ireland) Order 2005 established specific duties for local government auditors in examining accounts. In addition to ensuring that accounts have been properly prepared and reflect all statutory requirements, the local government auditor must ensure that the local government body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We refer to this as a Financial Management Arrangements review.
- 7.2 To help meet this requirement we ask local government bodies to complete an annual questionnaire covering the key issues of perceived good financial management within local government. Responses to the 2008-09 questionnaire have been used by local government auditors to raise issues of concern when finalising the audit of accounts. In most cases the questionnaire covers the matters included by the local government body in the previous year's Governance Statement. The early completion for 2009-10 assists local government bodies to consider key issues for the Governance Statement to be included in the 2009-10 accounts.
- 7.3 For 2009-10 the questionnaire included a section on Transition Committees. Responses received outlined that Transition Committees had been established for each of the eleven post-RPA councils.

8. Corporate Governance

Additional responsibilities

- 8.1 The Local Government (Accounts and Audit) (Amendment) Regulations 2006 placed additional corporate governance responsibilities on local government bodies from April 2007. These included formal requirements for local government bodies to:
- *ensure they have a sound system of internal control which facilitates the effective exercise of functions*

including arrangements for the management of risk. The system of internal control is to be reviewed at least annually; considered by the local government body or by a committee; and the review must include approving a Statement of Internal Control. In February 2008, the DoE (noting the development in England of the CIPFA/SOLACE guidance "Delivering Good Governance in Local Government") amended its Accounts Direction to require councils to move to a Governance Statement which satisfies Regulation 2A of the Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006, which requires authorities to prepare a statement of internal control in accordance with "proper practices"; and

- *maintain an adequate and effective system of internal audit of its accounting records and systems of internal control.* The effectiveness of internal audit is to be considered at least annually by the local government body as part of its review of the system of internal control.

- 8.2 In preparing their 2008-09 financial statements most councils continued to develop their corporate governance arrangements and disclose this progress accurately in their Governance Statement. In two cases we have identified corporate governance issues for inclusion in our reports on the 2009-10 accounts.

- 8.3 In reviewing the Governance Statement, where local government auditors found significant examples of governance weaknesses these were included in the 2008-09 audit report or annual audit letter to the relevant local government body.

Importance of an audit committee

- 8.4 A properly trained audit committee has a crucial role to play in the corporate governance process including:
- monitoring and reviewing both the risk control and governance processes, including the



effectiveness of risk management and control environment;

- providing constructive challenge;
- seeking assurances that actions are being taken on risk– based issues identified by auditors;
- approving internal audit's strategy and determining the accuracy of the Governance Statement in the annual accounts; and
- considering the reports of external and internal audit, including the latter's annual report.

8.5 Although there is no requirement for councils to establish Audit Committees, 24 out of the 26 councils now have one in place. These appear to be working well as a way of reviewing the effectiveness of current corporate governance arrangements. Only Lisburn City Council and Magherafelt District Council have yet to establish one.

8.6 A positive development with some Audit Committees over recent years has been the inclusion of external members with appropriate financial/management acumen. It is our view that all Audit Committees would benefit from the independent perspective that external members bring. A continuing concern is that Audit Committees have occasionally not had the required number of members to meet the quorum necessary for a meeting.

8.7 Useful references in relation to this topic are *Audit Committees: Practical Guidance for Local Authorities* (CIPFA, 2005); and *Code of Practice for Internal Audit in local government in the UK* (CIPFA 2006).

8.8 The Audit Committee Practical Guidance for Local Authorities includes a self assessment checklist for Audit Committees. Some councils have completed this checklist and we would encourage others to do so. Having established an Audit Committee it is important to ensure it is operating as effectively as possible.

9. Fraud

National Fraud Initiative (NFI) in Northern Ireland: Data Matching Exercise

9.1 The C&AG has statutory powers to conduct data matching exercises for the purpose of assisting in the prevention and detection of fraud. The new powers are contained in the Serious Crime Act 2007, which adds Articles 4A to 4H to the Audit and Accountability (Northern Ireland) Order 2003 and extends to local government bodies.

9.2 Data matching involves comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body. This allows potentially fraudulent claims and payments to be identified. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found it indicates that there is an inconsistency that requires further investigation.

9.3 Under the legislation, the C&AG:

- may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud, as part of an audit or otherwise;
- may require certain bodies, including local government bodies, to provide data for a data matching exercise; and
- must prepare a Code of Data Matching Practice, on which he must consult with the Information Commissioner, bodies subject to mandatory participation and such other bodies or persons as he thinks fit. The Code is available on NIAO's website (www.niauditoffice.gov.uk).

9.4 The first exercise under these new powers commenced during October 2008, and the matches were passed to participants from February 2009 onwards for investigation. It is important that local

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government bodies follow up on identified matches and report progress on the NFI database.

- 9.5 It is planned that the C&AG will publish a report this summer on the outworking of the NFI, which will incorporate outcomes arising from the matches of data, including those provided by councils.
- 9.6 From discussions with colleagues working on the NFI returns it is anticipated that there will be findings relevant to councils.

Improving anti fraud measures

- 9.7 Last year I drew attention to the Department of Finance and Personnel (DFP) having commissioned an Anti Fraud Measures Questionnaire issued to all departments, agencies, non departmental public bodies and other sponsored bodies, including the district councils and health trusts.
- 9.8 In total, 110 public sector organisations provided returns. A summary of the key findings was attached to my report last year and I would encourage councils to continue to bear these in mind.
- 9.9 In August 2008, DFP drew attention to a Good Practice Guide – Tackling External Fraud which had been jointly produced by the National Audit Office and HM Treasury. The guide is available on the Accountability and Accountancy Services Division website at www.aasdni.gov.uk.
- 9.10 During the year I became aware of an investigation of suspected fraud on grant funding for the installation of renewable energy boilers which was processed through Craigavon Borough Council. The C&AG has included the matter in a general report to be published this month and refers to it as follows:

“The Department of Enterprise, Trade and Investment (DETI), with Craigavon Borough Council (CBC) as lead partner, paid grants to projects to install renewable energy boilers in CBC’s area and five partner organisations located throughout Ireland. DETI offered funding up to €382,500 in 2004 for the project. The installation of the boilers was

largely completed between 2004 and 2005. DETI and CBC are investigating suspected fraud in tenders for the installation of the boilers. This suspicion arose following checks by funders. The value of public funds at risk is estimated by DETI as £202,576. CBC has notified the police of the suspected fraud.

DETI is currently considering alleged breaches of its Letter of Offer and the scope to recover the funds at risk.

I will keep the progress of this investigation under close review and intend to report on it at a later date.”

- 9.11 We are also aware that a number of councils have dismissed staff for fraudulent/inappropriate activity arising during 2008-09.

10. Improving Whistleblowing procedures

- 10.1 The Public Interest Disclosure (NI) Order 1998 gives employees the right of complaint to an industrial tribunal if they report wrongdoing and as a result suffer any form of detriment. Accordingly district councils should have a procedure in place to provide for this right.
- 10.2 In November 2008 DFP issued a “Dear Accounting Officer” letter to encourage departments and public bodies to ensure they have whistleblowing procedures in place and make accounting officers aware of a template which has been drawn up for use in developing organisational specific arrangements. The letter, DAO (DFP) 11/08, is available on www.aasdni.gov.uk. Councils are encouraged to consider this approach in reviewing their own procedures.
- 10.3 During the year we received a number of whistleblowing letters, including some of anonymous source. A number of these have highlighted important issues, some of which we were able to include in our audit work.



10.4 Building on this, I have provided a data sheet (see Appendix 1) which can be completed by any concerned whistleblower who feels that there are matters which would genuinely benefit by coming to the attention of audit.

10.5 I am of course conscious that occasionally individuals, with their own agenda, seek to take advantage of the whistleblowing arrangements to further their personal issues. I would however discourage this, as audit time spent on investigations ultimately becomes a cost to the ratepayers of the district.

11. Studies for Improving Economy, Efficiency and Effectiveness

11.1 Article 26 of the Local Government (Northern Ireland) Order 2005 permits the CLGA to undertake studies designed to enable him to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies. Reports on the outcomes of such studies are published by the CLGA.

Absenteeism in Northern Ireland Councils 2008-09

11.2 In December 2009, we reported on Absenteeism in Northern Ireland councils. We examined the relative position of absenteeism within councils and considered absenteeism for the sector as a whole when compared with other employment sectors. The report is available from the Stationery Office, (ISBN 978-0-337-09572-6) or from the NIAO website (www.niauditoffice.gov.uk).

11.3 The comparative analysis between councils was based on a three-year period and an average annual absenteeism rate derived for the period April 2006 – March 2009. This countered the impact of annual fluctuations in absenteeism which could have distorted the findings, particularly within the smaller councils. When considering councils as a whole, analysis reflected the annual position. The larger scale

involved meant that the resulting absenteeism data was much less susceptible to year-on-year fluctuations.

11.4 We noted improved performance in all the absence indicators covered by the report in 2008-09. The main findings and recommendations from the report are that:

- councils lost almost 121,000 days to absenteeism in 2008-09 (down by almost 10,000 days from the 2007-08 figure);
- when viewed as lost productivity, absenteeism in Northern Ireland councils cost £15.5m in 2008-09. This represents a fall of £0.9m from the £16.4m recorded in 2007-08 and is the first fall in the annual rate of absenteeism since this data has been compiled. For 2008-09, councils as a whole had an average absenteeism rate of 12.43 days;
- the 2008-09 absenteeism rate for Northern Ireland councils is lower than any year since 2002-03 and 15 per cent lower than its peak;
- with 7.25 days, Magherafelt District Council had the lowest average annual absenteeism rate for the 2006-09 period. The equivalent absenteeism rates for seven councils were more than double the rate recorded in Magherafelt District Council;
- the council with the highest average annual absenteeism rate was Carrickfergus Borough Council with 19.30 days for the 2006-09 period. Almost one third of this was due to stress related absenteeism, the second highest proportion recorded by any council;
- on average 40 per cent of council staff had no absence during 2008-09 (37 per cent in 2007-08);
- variations in absenteeism rates between councils, and the proportion of this attributable to stress related absence, appear to have no discernable pattern. One factor which does vary between councils is the management of absenteeism;

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- had all councils matched the lowest average annual absenteeism rate of 7.25 days, a total of £7.2 million a year could have been gained in productivity;
- a comparison of the councils' 2008-09 absenteeism rate with some other employment sectors shows that Northern Ireland councils as a sector continue to have a high absenteeism rate. The absenteeism rate for Northern Ireland councils is, however, marginally lower than the Northern Ireland Health Service and the Northern Ireland Housing Executive; and
- stress, depression, mental health and fatigue remain the largest cause of absenteeism, responsible for 23 per cent of days lost in 2008-09 (24 per cent in 2007-08). Lost productivity due to stress related absence cost councils £3.5m in 2008-09 (a reduction of £0.4m from 2007-08).

11.5 We recommend that councils with high and rising absenteeism rates should review their own management practices and benchmark these against those councils with low and falling absenteeism rates. The report includes six case studies where district councils have seen a reduction in their absenteeism rates.

11.6 Since our first annual report on absenteeism in councils in 2005-06 the trend has been a continuing

reduction in rates of absenteeism. This has resulted in additional productivity for councils of £5.6 million (Table 3) between 2005-06 and 2008-09. Continuing this trend will be particularly welcome given the current economic climate and it is planned to review the matter again for the year ended 31 March 2010.

11.7 The 2009 Absence report noted our willingness to discuss our findings with district councils. It is encouraging to note that some councils have taken up this opportunity, particularly in cases where it has been recognised that there is significant scope for improvement.

11.8 Councils are not alone in having a focus on absenteeism. The Public Accounts Committee (PAC) received a report from the C&AG on Managing Sickness Absence in the Northern Ireland Civil Service, during 2008. The PAC Report can be accessed at http://www.niassembly.gov.uk/public/2007_mandate/reports/Report38_07_08R.htm

12. Use of statutory audit powers

Fermanagh District Council

12.1 As summarised in previous reports, in June 2006 an appeal against the decision by a local government auditor to hold nine councillors in Fermanagh District Council responsible for a loss of £38,178

Table 3

Additional Productivity from Reductions in Absenteeism in Northern Ireland Councils since 2004-05

	Absenteeism Rate (days)	Reduction on 2004-05 Rate of 14.61 days (days)	Reduction on 2004-05 Rate (%)	Cost of Absenteeism in lost Productivity (£m)	Cost of Absenteeism had rate remained as 2004-05 (days)	Additional Productivity since 2004-05 (£m)
2005-06	13.73	0.88	6.41	14.0	14.9	0.9
2006-07	13.82	0.79	5.72	15.5	16.4	0.9
2007-08	13.70	0.91	6.64	16.4	17.5	1.1
2008-09	12.43	2.18	17.54	15.5	18.2	2.7
Total Savings						5.6



was heard in the High Court. In June 2008 the High Court handed down its decision in favour of the councillors. The matter of costs was not clarified at that date.

12.2 On 26 March 2010 Justice Higgins ruled “that the auditor’s expenses relating to the appeal, including the appellants’ costs of the appeal, should be paid out of the account of Fermanagh District Council”.

12.3 In giving his decision Justice Higgins said that “... the investigation into the process of appointing the new Chief Executive was entirely justified in the circumstances”. In his judgement he also stated:

“Three critical findings were made. Firstly, that the investigation by the Auditor was justified. Secondly, that his investigation revealed much that ‘was unedifying’ about the conduct of the appellants (not excluding other councillors). Thirdly, that the evidence was insufficient on which to find wilful misconduct.”

12.4 A local government auditor does not go lightly into a matter which has the potential to incur substantial legal costs. Nevertheless the present legislation, Article 20(1) of the Local Government (Northern Ireland) Order 2005, states:

“Where it appears to a local government auditor at any audit held by him –

- (a) that any person has failed to bring into account any sum which should have been so included and that the failure has not been sanctioned by the department; or
- (b) that a loss has been incurred or deficiency caused by the wilful misconduct of any person, he shall certify that the sum, or, as the case may be, the amount of the loss or the deficiency, is due from that person.”

Removal of surcharge

12.5 In November 2009 the Minister at the DoE issued a press statement entitled “Removal of local government auditors’ surcharge powers”.

12.6 This followed an indication from the Department that the Local Government (Reorganisation) Bill would provide for a new ethical standards framework for local government, including a mandatory code of conduct for council members. Any alleged breaches of the code would be investigated and appropriate sanctions imposed where a breach was found.

12.7 As it was envisaged that investigations under the Code would come under the office of the Ombudsman, the C&AG indicated to the DoE that he was content if the “surcharge” powers were then lifted from local government auditors, who are part of his staff in the NIAO and for whom he has to budget for associated costs, until recovered from the audited bodies.

12.8 At present, Article 20 of the Local Government (Northern Ireland) Order 2005 dealing with surcharge continues until repealed.

12.9 Article 19, which provides for obtaining a declaration that an item of account is unlawful, is unaffected by the above proposals.

12.10 The removal of surcharge powers will bring the audit position in Northern Ireland more into line with the rest of the UK.

13. Review of Public Administration (RPA)

13.1 On 22 November 2005 the direct rule government announced an intention to reduce the number of councils from 26 to seven and introduced legislation to give effect to this. New councils, in shadow form, were to commence in April 2008 with the current councils ceasing to exist in March 2009.

13.2 With the return of the Northern Ireland Assembly it was anticipated that RPA would be subject to a fresh debate by local Ministers and in March 2008 a final decision for an eleven council structure was taken, to be effective from May 2011.

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13.3 The DoE commissioned PriceWaterhouseCoopers to provide an economic appraisal of options for local government service delivery in its entirety and they reported in October 2009. Since then there has been a range of discussions but at the date of drafting this report, no formal decision has been made regarding the way forward (a statement is expected mid-June 2010).

13.4 In my previous reports I have drawn attention to the importance of how councils deal with capital expenditure and the use of reserves in the run up to the closure of the present authorities.

13.5 The DoE has issued circulars providing advice on Winding Up Arrangements and the role of Transition Committees and Transition Management Teams.

Guidance on Financing of Council Expenditure

13.6 In December 2009, the DoE issued a circular (LG20/09) providing guidance in relation to the financing of council expenditure. This was in response to concerns raised by a working group within the RPA reform structure.

13.7 The advice focused on matters to be taken into account when preparing estimates for the following year(s) and, while not prescriptive, was issued to supplement best financial practice. In particular the advice referred to the use of the District Fund Balance; estimated liabilities and provisions; and the financing of capital expenditure.

14. Waste Management Issues

Financial Penalties - the Landfill Allowance Scheme

14.1 The Landfill Allowance Scheme (Northern Ireland) Regulations 2004, which came into operation on 1 April 2005, are designed to limit the amount of Biodegradable Municipal Waste (BMW) sent to landfill by each council.

14.2 The targets set are to reduce:

- by 2010, the quantity of BMW landfilled to 470,000 tonnes (75 per cent of that produced in 1995);
- by 2013, the quantity of BMW landfilled to 320,000 tonnes (50 per cent of that produced in 1995); and
- by 2020, the quantity of BMW landfilled to 220,000 tonnes (35 per cent of that produced in 1995).

14.3 The Regulations place a statutory responsibility on district councils, in each scheme year, to landfill only the quantity of BMW they have allowance for; to exceed this may result in financial penalties of £150 per tonne of exceeded allowances. In 2008-09 councils did not incur financial penalties. The total amount of BMW reported to have been sent to landfill in 2008-09 was 475,078 tonnes (510,205 tonnes in 2007-08), against an allowance of 626,925 tonnes (641,235 tonnes in 2007-08). Therefore 24 per cent of the landfill allowances were not utilized.

14.4 Over the next 10-11 years the allocations for each council, and Northern Ireland as a whole, will progressively reduce, making it vital for more BMW to be diverted from landfill. In 2008-09, 626,925 tonnes of BMW could be sent to landfill in Northern Ireland. This amount further reduced to 470,000 tonnes in 2009-10, and reduces to 320,000 tonnes in 2012-13 and 220,000 tonnes in 2019-20.

14.5 Accordingly there is a significant challenge to councils to ensure that they have taken the appropriate steps to avoid being in a position of incurring penalties.

14.6 The source of the above information is the Landfill Allowance Scheme 2008-09 report, available on the Northern Ireland Environment Agency website at www.ni-environment.gov.uk.

14.7 While drafting this report I have become aware of one council identifying that it may be in a position where it is in breach of the allowance target for 2012-13, with the risk of incurring significant



penalties. The council's view is that there will be insufficient spare capacity (i.e. unused allowances) within neighbouring councils to enable the council to offset the liability.

14.8 The Waste and Emissions Trading (WET) Act 2003, from which the 2004 Regulations come, provides that the Monitoring Authority (DoE) may relieve the council, in whole or in part, from liability for the penalty or any interest, arising out of an overshoot of the council's biodegradable allowances to landfill.

14.9 Not meeting the 2012-13 allowance target is a risk that councils should give serious consideration to, and keep in mind, when setting estimates for 2012-13, whether additional reserves should be accumulated in the District Fund to pay for possible penalties.

Landfill sites

14.10 The Landfill Directive 1999 requires that operators of landfill sites are responsible for the closure and aftercare of their sites. In this regard most councils have in place what they consider as adequate provision to meet this responsibility. In most cases councils have used consultants to determine the projected level of closure and aftercare costs. However some councils' provisions may fall short of adequate and the responsibility to make adequate provision has been highlighted in management letters.

14.11 A number of councils have 'closed sites' which they considered did not come under the full rigour of the Landfill Directive and for which more modest aftercare costs would apply. However in February 2010 DoE wrote to a number of councils seeking more information with regard to the closure and aftercare arrangements in relation to sites closed during the period July 2001 to January 2004.

14.12 The costs of closure and aftercare costs are considered revenue expenditure, to be met by the beneficiaries of the disposal of waste during the operational life of the site, and thus do not qualify to be met as capital expenditure funded by loan repayments long after the closure of the sites.

14.13 Consequently it is important, in relation to future ratepayers, that councils with existing and closed landfill sites establish an adequate provision for the expenditure related to closure and aftercare and recognize this in the financial statements.

14.14 A development in recent years has been councils entering into arrangements with companies in relation to the extraction of methane gas from landfill sites which can be used to generate electricity on site and sold back to Northern Ireland Electricity (NIE). This arrangement provides the possibility of a cash flow to the council and a number of councils have taken the projected income into account in relation to closure and aftercare provision. Provided the projected cash flows are supported by an independent assessment and are projected prudently, the audit view is that they could be reasonably reflected in the provision. However careful monitoring of the ongoing position would be important.

Waste Management Groups

14.15 Following publication of the Northern Ireland Waste Management Strategy in 2000, the 26 councils established three sub-regional Waste Management Groups. Since then, the Eastern Region Group has renamed as "arc21" comprising 11 councils, including Belfast City Council, and is established as a Joint Committee constituted as a body corporate with perpetual succession under Section 19(9) of the Local Government Act (NI) 1972. The Southern Group, under the Local Government (Constituting a Joint Committee a Body Corporate) Order (Northern Ireland) 2008, re-established itself as "SWaMP2008". The North Western group works on a voluntary basis. Each of the three is pursuing arrangements to enter into contracts on behalf of their constituent councils for the disposal of waste.

14.16 The consultant's report on RPA (para. 13.3) highlighted DoE consultation on the proposed Waste Bill which sought comments on the concept of introducing a single Waste Disposal Authority (WDA) for Northern Ireland. A single WDA would have statutory responsibility for waste planning and

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waste disposal on a Northern Ireland wide basis but the legislative requirement in relation to waste collection would remain with councils. However the report, while highlighting the main benefits of this approach, indicated that *‘while these benefits could be potentially derived, there is insufficient evidence to quantify this benefit at present’*.

15. Declaration of Interest

15.1 Section 28 of the Local Government Act (NI) 1972 relates to the *“Disclosure of councillors’ pecuniary interests and disability from voting on account thereof”*. This subject area has arisen in discussion with local government auditors over the past few years and it is encouraging to note that some councils have been moving to improve clarity in this area.

15.2 The PAC, in considering the report on the Northern Ireland Tourist Board – Contract to Manage the Trading Activities of Rural Cottage Holidays Ltd (DETI), recommended:

“that the most appropriate response to any potential conflict of interest must be that the official should declare that interest, it should be recorded, and, if appropriate, he or she should withdraw from involvement with any aspect of the case. All personal relationships between public officials and people they have contact with in an official role should be treated in the same way as any business interest”.

15.3 It further recommended:

“that, where conflicts cannot be avoided because there are exceptional and persuasive reason for continuing involvement, strong mitigating controls must be put in place to ensure that the principles of objectivity and integrity are not compromised. The decision to manage the conflict and the adequacy of the controls implemented should be documented and approved by a senior official. Any conflicts that are managed rather than avoided should be reported to audit committees who should ensure that the controls are adequate and have been applied effectively”.

15.4 In late 2009 the leasing of a council facility by Castlereagh Borough Council featured extensively in the media. Arising from this there is PSNI interest and the outworking of the leasing will be considered as part of the statutory audit of the council accounts. In this regard we have committed to publishing a Public Interest Report under Article 9 of the Local Government (Northern Ireland) Order 2005.

16 Grants to Voluntary and Community Bodies

16.1 My attention was recently drawn to the Department of Social Development website which has a link to a database on government grants to the voluntary and community sector, www.dsdni.gov.uk/index/voluntaryandcommunity.htm. The site provides information on grants available from government departments to voluntary and community organizations.

16.2 Councils may find this database of assistance in considering applications for funding in relation to projects.

17. Granting leases to land

17.1 An issue was drawn to our attention wherein a council, in the 1990s, sold approximately two acres of land to a private sector business for a 900 year period. The lease included a restrictive covenant limiting use and requiring the council’s consent to any development of the site.

17.2 The council received £25,000 in respect of the disposal but having acquired the land, as open space with government grant, had to repay 75 per cent of this sum to the respective Department.

17.3 The lessees have since obtained planning permission for residential purposes for one acre of land that they did not develop and wished to purchase the freehold interest for £14,000. This figure was based on the fact that lessees could after 21 years apply to



the Lands Tribunal for restrictive covenants to be removed. As a result the council will receive only £20,250 in total instead of a potentially larger amount if it disposed of the land in a different way e.g. initially renting out one of the acres instead of selling it.

- 17.4 We have still to hear the final outcome of the matter but it is included here to highlight the issue of the 21 year application to other councils.

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Issues Arising

18. Issues arising in the course of audits highlighted in published Annual Audit Letters (AAL)

- 18.1 This section includes a range of issues arising in the course of our audits which have been highlighted in our published AALs issued on completion of our audits.
- 18.2 I would encourage other councils to reflect on the lessons highlighted in this section of my annual report.

Armagh City and District Council

District Fund

- 18.3 The AAL drew attention to the fact that the District Fund balance at the 31 March 2009 stood at £3.15m, representing 20.3 per cent of the net operating expenditure. This looked very much higher than the average of the 26 councils at 8.5 per cent. However, the Council had unfunded capital expenditure at the year-end of £2.4m. In effect the Council was funding capital expenditure by way of the District Fund, although the Council had taken no formal decision to provide funding from that source. Officers indicated that the capital expenditure deficit would be met by loans in 2009-10 but only when this is achieved can the District Fund be seen as a disposable reserve and a true measure of the excess funds that the council has accumulated.

Belfast City Council

Matters arising from the final accounts audit

- 18.4 The AAL drew attention to the District Fund balance of £5.35m, representing 3.8 per cent of the net operating expenditure. Such balance was considered to be low and the Council's financial standing appeared to be a matter of concern. The average for the 26 councils as at 31 March 2009 was 8.5 per cent, based on the accounts presented for audit, (12.9 per cent as at 31 March 2008).

Governance Statement

- 18.5 The governance statement provides an audited body with the opportunity to highlight significant issues which could impact on the outworking of council activity. In its statement the Council highlighted the following issues:

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

The risk to the Council of being unable to comply with the targets of the Northern Ireland Landfill Allowance Scheme 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 Council's 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.”

Coleraine Borough Council

18.6 The AAL drew attention to the underfunding of capital expenditure (£4.4m) and the level of balances in the District Fund and the Renewal and Repairs Fund. The auditor indicated that he felt that the balances in both funds were low. The District Fund balance of £548,000 represented 2.9 per cent of the net operating expenditure.

18.7 The Council has Fixed Assets totalling £93.3m with loans outstanding of £32.2m. In addition to the £4.4m unfunded capital expenditure the Council had a future capital programme totalling £3.1m, although it planned to fund much of this via capital grants.

Craigavon

Senior management

- 18.8 The AAL referred to the Chief Executive and the Director of Leisure Services retiring early, leaving their employment with the Council at the end of March 2009.
- 18.9 The Council exercised its discretion, in exceptional circumstances, to pay added years under Local Government Pension Scheme Regulations (Northern Ireland) 2002. The cost of early payment of retirement benefits and legal costs was over £0.5m.
- 18.10 The auditor examined the legality of the payments taking into account the extensive Senior Counsel advice which the Council had considered in resolving this matter. He concluded that in the wholly exceptional circumstances, as explained in Senior Counsel's advice, the Council acted within its statutory powers but that this was not to be regarded as a precedent in any respect.

Grievances

18.11 At 31 March 2009 the Council had 43 staff grievances to be resolved - mainly in relation to the working of the Leisure Services Department. In June 2009 the Council appointed a new Head of Human Resources and Organisation Development and it is expected that these grievances will be processed as quickly as possible.

Derry City Council

District Fund

18.12 The AAL reported that the District Fund balance (£2.2m) at 31 March 2009 did not equate necessarily to a disposable reserve. Note 14[d] of the accounts recorded unfunded capital expenditure of £5.6m – a marginal decrease of £0.1m from the previous year. Some of this capital expenditure had, in effect, been covered by the District Fund although the council had taken no formal decision to provide funding from that source and record this in the accounts. Officers indicated that the deficit will be funded in 2009-10 by a combination of loans, grants receivable or revenue contributions if necessary. Only when this is achieved can the District Fund be seen as a disposable reserve and a true measure of the excess funds that the Council has accumulated. This has been recognised by the Council in that it approved the temporary borrowing from the Capital Fund on the 27 January 2009 to avoid any strain on the District Fund balance.

City of Derry Airport

18.13 The Airport brings important economic benefits to the North West but at considerable cost to the Derry City Council ratepayers. The accounts record, in the Service Revenue Account, the net cash cost of the Airport, which impacts directly on the District Fund balance and the amount needed to be raised from ratepayers each year. This has increased significantly in recent years to £4.6m in 2008-09 (from £3.2m in 2007-08, £2.0m in 2006-07 and £1.5m in 2005-06). The Airport has loans of £7.7m at 31 March 2009 and paid loan charges of £0.6m during 2008-09. If further grant is not forthcoming for the unfunded capital expenditure of £4.1m at the

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Airport, the expenditure will have to be funded by loans or by applying Capital Reserves.

18.14 The Council has reviewed the governance and operations of the Airport and decided to transfer the business into a separate company which will be owned by the Council. Consideration has also been given to disposing of the Airport business to the private sector.

Magherafelt District Council

Capital Programme

18.15 The Council has fixed assets totalling £29.3m with no loans outstanding. This is the only council in Northern Ireland to be debt free in relation to capital expenditure and the Statement of Accounts reports no future capital commitments. However, since the year end the Council has embarked on refurbishment of the leisure centre in Magherafelt. The auditor was advised that the Council intends to apply the monies in its Capital Fund (subject to DoE approval) in the short term to enable it to finance the refurbishment of the leisure centre. It will also replenish its Capital Fund to at least the level of the closure cost of its landfill site (£3.2m) over the remaining useful life of the site, which is currently estimated to be at least five years.

Corporate Governance

18.16 The auditor noted the following issues from the corporate governance and value for money arrangements review:

- the Council's Corporate and Operational Risk Registers were scheduled for review and updated Registers are to be produced during 2009-10;
- the Council had not yet prepared suitable documented business continuity plans and tested their implementation;
- the Council had not yet adopted the updated 2003 Code of Conduct issued by the Local Government Staff Commission for its Officers;
- the Council had yet to consider the provision of more detailed advice on the acceptance of gifts and hospitality, by the way of a stand-alone policy and had not yet introduced an appropriate hospitality register;
- the Council had yet to establish a suitable register for the recording of pecuniary interests, with appropriate periodic reminders provided to staff and members on their responsibility to declare relevant interests. This register should be established, as it is a legal requirement for pecuniary interests to be recorded in a separate book;
- the Council has refrained from adopting a formally documented whistleblowing policy. In my opinion this decision should be reconsidered, as the implementation of a formal whistleblowing policy would be in line with best practice and consistent with the Public Interest Disclosure (NI) Order 1998;
- the Council had yet to give consideration to the provision of regular formal financial reports to elected Members;
- the Council did not have a current documented corporate or business plan in place during 2008-09. A review of the Council's Corporate Plan was scheduled for 2009-10. The audit view was that the Council should also consider the introduction of formally documented Business Plans feeding from the Corporate Plan; and
- the Council's system of internal audit is not designed to fully reflect CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom which the DoE, in its circular LG/04/08, recently referred to as a source of appropriate professional guidance containing proper practices in relation to internal control.



Newry and Mourne District Council

Corporate governance statement

18.17 The Auditor highlighted the following significant governance issues disclosed in the Annual Governance Statement:

(a) Fraud relating to the purchase of canteen supplies

Poor internal control procedures over the purchase of goods for the canteen and a lack of high level monitoring on a regular basis of purchases resulted in a fraud occurring, with an estimated loss of £3,600. Audit recommended that written procedures be put in place for all canteen purchases and that all purchases should be monitored on a regular basis; and

(b) Voluntary contributions

The 2007-08 AAL highlighted two voluntary contribution payments of £250,000 and £100,000, where Council procedures were not adhered to. The auditor indicated that it was disappointing to note that in 2008-09, a similar instance occurred in administering voluntary contributions. He recommended again that existing procedures be adhered to and in the cases relating to voluntary contribution payments, the application should be completed and submitted by each organization prior to a decision being made by Council.

North Down Borough Council

Procurement of Ejection Trailers

18.18 In September 2006, the Council commenced a tendering process for the procurement of ejection trailers to remove waste from its new waste transfer station. This was not an acquisition of standard, off the shelf equipment, as it involved developing a specification for customised trailers to be manufactured that would operate compatibly with specialist waste compaction equipment. This meant the Council could not 'pilot' the trailers in its existing facilities or elsewhere in Northern Ireland.

18.19 The Council purchased 14 ejection trailers at a total cost of £529,000 and these were delivered over the period February to May 2007. Due to slippage in construction at the waste transfer station, the facility was not completed in July 2007 as planned and did not open until May 2008.

18.20 One year after delivery the Council began to use the trailers. However it immediately became clear to council officials that there were difficulties associated with the operation.

18.21 The Council took the decision to modify the trailers by reducing their capacity from 84 cubic metres (as specified in the contract) to 72 cubic metres. The Council modified nine ejection trailers at a cost of £124,000. The remaining five trailers were not required to meet the Council's immediate waste transfer needs.

18.22 In April 2009 the Council established a review of the procurement process which had been used to acquire and modify the ejection trailers. The review, completed in July 2009, found that there had been "little meaningful contact between the procuring Department (Corporate Services) and the user Department (Amenities & Technical Services)". At that time there had been no effective corporate mechanism to achieve cohesion between the two Departments on key issues such as the design specification and the number of trailers needed.

18.23 The auditor agreed fully with the review findings that the necessary levels of co-ordination between the Corporate Services Department and the Amenities & Technical Services Department to deliver this tender process were inadequate. In key areas the poor documentation in both Departments hampered co-ordination and did not provide an audit trail to support why decisions, which would lead to significant Council expenditure, were taken.

18.25 The Council could have purchased nine ejection trailers with a capacity of 72 cubic metres at a total cost of £307,000. In the event, the Council was unable to secure any compensation from the supplier, or find a use for the unmodified trailers.

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Consequently the cost to the Council of failing to purchase the correct number of trailers with a usable design specification could be over £350,000.

- 18.26 The auditor commended the Council for the comprehensive and prompt response to the serious issues which became apparent when the ejection trailers were used for the first time. Nevertheless, he was shocked that a key procurement process involving sizable funds was so poorly handled on a number of levels by the Council. He concluded that expected public sector levels of risk assessment, project management and documentation, normally a feature of this Council, were seriously inadequate and have resulted in significant losses to the rate payers.

19. Issues arising in the course of audits highlighted in Management Letters to audited bodies

- 19.1 The following sections include a range of issues arising in the course of our audits which have been highlighted to local government bodies in management letters.
- 19.2 I would encourage councils to reflect on the issues highlighted in this section of my annual report. Some councils have used the topics as a check list to identify areas of risk and steps to improve controls.

Accounts and Financing

20. Authorisation of Accounting Journals

Audit recommends that management should review and authorise all manual journals, and this should be evident on the journal voucher. In addition, manual journals should be reviewed by another finance staff member prior to posting, to ensure accuracy of the amount, and the posting should be supported by appropriate documentation which is retained on file.

21. Bank Reconciliations

- 21.1 A management letter noted the absence of formal reviews of monthly bank account reconciliations. It was recommended that a senior member of the finance team should be charged with responsibility for carrying out such a review and this should be evidenced by the reconciliation being signed and dated.
- 21.2 In another management letter, audit recommended that a lead schedule be prepared highlighting the bank accounts that make up the bank balance in the financial statements, and the number of bank accounts open should be reviewed.

22. Environmental improvement schemes

Audit noted a number of schemes undertaken on non-council land where the cost and grant were both fully recognized in the service cost headings. The audit view is that, unless the full costs and grants are provided for in the council's estimates, the expenditure and associated grant should not be recognized in the service costs but in line with the



accounting concept of relevance, e.g. stewardship of public funds should be disclosed as a quasi related party transaction, with only the net cost to the council reflected in the service heading.

23. Finance Leases

A management letter highlighted that a number of assets authorised for purchase under a finance lease agreement were initially purchased outright by the council and subsequently financing arrangements were sought. From review of the finance leased equipment it was observed that a number of those assets (valued at £100,000) did not have finance leases in place at the year-end but were classified as such. There was no irrevocable agreement in place at the year-end with the leasing company with regard to the sale and leaseback of these assets. As a result these balances were misstated at the year-end as leased assets.

24. Fixed asset funding

A number of councils maintain a fixed asset funding spreadsheet, which highlights the fixed asset addition costs and how the council has financed the expenditure, e.g. via loans, grants or revenue financing. The under/over financing recorded in this spreadsheet should reconcile to the fixed asset funding note in the financial statements. Councils not keeping such a spreadsheet are encouraged to do so. Councils are also encouraged to prepare a working paper that splits the Balance Sheet into Revenue and Capital and thus the Capital element should reconcile to this spreadsheet.

25. Fixed Asset previously not identified

As part of the revaluation exercise undertaken during the year, four properties that were not previously valued were identified with a value of £742,000. The auditor emphasized the importance of completing a land terrier in the move towards RPA.

26. Fixed asset verification

Attention was drawn to a verification exercise carried out during the year which identified a number of assets which were held on the fixed asset register but had been disposed of in previous years. Although the net book value was nil, there was a risk that other disposals may be overlooked and the fixed asset register may not be accurately updated if this exercise is not repeated on a regular basis. In another case the management letter drew attention to the fact that no physical verification of fixed assets was carried out on a regular basis, noting that Land and Property Services' (LPS) valuation excluded a building that had been demolished and the Council had it on its fixed asset register at £215,000.

27. Payroll issues

- 27.1 A formal reconciliation should be carried out, on a periodic basis, between staff numbers on the payroll and staff numbers according to personnel records, as there is the risk that persons not/no longer employed by a council could be on the payroll. The need for timely notification to payroll of staff departures is also very important.
- 27.2 Payroll reports should not be checked and authorised by the person who has actually prepared the work.
- 27.3 The lack of formal controls over reviewing and monitoring changes to payroll standing data could allow unauthorised changes to be made to standing data that may give rise to incorrect pay.
- 27.4 An audit noted that within the payroll department there was a lack of segregation of duties. The same members of staff who prepared the payroll were also authorised to add additional employees to the payroll system. There is an increased risk that erroneous, and potentially fraudulent, payments to individuals exist where there is inadequate segregation of duties within payroll.

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28. Pro forma Statement of Accounts

Management letters for two councils highlighted that the pro forma issued by DoE as a minimum standard was not being followed. This can cause difficulty in comparing information across councils.

29. VAT

An audit referred to the absence of a reconciliation between the accounts and the year-end VAT return. It also noted that, given the significant number of duplicate payments made during the year, VAT may have been reclaimed on invoices twice. The council undertook to provide the reconciliation at the next audit.

30. Year-end accruals

- 30.1 The importance of a high degree of accuracy in assessing the closing accruals was highlighted when it was noted that some accruals from the previous year had not been appropriately reversed and items which are both a creditor and debtor should be excluded from the Balance Sheet.
- 30.2 In some instances grant payments to outside bodies have been accrued as liabilities, even though the grant claims have not been submitted. The audit view is that grant payments should not be accrued until claims have been submitted. In order to protect the carry-over of unused grant-payable budget to the following year, councils could insert a note in the financial statements indicating the value of the year-end District Fund balance which is ring-fenced to meet unclaimed grant commitments from the previous year.

31. Waste disposal and Landfill facilities

- 31.1 A number of councils have former landfill sites (non-operational) for which they carry ongoing responsibility for aftercare costs (see 14.10 to 14.14 above).
- 31.2 Some more specific issues mentioned in management letters were:
- potential difficulty over completeness of recording of income (given that the public, who are not normally charged for waste disposal, have site access), data transactions, weighing arrangements, independent checks on invoicing and reconciliation to tonnage received, and the quality of CCTV pictures which could be improved;
 - significant consultants' costs were highlighted which had not been subject to tender because the consulting firm had been involved with the landfill site for many years;
 - the need for a contingency plan should available landfill space not be required if there is a shift in disposal to Mechanical Biological Treatment plants;
 - the need for good contract management monitoring procedures in relation to capital works at sites to protect against claims for additional works under contracts; and
 - the importance of careful monitoring of monetary value of debtor credit facilities, as often users of facilities can quickly run up significant balances with little or no payments coming in.



Contracts, tendering and procurement

32. Application and outworking of purchasing policy

Sometimes councils acquire goods or services outside the approved purchasing policy. This is normally carried out by asking the council to set aside standing orders and the council should always be provided with a written report on the reasons for so doing. If not appropriately handled, the risk of unauthorised or irregular expenditure of public funds is increased, as well as the possibility that value for money will not be achieved. Additionally this deviation from the routine procurement process may put a council at risk of potential litigation from alternative providers of goods or services.

33. Brochures to waste

A council sent some 12,000 guide brochures in German and French, which had cost over £23,000, to recycling as they were not distributed or required. This highlights the need for careful consideration in advance of procurement. This has resulted in the council instructing tourism staff to estimate need rather than taking up promotional offers from printers to buy in bulk.

34. Coding

Care with the coding of expenditure is important in terms of budget comparison, particularly if it could lead to the financial statements or grant claims being incorrectly stated. An example of a miscoding was £12,000 for repainting being posted to equipment purchase.

35. Creditor payment authorisation

In some cases audit noted creditor payment authorisations not being at a sufficiently high level in the organisation – purchase orders/invoices above an agreed level should be authorised by a director. The finance staff preparing payment schedules should also have up-to-date lists of authorised signatories.

36. Duplicate payments

As part of the post project evaluation of a new accounting system a council undertook an exercise to identify all duplicate payments. It was surprising just how many were noted. In another case a significant duplicate payment was identified as part of the National Fraud Initiative. Part of the NFI exercise (see paragraphs 9.1 to 9.6) is to identify duplicate payments and this should be of assistance in this regard.

37. Final cost above tender (1)

An audit identified a capital project with a tender price of £1.6m and a final price paid to the contractor of over £2.5m. The tender was for a new build but work had to be extended to the old building to enable completion, due to damage from water ingress which apparently could not have been anticipated. The post project review commented on the additional costs, but indicated that the council would have incurred nugatory costs by not undertaking the additional works when the contractor was on site, as certain works would have had to be undertaken at a later stage, undoing some of the works included in the first contract. Post project reviews should be carried out on significant capital projects, particularly to establish the need to improve procedures in future contracts.

38. Final cost above tender (2)

- 38.1 A management letter highlighted a contract for a project which was approved by Council at £30,000 as a result of a tendering exercise. The actual

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amount paid was £58,000. According to an official, the project evolved after the tendering exercise had been completed and a more innovative approach was adopted for the project. This resulted in additional costs being incurred, as the approach adopted was more expensive to design and produce.

- 38.2 In terms of risk, the audit pointed out that the criteria or specifics set out as part of the tendering exercise did not correlate with the product finally requested by the council. Additionally as no post project appraisal was performed the council could not demonstrate that it achieved best value for money.
- 38.3 The auditor recommended that the tendering exercise should accurately set out the criteria and specifics which will be required.
- 38.4 Any significant additional costs should always be presented to the council for approval, along with an explanation for the overspend.

39. Mis-calculation of invoices

The auditor noted a number of invoices which were incorrectly calculated and not discovered as part of the payment process. For example, an invoice for electrical services had an error of £1,160 which was overpaid. It is recommended that detailed checks on all invoice calculations are carried out to avoid payment errors.

40. Outside standing orders

Contrary to standing orders, incidences of purchase orders not being raised, or being raised after the invoice date, were noted on a number of audits.

41. Phone bills

A number of instances were noted where there was a lack of documentation in place with regards to the submission and annotation of phone bills and the

signing of a declaration of personal calls by employees. This presents a risk that staff may not declare their personal calls and reimburse the council for this expense.

42. Quotations

An audit was concerned with the outworking of procedures in relation to quotations in respect of leisure centre equipment with a total value of approximately £20,000. Four quotations were received for each piece of equipment. The auditor was concerned by the lack of challenge when authorising the report on quotations, as in each of the three cases only one quotation, from the same supplier, complied with the specification and in each case it was the most expensive option.

43. 'Superloo'

A management letter highlighted the payment of over £28,000 per annum for the rent of a 'superloo'. Audit queried the value for money of this and the council responded by indicating that options for this facility were under review but that quotations for early redemption of the agreement did not appear to offer value for money. [Although the agreement has already run for over 13 years, the council has indicated that it is developing a business case to consider all options, including relocation].

44. Theatre company contribution

An audit noted an arrangement whereby the council gave a £10,000 contribution to a local theatre company towards its running costs, yet did not have a service level agreement with it. The risk identified was that it may be more difficult for the council to ensure that it receives value for money for its annual contribution e.g. by specifying a minimum number of productions in the year. The council responded that while there are letters of offer in place, these would be further supported by a service level agreement.



45. Vehicle maintenance

- 45.1 An audit noted monthly invoices for a vehicle maintenance provider being authorised in block without formal evidence that the council had satisfied itself as to the reasonableness of time taken for work completed on a particular vehicle. In addition, as there was no schedule of rates for the materials used and invoiced in the repair of vehicles, the council could not check the reasonableness of material costs
- 45.2 The audit recommended that a record should be kept of when a vehicle was left in for repair, what the problem with the vehicle was and when it was collected. These details should then be cross checked to the invoice. The council should also satisfy itself as to the reasonableness of the amount of time taken to complete the repair work. As regards materials, the council should obtain a schedule of the rates the vehicle maintenance provider charges for materials and then make its own enquiries, e.g. with other suppliers, to ensure that these rates represent value for money. The council committed to a review of the arrangements.

Grants, Partnerships and Companies

46. Grants to outside bodies/events

- 46.1 A number of examples were noted of grants to bodies/events whereby the sum advanced was not supported by evidence of need. The audit recommendation in these cases was that the council should consider approving financial support on a deficit basis whereby it would fund up to a maximum sum paid on production of supporting accounts.
- 46.2 It is important that, when paying significant grants to outside bodies, councils protect the ratepayer interest by having a registered charge on the property. Audit noted a case whereby the council agreed to £200,000 for a community project and then a further £150,000 due to cost overrun but only had a charge on the property for £150,000. While the business centre appears to be a success, there is a risk that the council would not be in a position to recover this funding if this community project should get into difficulties at a later date.

47. Risk to council participating in companies and partnerships

I have become aware of a deficit in a company formed by a number of councils which is proving difficult to resolve. The full detail will be reported on at a later date but councils need to carefully review the roles and relationships they have with sponsored companies and the monitoring arrangements put in place to protect council and ratepayer interests.

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Income

48. Amenity site controls

In an audit visit to an amenity site the system for charging commercial users at the site was observed. It was clear that the customer had not always paid in the past and was reluctant to pay this time. A fee of £10 (the rate per cubic metre) was charged and received but the waste disposed of appeared to be more than a cubic metre. This gives rise to concern that not all commercial users are being charged in the first instance and that the correct rate is not being applied. On review of receipts it was noted that amounts received can vary between £1 and £20. The fee charged is based on staff judgement. Audit understand that sometimes staff could feel threatened by some traders and do not want to face conflict, so it is possible that some users are not charged. This example should encourage all councils to review their charging arrangements.

49. Leisure centre

An audit visit to a leisure centre highlighted that:

- the council had not tendered for the vending machine contract in place;
- the system depended on the vending firm for the honesty of usage – no council staff accompanied the vending company when machines were filled; and
- the card system for entry to the fitness suite provided considerable flexibility – creating a risk of the loss of income (should the membership default field be incorrectly adjusted).

The council undertook to review the areas identified.

50. Marina

Attention was drawn to the lack of an estimate of expected berthing income for the facility. The audit highlighted a lack of certainty about the completeness of income if there is no up-to-date record of the number of berths in use at any particular time or no basis of assessing the completeness of the actual income received.

51. Returns to Finance

A number of examples were noted during the year whereby leisure facilities were slow to submit income returns to the Finance Department.



Members and officers

52. Chief Executive authorising own expenses

Expenditure on the Chief Executive's and Director's corporate credit cards are, on occasion, being authorised by the respective claimant. It was observed that while credit card expenditure over £1,000 was approved appropriately by the senior management team, bills below £1,000 were authorised by the user. There is a risk that unauthorised or irregular expenditure will not be identified in the absence of appropriate authorisation. The audit view is that it is not appropriate for any officer or member to authorise their own travel expenses or use of the corporate credit card and all audited bodies should ensure that there are appropriate authorisation arrangements in place.

53. Essential user allowance

Audit noted members of staff in receipt of an essential users' lump sum due to the nature of their job. They receive £91.25 per month along with a reduced rate for any mileage carried out on council business. The audit noted that as the majority of these staff were travelling low mileages it is costing council more to give them the lump sum payment rather than pay them at the full mileage rate. The council agreed with the recommendation for a review.

54. Insurance cover for members' travel

It was noted in an audit that the council did not have a policy for ensuring that members have appropriate vehicle insurance cover when undertaking council duties. It raises concern that members could be breaking the law by driving with invalid insurance while on council business. The council responded to

audit by indicating that the system of checking insurance of staff would be extended to members.

55. Job evaluation

- 55.1 An audit noted two job evaluations resulting in a regrading where arrears amounted to approximately £35,000 and raised concern about the length of time it has taken to process these evaluations. Council approval was given for the effective date to be December 2000, yet payment was not made until January 2009.
- 55.2 The council stated that the length of time in dealing with a job evaluation request was extraordinary and not in keeping with normal practice. The process involves five key parties, any one of whom can delay the process, namely the employee, the council's management, Human Resources, the job evaluator and the trade union representing the job evaluator.
- 55.3 However, the council pointed out that since 2007, all outstanding job evaluations have been cleared, as a process was undertaken for evaluating all posts under a single job evaluation scheme and a job evaluation procedure introduced.

56. Mayor's expenses

- 56.1 The management letter recommended that the council enhance its approval control procedures in respect of Mayor's expenditure payable under section 12 of the Local Government (Northern Ireland) Act 1972. During the year invoices for meals were paid and while names were noted as to who was present, there was no explanation for the purpose of the meal or why those attending should be present. Audit indicated that these meal expenses could not be verified as being "reasonable to meet the expenses of the office". Furthermore some invoices were undated. In addition, audit had to query whether certain taxi expenses were more of a personal nature rather than an expense of the office of Mayor.

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- 56.2 Audit asked the Mayor to review expense claims submitted, for any expenses which on reflection would appear more private in nature and hence should be repaid. Without prejudice the Mayor has agreed to repay to Council £350 in respect of taxi expenses.
- 56.3 The council agreed that with immediate effect, the requirement for details of claims (e.g names of meal guests) would be extended to include an explanation as to how the claimed expenses have been reasonably incurred as part of the Mayoral role.

57. Procedures and approval of claims

Members' travel claims were noted as being paid without any authorisation - the member submits the claim directly to finance section who pay it. The travel claims are not checked to minutes/attendance at meetings to ensure the member did actually attend. The council also accepted that it did not currently have formally documented procedures for the payment of members' travel and subsistence claims. The council agreed that arrangements had slipped and that documented procedures and checking arrangements would be restored along with approval of claims.

58. Related party disclosure

Audit noted that in the current year all councillors were sent letters which should have been completed and returned to the council, detailing all interests held. As in the previous year not all letters were completed and returned by councillors. In total, six out of 23 were not returned at the date of the audit finalisation. There is the risk that related party disclosures are incomplete in the financial statements. Also, bodies over which the council exercises a dominant influence, and which therefore should be consolidated in the council's financial statements, may not be identified. It is also recommended that senior staff are asked to complete a related party return.

59. Single status review

- 59.1 It was noted in audits that many councils have now moved to harmonizing terms and conditions of employment for staff but that differences still exist between councils coming together under RPA e.g in one council the standard working week is 36 hours rather than 37.
- 59.2 In another audit it was noted that the standardization of hours issue had been resolved by way of a 'buy-out' payment, with effect from 1 July 2009, to each employee to compensate for the change in contractual hours from 35 to 37. The council's legal opinion, paraphrased as follows, was:
- 'In my respectful view ... the council could not lawfully require staff to work a 37 hour working week due to the pre-existing local arrangements which entitle staff to 35 hours per week. In those circumstances all employees would be subject to the buy-out irrespective of when they commenced employment.'
- 59.3 The minutes stated 'It would appear that council unilaterally implemented the 37 hour working week from August 2004 without negotiation/consultation with Trade Unions, hence the situation whereby council could find itself subject to possible litigation'.
- 59.4 The auditor recommended that in future the council should take adequate legal advice in advance of taking decisions which may alter employees' contractual arrangements. In addition, he highlighted that, in taking issues through council, the chief executive and other officers should declare an interest when they had a pecuniary or non pecuniary interest in a relevant matter.

60. Town twinning expenditure

An audit noted that the council agreed to send a party to its twin town, comprising musicians and dancers, along with six members and two officers. The audit recommended that for trips of this nature, a post project evaluation report should be



completed to determine if the number of persons sent was reasonable and what benefits were gained. The same council agreed to send six members and one officer to visit a council in Scotland on a fact finding trip about wind farms and, except for an e-mail to the Chief Executive detailing that it was a worthwhile trip, no post project evaluation report was completed. The council accepted the recommendation.

Other issues

61. Cafe/shop stock figures

The importance of accurate stock taking was highlighted, together with the effect that this can have on gross profit margins. It is important that figures in such trading arrangements are accurate, to ensure that value for money is being achieved. Some specific points note were:

- Annual sales of £18,000 with a stock level of £17,000;
- Gross Profit margin falling from 53 per cent to 39 per cent while sales fell less than 4 per cent; and
- Gross Profit margin falling while sales increased by almost 14 per cent.

Management was encouraged to investigate and obtain explanations.

62. Corporate governance arrangements

- 62.1 An audit highlighted that, in its financial statements, the council indicated that it “has Corporate and Departmental risk Registers in place and these were reviewed on one occasion in the year”. By only reviewing once a year, there is a possibility that new and existing risks would not be identified/managed at an early enough stage, with resultant loss to council.
- 62.2 In another audit it was highlighted that the ‘significant governance issues’ section of the Governance Statement did not actually indicate whether there were any significant governance issues. The council confirmed that in future it would either list the material governance weaknesses or indicate that there were none.

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63. Dinner costs disallowed by the Northern Ireland Policing Board (NIPB)

A council held a dinner aimed at gaining co-operation/secondary consultation as a cross community function. The expenditure had not been included in the estimates approved by the NIPB and thus 75 per cent grant aid was not received, with the council having to carry the cost. The council responded by indicating that if and when a similar event is held, there will be agreement between the District Policing Partnership and NIPB.

64. Information Technology

Appendix 2 provides a note of general points arising from an overview audit of controls in the general IT environment, when reviewed as part of the 2008-09 accounts for 23 local government bodies.

65. Internal Audit

- 65.1 Regulation 3 - Local Government (Accounts and Audit) Regulations (NI) 2006 requires a local government body to conduct an annual review of the effectiveness of its system of Internal Audit. Audit noted that this review was not completed in some councils before the Annual Assurance Statement was signed by the chief executive.
- 65.2 The annual review should be completed before the Annual Assurance Statement is signed by the chief executive and be considered by the audit committee.
- 65.3 In two other councils there was little controls work performed on the key financial operating systems by internal audit during the year. As a consequence there was little internal audit work that could be relied upon. The councils responded with assurance on the extent of work going forward and in one case have also commissioned a review of the work and role of internal audit by an outside firm.

66. Laptop not returned

An audit noted that an employee had been dismissed but had failed to return a laptop and keys of an office. It also noted that there was no requirement to surrender work mobile phones or laptops when on long term sick leave or maternity leave. The audit sought a review of the policy in this area.

67. Service level agreements (SLAs)

An audit noted that the council does not have active SLAs in place for certain bodies to which it provides a service, such as a payroll function. It was noted that this matter was raised in the previous audit. There is a risk that the council may undertake activities which it is not contracted to perform. In the absence of signed SLAs, neither party is bound to carry out activities in an agreed manner. The risk of the council not receiving payment for services provided as a result of disputes with the other body is heightened. Councils are encouraged to formalise such arrangements with other bodies.

68. Stock take attendance

An audit noted that there was no independent attendance at any of the stock-takes by either Finance or Internal Audit. The council agreed to a recommendation that in future such attendance would take place.

69. Local Government Auditors

- 69.1 The DoE issued a circular (LG 06/10) on 2 April 2010 outlining changes to the number of members of staff from the NIAO designated as local government auditors.
- 69.2 For some years there have been four such designations, but following a proposal from the C&AG the Department is introducing amending legislation for only one local government auditor



with a deputy local government auditor and it is anticipated that the legislation will be introduced by April 2011.

- 69.3 In advance, and under the current legislation, the Department has moved towards this change and thus from 2009-10 accounts onward I will carry the statutory local government auditor role.
- 69.4 For local government bodies this change will have little practical impact as in most cases the former local government auditors will continue to manage significant blocks of audit work. This change was brought in early to provide flexibility with a very significant workload for 2010 whereby resources from the wider NIAO may be required to assist with the clearance of local government audit work.

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Report



Northern Ireland Audit Office

Appendices



Appendix I

Whistleblowing

The Public Interest Disclosure (Northern Ireland) Order 1998 provides protection for a worker making a disclosure of information, while acting in the reasonable belief that the disclosure tends to show one or more of the following:

- a criminal offence has been committed, is being committed or is likely to be committed;
- a person has failed, is failing, or is likely to fail to comply with a legal obligation;
- a miscarriage of justice has occurred, is occurring, or is likely to occur;
- the health and safety of an individual has been, is being, or is likely to be endangered;
- the environment has been, is being or is likely to be damaged; and/or
- information on the above has been, is being or is likely to be concealed.

Quite often the NIAO receives information from named and sometimes un-named sources and although there is no requirement for investigation and response, the information is nevertheless considered and where deemed appropriate is taken into account in the course of our audit work. Past issues raised have included:

- grants to bodies;
- landfill sites – completeness of income;
- misuse of assets / facilities;
- purchasing / tendering;
- suspected fraud; and
- value for money concerns.

The Assembly's PAC, in its Fifth Report of Session 2007-08 on Tackling Public Sector Fraud, stated that:

“Whistleblowing is a valuable element of a good counter fraud strategy that all public sector bodies should have in place”

PAC also stated that it would like to see much more emphasis given to whistleblowing as an important means of identifying potential fraudulent activity.

The website of the NIAO encourages public servants and members of the public to raise their concerns.

The attached form can be used to highlight your area of concern to the NIAO where it will be picked up and may be considered as part of the audit of the relevant body's accounts. Where issues to the audited body are established these are reported.



This form provides an opportunity for the reader to draw matters of concern to the attention of the Comptroller and Auditor General or the Chief Local Government Auditor.

(Optional but preferable)

Name

Address and Post Code

Telephone No.

Name of Body / Individual concerned about

Outline of concern

Contacts:

- Northern Ireland Audit Office, 106 University Street, Belfast, BT7 1EU
- Telephone: 028 90251023
- Email whistleblowing@niauditoffice.gov.uk

Appendix 2

CLGA Annual Report on IT Overview Audits undertaken for 2008-09 accounts

Controls in the general Information Technology (IT) environment were reviewed as part of the audit of the 2008-09 accounts for 23 local government bodies. It is a requirement of international auditing standards that the auditor understands the business of the audited body, including the general IT environment which the body operates, and assesses the risks to this environment. The results of these reviews would indicate that the IT environment in these bodies in general supported the systematic processing of transactions. Despite this conclusion, weaknesses were found in some areas and these are set out below.

1. IT strategy and policy

- 1.1 Many IT strategies are no longer current and councils have not committed to prepare new strategies until the application of a draft Information and Communications Technology (ICT) strategy for all of local government in Northern Ireland has been affirmed. At the time of these audits this NILGA-sponsored strategy had not been applied at the local council level.
- 1.2 It was found that IT hardware or software purchases could be made in certain councils without reference to the IT section. Councils were advised to consult with their IT sections as part of the procurement process to ensure potential systems fit within the IT strategy and could be accommodated within the IT network.
- 1.3 Council policies on the use of IT were often out of date and not comprehensive. IT security policies should include current and emerging issues such as laptop security, data protection, encryption and the approved use of portable storage devices. Staff should

also be provided with IT security awareness training on a regular basis. Policies covering the usage of IT equipment, systems and related privileges such as internet and email access should be definitive about what constitutes acceptable and unacceptable use.

2. Risks and disaster recovery

- 2.1 Certain councils were not able to demonstrate they had comprehensively assessed the risks to their IT environment. It was also apparent on occasions that suitable disaster recovery plans had not been prepared, documented and tested in efforts to minimise the impact of potential disruption of the IT systems.
- 2.2 One aspect of disaster recovery is the process surrounding the backup of information stored electronically. Whilst all councils took measures to ensure a backup of data exists, certain councils needed to implement a more robust backup regime. Such regimes provide the secure off-site storage of backup media and incorporate a method of verification to give assurance that the data can be recovered if necessary. There should always be a recent backup available at the off-site location and backup media should be encrypted using a recognized encryption method where this is possible.
- 2.3 Certain councils have entered into support contracts for the provision of key software which include the provision to periodically test backup copies of their data using supplier facilities to confirm recoverability of the data. In some councils the opportunity to test such backups had not been taken.

3. Security and user access

- 3.1 Regular external testing of computer network vulnerabilities is an aspiration of many councils but this has not always occurred in the recent past.
- 3.2 Issues concerning the physical security of key IT equipment were discussed with all local government



bodies included in the review process. These issues included the rights and methods of access to server rooms, the arrangements taken to minimise the risk of fire and flooding and the assessment of other potential risks.

- 3.3 In some councils, staff and certain IT support organisations have the facility to connect to their council network from a remote location. Where this applies, councils should document and implement policies to ensure that access to the network from a remote location is made in a safe and secure manner. It would be good practice to keep management informed of the reasons for such access, particularly when such connections occur outside normal office hours.
- 3.4 All councils implemented a degree of password control to their networks and systems but there was a need for this control to be enhanced in some councils to move towards best practice. Restrictions on the use of simple passwords, the duration of password life, the reuse of recent passwords and the number of times a password can be entered incorrectly have been recommended as appropriate.
- 3.5 The process for the registration and deregistration of users was found to be informal at several councils, hampering the ability of IT sections to provide prompt service to new recruits and to remove the privileges of leavers in a timely manner. Councils have also been encouraged to ensure the access privileges of users are appropriately restricted.

Notes



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