



Northern Ireland Audit Office

The exercise by local government auditors of their functions In the year to 31 March 2011

REPORT BY THE CHIEF LOCAL GOVERNMENT AUDITOR
9 December 2011





The Department of the Environment may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate members of Northern Ireland Audit Office staff as local government auditors. The Department may also, with the consent of the Comptroller and Auditor General for Northern Ireland, designate a local government auditor as Chief Local Government Auditor.

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.

Louise Mason
9 December 2011



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Abbreviations

afmdni	www.afmdni.gov.uk is the website of the Accountability and Financial Management Division (AFMD). AFMD is a division of the Department of Finance and Personnel (Northern Ireland Civil Service).	NIHE	Northern Ireland Housing Executive
AAL	Annual Audit Letter	NILGA	Northern Ireland Local Government Association
arc21	11 Councils had joined together to form the Eastern Region Waste Management Group, which was eventually renamed arc21.	NILGOSC	Northern Ireland Local Government Officers' Superannuation Committee
BMW	Biodegradable Municipal Waste	PAC	Public Accounts Committee
C&AG	Comptroller and Auditor General	PSNI	Police Service of Northern Ireland
CIPFA/LASAAC	Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee	RPA	Review of Public Administration
CLGA	Chief Local Government Auditor	SOLACE	Society of Local Authority Chief Executives
DARD	Department of Agriculture and Rural Development	SORP	Statement of Recommended Practice
DETI	Department of Enterprise, Trade and Investment	SWaMP2008	Southern Waste Management Partnership
DFF	Department of Finance and Personnel		
DoE	Department of the Environment		
DRD	Department for Regional Development		
IFRS	International Financial Reporting Standards		
ICT	Information and Communications Technology		
IFI	International Fund for Ireland		
NFI	National Fraud Initiative		
NIAO	Northern Ireland Audit Office		



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 arrangement 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 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 fifth 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 year to 31 March 2010, it also highlights a number of important issues that will impact on Councils in the future. At the date of this report I have completed the audits of all financial statements for the year ended 31 March 2011 and I will report on these results next year.
- 2.2 Elected members and officers should review this report and identify how their Council is responding to the issues raised.

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 Councils and a number of joint committees. Local government auditors are responsible for the audit of all of these bodies, and for the audit of 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 16,876 (see table 1) in Moyle to 268,323 in Belfast. In total, gross revenue expenditure amounted to over £710 million (see table 2) and 9,841 full-time equivalent staff were employed. Council services mainly fall under 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.

4. Local Government Auditors

- 4.1 The previous Chief Local Government Auditor, John Buchanan, retired from office on 31 January 2011. I would like to register my thanks for all the work that John has done over the years, and in particular since local government audit merged with NIAO in 2003. John made a significant contribution to the financial management and governance arrangements in the local government sector over his term of office.
- 4.2 The DoE and C&AG appointed me as the new Chief Local Government Auditor from 1 February 2011. I plan to continue to contribute to local government development and further improvement on the financial management and governance arrangements in local government through our audit work. There will be challenging times ahead however, I am confident that local government will respond positively to these challenges and that the external audit function will play its part in promoting change and improvement.

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General Issues

5. Management of Resources

Net revenue expenditure

5.1 The 26 Councils had net revenue expenditure of £492 million (see table 2) in the year to 31 March 2010. Funding of £494m was received by Councils with the balance being retained in District Fund reserves (reserves increased by £2m, from £49 million to £51 million). Financing came from the following sources:

	£m
General Grant from DoE	48 ¹
Rates	446 ²
Total	494

5.2 The net revenue spending equates to £277 per head of population in Northern Ireland (£272 in 2008-09).

5.3 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%
	31 March 2012	542.9m	+2.4%

Assets and liabilities

5.4 At 31 March 2010, Councils had

- collective long term assets valued at £2,122 million;
- total long term liabilities outstanding of £687m, of which long term loans outstanding were £415 million;
- current assets of £242 million;
- current liabilities of £161 million; and
- cash-backed reserves, mostly Capital Funds and Renewal & Repair Funds, totalling £70 million.

Table 1:
Council Loan position at 31 March 2010

Council	£m	Population	£ Per Head
Antrim	21.6	53,243	406
Ards	14.0	77,614	180
Armagh	25.8	58,173	443
Ballymena	27.5	62,738	438
Ballymoney	9.9	30,106	329
Banbridge	18.4	46,966	392
Belfast	30.0*	268,323	112
Carrickfergus	21.5	40,031	537
Castlereagh	19.5	66,205	295
Coleraine	36.9	57,006	647
Cookstown	1.6	35,944	45
Craigavon	8.1	90,843	89
Derry	24.1	109,097	221
Down	15.5	69,816	222
Dungannon	4.0	55,386	72
Fermanagh	4.0	61,966	65
Larne	10.0	31,292	320
Limavady	11.7	34,117	343
Lisburn	19.4	114,766	169
Magherafelt	0.0	43,844	0
Moyle	9.2	16,876	545
Newry and Mourne	20.9	97,289	215
Newtownabbey	44.6	82,744	539
North Down	27.0	78,889	342
Omagh	11.8	52,115	226
Strabane	2.4	39,614	61
Total	439.4	1,775,003[^]	248

*£14.6m is recoverable from NIHE in respect of Housing loans.

A number of other Councils also have similar loans in their systems.

[^]population figures are based on Home Population statistics calculated at June 2008.

Level of loans

5.5 The total loans outstanding of £439 million (including £24 million for loans due for repayment within 12 months) are shown by Councils in Table 1. These loans, expressed 'per head of population', average £248 per head of population and range from Coleraine Borough Council at £647 to Magherafelt District Council at nil, as this Council has no loan debt.

1. Source: Department of Environment Resource Accounts 2009-10

2. Source: Public Income and Expenditure Accounts 2009-10

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Level of reserves

5.6 At 31 March 2010 a number of Councils had significant District Fund balances. Balances for all 26 Councils totalling £50.7 million are shown in Table 2. The Table also shows the level of cash based reserves held in Capital Funds and Renewal and Repair Funds.

6. Financial Statements

6.1 Councils are required to prepare their accounts in a form outlined by the DoE under an Accounts Direction. 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 issued by CIPFA/LASAAC for all Councils.

Table 2
Balances in Council Accounts at 31 March 2010

Council	Gross Expenditure £m	Adjusted Net Expenditure* £m	Total Long Term Assets £m	Current Assets £m	Total Long Term Liabilities £m	Long Term Loans £m	Current Liabilities £m	District Fund Balance £m	Cash Based Reserves £m
Antrim	21.5	15.9	49.8	7.9	25.4	20.5	3.2	2.2	0.3
Ards	23.7	17.0	63.0	34.6	64.1	13.6	17.1	1.9	1.3
Armagh	21.7	16.1	70.4	3.5	32.3	24.6	7.2	2.5	0.1
Ballymena	22.6	17.1	77.6	5.0	40.7	24.8	5.5	1.6	2.3
Ballymoney	9.5	6.5	30.8	1.1	12.5	9.4	1.3	0.4	1.6
Banbridge	15.0	11.3	43.8	5.3	20.9	17.5	3.1	2.2	0.4
Belfast	190.5	120.0	587.0	52.3	64.4	30.0	50.0	4.6	9.2
Carrickfergus	14.5	10.6	47.7	1.6	23.9	20.9	1.9	0.9	0.3
Castlereagh	21.2	12.4	69.5	10.3	21.8	19.0	3.2	1.4	1.3
Coleraine	25.5	15.8	95.5	4.4	41.5	33.9	6.8	1.0	1.0
Cookstown	13.1	8.3	30.2	4.5	6.2	1.5	1.0	2.4	0.8
Craigavon	35.7	25.4	97.0	8.1	16.1	6.8	5.5	2.5	1.0
Derry	47.7	33.5	104.4	26.3	54.9	22.8	10.6	2.3	24.0
Down	24.9	18.3	63.7	4.2	28.5	14.3	4.4	2.2	4.9
Dungannon	14.2	11.2	34.6	4.2	6.2	3.6	1.8	2.2	4.0
Fermanagh	17.7	12.2	55.0	10.5	8.9	3.7	4.5	1.5	1.6
Larne	12.2	8.9	43.1	1.0	14.1	9.5	1.6	1.3	0.0
Limavady	10.8	8.3	27.0	6.2	19.5	11.4	2.8	0.6	3.1
Lisburn	33.4	24.8	97.8	8.9	26.4	18.5	4.3	4.1	2.2
Magherafelt	12.1	8.2	28.0	5.9	5.9	0.0	1.3	0.6	3.8
Moyle	8.4	5.0	31.6	3.6	14.3	8.8	0.8	1.4	0.0
Newry and Mourne	28.2	22.3	80.4	8.8	29.9	18.5	6.9	2.0	0.6
Newtownabbey	31.0	23.2	115.1	4.3	48.1	42.7	7.5	4.3	0.0
North Down	26.4	21.1	101.6	9.4	30.5	25.6	3.8	2.1	4.1
Omagh	17.5	9.3	59.0	4.8	21.8	11.0	3.6	1.2	0.4
Strabane	11.8	8.8	18.0	5.0	7.7	2.3	1.8	1.4	1.4
Totals	710.8	491.7	2,121.6	241.7	686.7	415.2	161.4	50.7	69.6

*A 'proper practices' adjustment is made to the net expenditure figures disclosed in the accounts. This adjustment reverses the capital accounting entries required in the UK GAAP based accounts to give the actual monies required to resource the Council. As such, depreciation is reversed and fixed asset funding entries are included e.g. revenue contributions to capital and capital loan repayments.

†Long Term Loans are also included in the Total Long Term Liabilities figure.



- 6.2 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).
- 6.3 At 31 October 2010 the statement of accounts for all 26 Councils (25 out of 26 at 31 October 2009) had been certified and published with the auditor's opinion.
- 6.4 The auditor retained a note in his certificate for Antrim Borough Council referring to the 2000-01 and 2001-02 audits that remain open. This arose from the auditor's investigation of the Council's refusal of an application for a special waste transfer license in December 2000. A writ of summons was served on the Council in July 2003 for damages sustained in connection with the Council's refusal to grant the special waste transfer license. I understand the issue has now been resolved and I intend to close the audits at the earliest opportunity.
- 6.5 My predecessor issued a report under Article 10 of the Local Government (Northern Ireland) Order 2005 in relation to the Ards Borough Council's disposal of its former Abattoir site. The detail of this report, and other issues relating to Council land, is at paragraph 18.
- 6.6 The auditor qualified his opinion on the South West Cluster Peace III Joint Committee Accounts with respect to the income from government departments. Prior to closing the audit, the lead Council preparing the accounts was unable to reconcile the income received in the period to supporting documentation.
- 6.7 The 2009-10 financial statements were the last statements prepared under the Local Government SORP. The SORP has been replaced by the Code of

Practice on Local Authority Accounting in the United Kingdom 2010-11 which is based upon International Financial Reporting Standards (IFRS). As part of the move to IFRS based accounts, the 2009-10 accounts were restated to provide comparative figures for the Statement of Financial Position as at 31 March 2011. I reviewed and reported on the Councils restatement exercise in February and March 2011. For the most part I was content with the results of this exercise. However, some difficulties were encountered in applying International Accounting Standards (IAS), such as IAS 17 for Leases, as several Councils had not gathered sufficient documentation to support the accounting treatment of an operating or finance lease arrangement.

7. Code of Audit Practice

- 7.1 The Local Government (Northern Ireland) Order 2005 introduced a requirement for the CLGA to prepare, and keep under 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.
- 7.2 Following consultation with interested parties the Code issued by my predecessor was replaced with a new Code which was laid in the Assembly on 24 June 2011. The Code is available on the NIAO website (www.niauditoffice.gov.uk).
- 7.3 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.

8. Financial Management Arrangements

- 8.1 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

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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.

- 8.2 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 2009-10 questionnaire have been used by local government auditors to raise issues of concern when finalising the audit of accounts. The questionnaire largely addresses the matters included by the local government body in the previous year's Governance Statement.

9. Corporate Governance

Additional responsibilities

- 9.1 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 which Councils do in the form of a Governance Statement; 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.

- 9.2 In preparing the 2009-10 financial statements most Councils continued to develop their corporate governance arrangements and disclose this progress accurately in their Governance Statements. However, I noted that two Councils were not complying fully with these arrangements and this was reflected in the respective Audit Reports.

- 9.3 The Lisburn City Council Audit Report noted that the Annual Governance Statement did not comply with proper practices specified by the DoE. Departures related to risk management procedures, risk registers not being reviewed by an appropriate committee of the Council such as the Audit Committee and the absence of an independent Audit Committee. In previous Annual Audit Letters, my predecessor stressed the importance of the Council establishing an Audit Committee to provide the necessary assurances on risk management, the control environment and performance. The Council had made insufficient progress on these areas in last three years.

- 9.4 Non compliance with proper practices specified by the DoE was reported in the Magherafelt District Council Auditor's Report. There were concerns raised as to the lack of progress made by the Council in the last three years in developing systems of internal audit and the annual review of such systems. In addition, the Council had not complied with disclosure requirements in the Annual Governance Statement by not disclosing its own assessment of significant weaknesses in internal control systems.
- 9.5 Other issues identified in the review of Governance Statements were included in the 2009-10 Annual Audit Letters to the relevant local government body.

Importance of an Audit Committee

- 9.6 As is the case throughout the UK, there is no statutory requirement for local government bodies to have Audit Committees. However, Audit Committees are an essential element of good governance.



9.7 The CIPFA publication, “Audit Committees: Practical Guidance for Local Authorities”, outlines the benefits for local government that can be derived from the operation of an Audit Committee:

“Effective Audit Committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. And they enhance public trust and confidence in the financial governance”.

9.8 The number of Audit Committees in local government has been increasing steadily over the last number of years. I very much welcome the fact that all councils and the larger joint committees have now established Audit Committees.

9.9 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 placed additional financial management responsibilities on councillors, either acting for the whole local government body, or a Committee of the body, to:

- Approve the statement of accounts; and
- Review the system of internal control including approving a Statement of Internal Control.

9.10 In addition to the corporate governance benefits identified by CIPFA, Local Government bodies are increasingly using Audit Committees to either directly discharge legislative responsibilities, or as a means of assuring those with this responsibility. As noted above Audit Committees within local government in Northern Ireland have been in place for varying periods and most continue to develop.

9.11 CIPFA’s publication, “Audit Committees: Practical Guidance for Local Authorities”, provides an excellent reference point for all local government bodies. This includes setting out the Audit Committee’s core functions, suggested Terms of Reference and a Self Assessment Checklist.

Independence

9.12 An underlying principal for any Audit Committee is that it needs to retain the ability to objectively challenge on corporate governance issues and report to the local government body on major issues and contraventions. This objectivity can be assisted by the co-option of Committee members to supplement councillor memberships particularly where a co-opted member has relevant corporate governance skills and experience. Co-option in this manner is consistent with Section 18 of the Local Government Act 1972. In some instances the inclusion of co-opted members on Audit Committees have been perceived as diluting the role of councillors. It is my view that co-opted members provide real benefits to Audit Committees and those local government bodies which have co-opted members find that they bring a fresh perspective to issues and underpin the local government body’s objective to have an effective Audit Committee.

Audit Attendance

9.13 The Audit Committee’s role will include receiving and considering our work including Audit Strategies, Audit Reports, Annual Audit Letters and management letters. Most local government bodies comply with best practice and invite us to all Audit Committee meetings. I would encourage this in all cases. We see Audit Committees as a key feature in supporting effective systems of corporate governance across all parts of the public sector and will consider attending all local government Audit Committee meetings.

Assessing Effectiveness

9.14 If the corporate governance benefits of Audit Committees are to be realised, and the maximum impact is to be gained from the resources which are required to support the Audit Committee, it is my view that, its effectiveness should be the subject of a review. CIPFA’s publication, “Audit Committees: Practical Guidance for Local Authorities”, includes a self assessment checklist. We would encourage all

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local government Audit Committees to complete this checklist and to annually review how the Audit Committee has discharged its functions. My points on independence and audit attendance reflect CIPFA's views on best practice as outlined throughout their publication and as listed in the self assessment checklist. I have welcomed the establishment of Audit Committees in local government in Northern Ireland. I look forward to welcoming a system whereby Audit Committees annually review their operation against best practice. I am in no doubt that those local government bodies that currently review the effectiveness of their Audit Committees derive improvements for the Committee which in turn enhances good corporate governance for the local government body.

10. Fraud

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

- 10.1 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.
- 10.2 The C&AG has statutory powers to conduct data matching exercises across the public sector for the purpose of assisting in the prevention and detection of fraud. These 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.
- 10.3 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).

- 10.4 The first NFI exercise commenced in 2008 and included seventy-four public bodies in Northern Ireland, ranging from central government, local government and health sector bodies. The C&AG published a report in February 2011 on the findings and lessons learned from this exercise (available on www.niauditoffice.gov.uk). Councils should note the recommendations from the 2008 report. A further NFI exercise, including over one hundred participating bodies, has been carried out on 2010-11 data. Data matches from this exercise have been communicated to bodies for further analysis.

Improving anti fraud measures

- 10.5 An investigation into a suspected fraud on grant funding for the installation of renewable energy boilers, which was processed through Craigavon Borough Council, had been completed and referred to the PSNI. The C&AG included the matter in his 2009 General Report on Financial Auditing and Reporting.
- 10.6 Craigavon Borough Council's Annual Audit Letter noted that the Department of Enterprise Trade and Investment (DETI) wrote to the Council on 3 March 2010 confirming that claw back of funding was repayable to the Special European Programmes Body (SEUPB). The Fraud Investigation Report and other relevant documents were passed to the Council's Solicitor and to the Council Insurers to ascertain the legal position and indemnity cover.
- 10.7 I will keep the progress of this matter under review and I may report on the outcome at a later date.



10.8 I am also aware of a number of suspected, potential or proven frauds under review in Councils during 2009-10. It is important that Councils develop a strong anti-fraud culture and apply appropriate procedures in their approach and respond appropriately to occurrences of fraud, money laundering and whistleblowing.

which can be tailored for each organisation's own circumstances. The letter, DAO (DFP) 11/08, is available on www.afmdni.gov.uk. Councils are encouraged to consider this approach in reviewing their procedures.

11. Improving Whistleblowing procedures

- 11.1 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.
- 11.2 Local government auditors have been prescribed as persons to whom protected disclosures can be made under the Public Interest Disclosure (NI) Order 1998. A full list of the prescribed persons and their remits can be found in the Schedule to Statutory Rule 1999 No 401 (Northern Ireland). Prescribed persons are responsible for investigating allegations that fall under their jurisdiction, and for protecting the whistleblower and their interests while conducting an investigation.
- 11.3 Receipt of disclosures by the local government auditors is consistent with the role of external audit for local government. Each year I receive a number of whistle blowing letters, including some from an anonymous source. A number of these have highlighted important issues which can be incorporated into our audit work.
- 11.4 Further details on whistle blowing disclosures, including where to get advice and how to make a disclosure are contained on our website at www.niauditoffice.gov.uk.
- 11.5 In November 2008 DFP issued a "Dear Accounting Officer" letter to encourage departments and public bodies to ensure they have whistle blowing procedures in place. It draws attention to a template

12. Improving Economy, Efficiency and Effectiveness

- 12.1 Article 26 of the Local Government (Northern Ireland) Order 2005 permits the CLGA to undertake studies designed 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 2009-10

- 12.2 In November 2010, my predecessor issued a reported on Absenteeism in Northern Ireland Councils. The Report 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 978-0-337-09657-0) or from the NIAO website (www.niauditoffice.gov.uk).
- 12.3 The comparative analysis between Councils was based on a three-year period and an average annual absenteeism rate derived for the period. 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.
- 12.4 We noted that Councils as a whole lost almost 122,000 days to absenteeism in 2009-10, an increase of around 700 days when compared to 2008-09. The main findings and recommendations from the report were that:

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- the average absenteeism rate of 12.39 days for each full time equivalent employee in 2009-10 reflected a marginal reduction of 0.04 days when compared to the 2008-09 rate of 12.43 days;
 - when viewed as lost productivity, absenteeism in Northern Ireland Councils cost £16.4m in 2009-10. This represents an increase of £0.9m from the £15.5m recorded in 2008;
 - the 2009-10 absenteeism rate of days lost for each full time equivalent employee for Northern Ireland Councils is lower than any year since 2002-03 and 16 per cent lower than its peak, recorded in 2002-03;
 - with 7.91 days, Magherafelt District Council had the lowest average annual absenteeism rate for the 2007-10 period. The equivalent absenteeism rates for four Councils were more than double the rate recorded in Magherafelt District Council;
 - the Council with the largest increase in average annual absenteeism rate was Down District Council with 14.79 days for the 2007-10 period compared to 9.86 days in the 2004-2007 period. This represents an average annual productivity loss of £190,000. No other Council experienced a productivity loss in excess of £100,000;
 - on average 42 per cent of Council staff had no absence during 2009-10 (40 per cent in 2008-09);
 - of the eighteen Councils showing an improvement over the two periods, Cookstown District Council improved the most with a significant reduction of 5.40 days in its absenteeism rate to 8.80 days in the 2007-10 period;
 - 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;
 - had all Councils matched the lowest average annual absenteeism rate of 7.91 days, a total of £6.2 million a year could have been gained in productivity;
 - a comparison of the Councils' 2009-10 absenteeism rate with some other employment sectors shows that the local government as a sector continues to have a high absenteeism rate, however it is 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 22 per cent of days lost in 2009-10 (23 per cent in 2008-09). Lost productivity due to stress related absence cost Councils £3.6m in 2009-10 (an increase of £0.1m from 2008-09).
- 12.5 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 three case studies where Councils have seen a reduction in their absenteeism rates.
- 12.6 Since our first 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 £8.5 million (Table 3) between 2005-06 and 2009-10. Continuing this trend will be particularly welcome given the current economic climate.
- 12.7 The 2010 Absence report noted that the data would be included in the Annual Audit Letters issued to each Council following the audit of the 2009-10 accounts. Annual Audit Letters are tabled at each Council's Audit Committee.
- 12.8 In the immediate future I will review the absenteeism rates as part of the annual audit process for each of the Councils since attendance management is now embedded in Councils' processes. I would also intend reporting on absenteeism in my subsequent Chief Local Government Auditor Reports.



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 if rate remained as 2004-05 (days)	Additional Productivity since 2004-05 (£m)
2005-06	13.73	0.88	6.02	14.0	14.9	0.9
2006-07	13.82	0.79	5.41	15.5	16.4	0.9
2007-08	13.70	0.91	6.22	16.4	17.5	1.1
2008-09	12.43	2.18	14.92	15.5	18.2	2.7
2009-10	12.39	2.22	15.20	16.4	19.3	2.9
Total Savings						8.5

13. Improvement Collaboration and Efficiency (ICE) Programme

- 13.1 The President of the Local Government Association (NILGA) and the Chair of SOLACE produced their final report in July 2011 following a consultation period with local Councils and other stakeholders on the ICE Programme (available at www.nilga.org). The Report provides an analysis of feedback and gives recommendations for the next stage of implementing the Programme.
- 13.2 The ICE Programme is an initiative to support local Councils in delivering services in a collaborative and innovative way to generate efficient and quality services by the local government sector.

14. Review of Public Administration (RPA)

- 14.1 On 22 November 2005 the government announced an intention to reduce the number of Councils from twenty six to seven and introduce legislation to this effect. New Councils, in shadow form, were to commence in April 2008 with existing Councils ceasing to exist in March 2009.

- 14.2 With the return of the Northern Ireland Assembly it was anticipated that RPA would be subject to a fresh debate. In March 2008 a final decision for an eleven Council structure, in place of the seven proposed, was taken and was to be effective from May 2011.
- 14.3 The DoE commissioned consultants to provide an economic appraisal of options for local government service delivery in its entirety and they reported in October 2009.
- 14.4 The DoE wrote to the Speaker of the Assembly in June 2010 to inform him that the timetable would not be met for delivery of the eleven new Councils and their new functions in 2011, as planned. The correspondence noted that local government had rejected the consultant's delivery model and in December 2009 the sector had then been invited to develop alternative proposals. A new collaborative framework was proposed that required considerable work, including an in depth economic appraisal, before it could be delivered.
- 14.5 In November 2010 a timetable had not been finalised by the Executive, although a programme of work was ongoing to create eleven new Councils. Progress has been made on the reform of planning with new planning legislation being passed in May 2011. The Planning Act (Northern Ireland) 2011

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makes provision for the transfer of the majority of planning functions and decision making responsibilities for local development plans, development management and planning enforcement to Councils.

- 14.6 The Minister of the Environment stated in Written Answers to the Assembly Members Questions on 28 October 2011 that, "I now intend to bring a comprehensive and integrated package of proposals to the Executive on all the key issues. These include the number of Councils, boundaries, the implementation timetable, the integration of reform with the sector's improvement, collaboration and efficiency programme and the provisions for inclusion in the Local Government Reorganisation Bill which will impact on every aspect of the operation of Councils. I am committed to doing so, soon, in order to provide the certainty that is required across local government and government Departments that propose to transfer functions to it."
- 14.7 In November 2011, the restructuring of Councils was included as a key commitment in the draft Programme for Government 2011-15 published for consultation. Priority five notes a commitment to establish the new eleven Council model for Local Government by 2015.
- 14.8 I will continue to monitor progress and developments in the reform of the local government sector.

15. Legal Services Provision

- 15.1 The position in relation to the provision for Council's legal services was reported in June 2008 in the Chief Local Government Auditor's Report. I expect Councils to clearly demonstrate how current arrangements provide value for money. This is most easily achieved in an open procurement exercise. I will consider this issue further in future audits of Councils' accounts.

16. Waste Management Issues

Financial Penalties - the Landfill Allowance Scheme

- 16.1 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.
- 16.2 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).
- 16.3 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. In 2009-10 Councils did not incur financial penalties. The total amount of BMW reported to have been sent to landfill in 2009-10 was 383,329 tonnes (475,078 tonnes in 2008-09), against an allowance of 470,000 tonnes (626,925 tonnes in 2008-09). Therefore a saving of 18 per cent has been achieved on the utilisation of landfill allowances.
- 16.4 Over the next decade 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.
- 16.5 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.



- 16.6 Further information on the Landfill Allowance Scheme 2009-10 Annual Report is available on the Northern Ireland Environment Agency website at www.ni-environment.gov.uk.
- 16.7 The Waste and Emissions Trading (WET) Act 2003, from which the 2004 Regulations derive, 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.

Landfill sites

- 16.8 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 financial measures to meet this responsibility. In the majority of cases Councils have used consultants to determine the projected level of closure and aftercare costs.
- 16.9 Four 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 for sites closed during the period July 2001 to January 2004. These four sites are now covered by the Landfill Directive. Discussions are on-going between DoE and the Councils as to how associated additional closure costs should be addressed.
- 16.10 It is important for future ratepayers that Councils with existing and closed landfill sites establish an adequate provision for the expenditure related to closure and aftercare and recognise this in the financial statements.
- 16.11 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 Power Northern Ireland.

Waste Management Groups

- 16.12 Following publication of the Northern Ireland Waste Management Strategy in 2000, the Councils established three sub-regional Waste Management Groups. Since then, the Eastern Region Group has renamed as "arc21" comprising eleven 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" and comprises eight Councils. The North Western group, comprising seven Councils, has been established as an unincorporated Joint Committee under the Local Government Act (Northern Ireland) 1972. Each of the Groups is pursuing arrangements to enter into contracts on behalf of their constituent Councils for the future disposal of waste.

17. Declarations of Interest

- 17.1 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.
- 17.2 My predecessor's report of June 2010 referred to recommendations made by the Public Accounts Committee concerning conflicts of interest.
- 17.3 The leasing of a Council facility by Castlereagh Borough Council featured extensively in the media in late 2009. The Council appointed a firm of consultants to conduct an investigation into the award of the lease. This work was postponed while the PSNI looked into criminal aspects of the allegations made in the media report. The PSNI investigation has concluded and the Public Prosecution Service is not pursuing any action.

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17.4 I am examining this matter further and I may report on the lessons learned.

18. Sale of Council land

Former Abattoir site, Newtownards

18.1 My predecessor reported in November 2010, in a Public Interest Report under the Local Government (Northern Ireland) Order 2005, on the sale of the former abattoir site in Newtownards. In 2004 Ards Borough Council sold the site for £6m (plus a top-up ranging from £1.25m to £4.5m depending on the scale of the planning permission obtained by the purchaser). Over three years later only a deposit of £600,000 had been received. The Council reviewed the process leading up to the contract arrangement and considered it to be flawed, particularly with regard to the potential top-up payment. As a result the original contract was set aside and a new contract agreed in October 2009. The new contract terms brought the value of the sale to a total of £9m.

18.2 A number of lessons can be learned from this case concerning the timing of the sale, the sales process, the pre-contract negotiation and the professional advice the Council obtained to assist it. The Council is to be commended for its actions from 2005 onwards in redressing the weaknesses in the arrangement. However, it is unclear whether more than £9m could have been secured for the site had the sale been handled differently from the beginning.

Beverley Avenue Site, Newtownards

18.3 I commented on a land sale at Beverley Avenue in the Annual Audit Letter of Ards Borough Council. The Council agreed to sell a small proportion of land to a resident to extend a garden and build a garage. A company approached the Council seven months later wishing to buy land and the site at Beverley Heights was identified. The offer was subject to the inclusion of land which the Council had agreed to sell to the resident.

18.4 In January 2007 the Council agreed to place the entire site on the open market. An Agent was appointed without proper tendering arrangements and few written instructions. There was insufficient evidence to demonstrate the Council's supervision of the tender process. In addition, a second resident claimed ownership of land offered in the sale.

18.5 The Council settled the agreement with the first resident and reduced the sale price from £1,700,000 to £1,660,000 as a result. The boundary dispute with the second resident was settled in December 2010 although legal costs of £28,000 were incurred by the Council in the process.

18.6 The Council received a deposit of £50,000 from the purchaser in July 2008 with an agreed completion date of 31 December 2009. Although planning permission for social housing was obtained in November 2009, the purchaser did not complete the sale. The Council issued a writ of summons and served this on the purchaser seeking specific performance of the contract. Litigation is ongoing.

18.7 Councils should note the lessons learned in these cases and in particular note that:

- all land sales should be made in the context of a land management strategy. This should examine all possibilities for land sales including alternative selling options; and
- Councils should consider potential land encroachments prior to entering a sales process. Clear documentation should be retained on boundary inspections and any disputes that arise.

(See also paragraph 22.8 on other issues found relating to land encroachment).



19. Property Asset Management in Local Government

- 19.1 Following a similar exercise conducted by NIAO on central government departments, my predecessor carried out a survey of Council's property asset estate to assess the value, size, distribution and cost of the current arrangements. The Public Audit Forum's report on, "Value for Money in Public Sector Corporate Services", recommends the use of Estate Management indicators as a means of promoting and driving efficiencies. This will be particularly important in the context of the current local government reform agenda in modernising and restructuring the delivery of local government services.
- 19.2 I am considering the results of the survey and may write to Chief Executives on this matter.

20. CORE Initiative

- 20.1 The C&AG issued a report to the Assembly in October 2010 on, "CORE: A case study in the management and control of a local economic development initiative", available on www.niauditoffice.gov.uk. The report was based on a case study of a local economic development project, the CORE initiative, established and run by a group of eight Councils in the North East of the province.
- 20.2 The eight Councils involved were Antrim Borough Council, Ballymena Borough Council, Ballymoney Borough Council, Carrickfergus Borough Council, Coleraine Borough Council, Larne Borough Council, Moyle District Council and Newtownabbey Borough Council. The CORE initiative was established to stimulate economic development and its primary activities included working with small and medium sized enterprises to help them access new customers and markets. It also sought to increase the level of networking among the participating businesses.
- 20.3 Funding for CORE was awarded by DETI through the European Regional Development Funds (ERDF) provided under the Northern Ireland Single Programming Document from 1994-99, and Building Sustainable Prosperity, from 2000-06.
- 20.4 The report found that appropriate internal control and governance arrangements were not in place during much of CORE's existence. The report includes a wide range of useful lessons that Councils should be aware of particularly where partnership arrangements exist between central government, other Councils and the voluntary and community sector. A total of thirty-six key lessons were identified that highlight best practice and provide advice in a range of areas including:
- management and oversight exercised by funders;
 - governance arrangements;
 - financial management and control;
 - monitoring and reporting;
 - appointment and remuneration of staff in delivery organisations set up by the public sector;
 - procurement procedures;
 - audit arrangements; and
 - performance monitoring and evaluation.

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21. Issues included in published Annual Audit Letters (AALs) arising in the course of audits

21.1 This section includes some of the issues arising in the course of the 2009-10 audits that have been highlighted in our published AALs. I would encourage other Councils to reflect on the lessons highlighted in this section.

General Governance Statement Issues

21.2 The AALs drew attention to weaknesses that Councils highlighted in their governance statements and I commend the Councils for drawing attention to these matters. Some of the common themes identified are as follows:

- issues with payroll, expenses and Member allowance systems, in particular a lack of documented procedures;
- issues within purchasing and procurement systems, for example a number of duplicate payments were identified through NFI data matching. There were also inconsistencies in the application of Financial Regulations;
- there is an obligation to introduce the Single Status Agreement across workforces which has significant implications for equal pay treatment and harmonisation of conditions of service. Some Councils still need to complete the work in this area;
- Internal Audit work identified issues in relation to:
 - non-compliance with the procurement policies and capital project management procedures. Lack of contracts registers and, in some cases, a need to review purchase order processing arrangements;
 - inconsistencies in Information Management;
 - inadequacies in Risk Management processes;
 - Fuel Management Systems controls following a report of a suspected fraud; and
 - cash handling procedures for Council events.

21.3 Other issues noted in AALs were specific to individual Councils. I have noted some of the more significant issues below.

Armagh City and District Council Navan Centre Refurbishment Project

21.4 This project which was undertaken in 2009-10 ran significantly over budget and time. The final cost estimate of £259,323 which was £134,335 higher than the contract value of £124,987. A review was conducted by Internal Audit to determine if appropriate management and controls were in place during the project and to see if lessons could be learned. The audit reported a “limited” assurance rating³. The Council said it was implementing Internal Audit’s recommendations.

Cookstown District Council

21.5 **Leisure Services provision of fitness equipment** – the Council remains in contractual deadlock with the current Fitness Equipment Provider regarding the extension of the contract and associated capital improvements. The Council has sought legal advice and set a deadline for the way ahead.

21.6 **Rural Development Programme** – As lead Council in the South West Action for Rural Development (SWARD) programme, the Council was exposed to many risks in 2009-10 that could have affected the Council achieving its own objectives. SWARD managers addressed the heightened risk exposure by using the Council’s risk management processes to identify, assess and take actions to mitigate and report on the risks. I noted the Council’s response to risks identified in the SWARD programme and that the Council followed best practice in the governance of the programme.

Derry City Council

21.7 The Council continued to have unfunded capital expenditure and in 2009-10 this increased sharply to £11.6m from £5.6m in 2008-09. Some of this capital expenditure was covered on a temporary basis by

3. A “limited” assurance rating can be described as, “there is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.”



borrowing of £7m from the Capital Fund to finance safety works at the City of Derry Airport. The safety works were the subject of an application to both governments for additional funding. The Council was advised of the urgent need to obtain permanent finance to reduce the unfunded capital expenditure by 31 March 2011 through the 2011-12 Rates Estimates.

was appointed. The PR firm was appointed in March 2008 without a tendering exercise taking place. Payments amounted to £32,000 in 2008-09 and £34,000 in 2009-10. We are concerned that, in the absence of a full tendering exercise, value for money may not have been achieved.

- 21.8 In the period between November 2009 and July 2010 there was a high risk of fraud occurring as a result of poor controls over cash lodgments at the City of Derry Airport. As a result of controls not operating effectively, there was a risk that income lodged may not be complete.
- 21.9 Four internal audit reports received a limited^{4/} unacceptable⁵ assurance rating relating to Human Resource Policies and Procedures, Parks and Programming, Templemore Sports Complex, and Corporate Health and Safety.

Lisburn City Council

- 21.12 A contractor carrying out capital works went into liquidation and no bond was in place. Consequently the Council incurred additional nugatory expenditure of £82,000 over the original tender price to complete the contract. The Council noted that while the performance bond should have been in place it considered that not all of the items indicated as nugatory expenditure would have been covered by the bond. The Council is considering action for liquidated damages in relation to this case.

Down District Council

- 21.10 The Council is the sole guarantor to NILGOSC for the payment of pension liabilities relating to a number of employees of Armagh Down Partnership Ltd (formerly named Kingdoms of Down) which has been wound up. NILGOSC are seeking payment of pension liabilities amounting to £123,000 from Down District Council. The Council believes that all partner Councils should contribute equally to the settlement but it is possible that the Council will be held solely liable.

Newtownabbey Borough Council

- 21.13 A capital project managed by the Council suffered delays that resulted in potential nugatory expenditure of £310,000. An archaeological survey, which was a condition of the planning approval, lasted much longer than expected and a delay in the completion of a water feature contributed to the additional time that was charged to the Council.

Larne Borough Council

- 21.11 Prior to the publication of the NIAO Absenteeism in Local Government 2007-08 Report in January 2008, to help manage the media interest and coverage, the Chief Executive sought the advice of a Public Relations (PR) professional. The Chief Executive's office contacted the 25 Councils enquiring as to how Public Relations was managed within their organisation and, if consultants were used, to recommend a supplier. On review of the information received, and the positive recommendation by two other Councils, a PR firm

Strabane District Council

- 21.14 The Heart Project was a joint venture with Donegal County Council and it received a cocktail of funding from several sources including the Department of Agriculture and Rural Development (DARD), International Fund for Ireland (IFI) and the Councils. DARD fully funded the administration costs of this project of €315,000. However, IFI also funded 12.8% of this expenditure and therefore we are concerned that the Council had received duplicate funding and as such, had breached EU regulations.
- 21.15 I also noted that under this scheme in 2007-08, the Council claimed £45,000 from DARD for a lighting scheme on Castleberg Bridge. This money was

4. A "limited" assurance rating is described as, "there is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance."

5. An "unacceptable" assurance rating is described as, "The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Urgent action is required to improve the adequacy and effectiveness of risk management, control and governance."

transferred to the Department for Regional Development (DRD) to carry out the works. However, due to planning constraints DRD returned the funds to the Council in April 2010. A revised plan had been completed and the works were due to be carried out by DRD in the next financial year. We are concerned that the Council had not incurred the expenditure it claimed from the EU and therefore was in breach of the EU regulations.

22. Issues raised with Councils in management letters on the completion of audits

22.1 The next section outlines other issues that demonstrate common themes identified in Councils during the course of the 2009-10 audits. These issues were communicated to the relevant Council's Chief Executive and are not published under statute.

Contracts, tendering and procurement

22.2 When Councils acquire goods or services that are outside the approved purchasing policy, this is normally done by asking the Council to set aside standing orders. The Council should then be provided with a written report on the reasons. 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.

22.3 The risks on managing contracts, particularly larger capital works, should be included in risk registers and controls to mitigate significant risks developed and monitored.

22.4 One or more procurement weaknesses were identified at several Councils, ranging from no contracts in place for services, such as a Bureau de Change and advertising boards; to poor management of the process, poor contract monitoring arrangements and a lack of Post Project Evaluations. Issues with tendering processes were noted such as not setting the appropriate specification, communicating that specification to suppliers, and proper recording of tenders submitted. Some of these weaknesses are demonstrated in the following cases:

- a) A Council awarded a contract for major works at a leisure centre. After appointing the contractor through a tender process, a decision was made to



change the specification, increasing costs from £4.1m to £5.4m. This substantially changed the work included in the original bid process and exceeded the level of funding secured. The Council should have clearly established in its economic appraisal and business case as to whether the specification met the needs of the public in that particular Council area.

- b) A leisure centre upgrade costing £3.8m was completed in 2009. A Post Project Evaluation highlighted a number of weaknesses in the management of the contract including a cost of £155,000 while work ceased for an asbestos survey. This survey should have been conducted before any works began.
- c) A leisure centre upgrade project was approved in 2004 for an extension and remedial works. Associated costs were incurred in 2008-09 and 2009-10 of £2.5m without a reassessment of whether the original business case in 2004 remained valid. The Council now plans to refurbish the remainder of the leisure centre and create a further extension at an estimated cost of £6m. In 2004 the Council did not consider the option of a full rebuild that may have been a better long term solution. There was an absence of long term planning and strategic direction for the Council's provision of these services. For major capital works planned some years ago, the Council should ensure that the business case remains valid at the time of going to contract.
- d) A contractor for works at a football pitch to restore gravel drains did not perform the contract to the Council's expectations. Following legal advice the Council was informed that the contract specification could be interpreted in different ways and the contractor could not be forced to remedy the gravel drain issue. The Council then appointed a second contractor at a cost of £8,000 to carry out remedial drainage works. The key lessons from this case are that Councils should ensure that contract specifications are sufficiently detailed on the works to be carried out, the specification should be communicated clearly to the contractor at the

outset and supervisory site checks should be made at each key stage of the works.

Landfill Site Management

- 22.5 Audit management letters for two Councils raised issues in respect of controls over the completeness of income at landfill sites. There are particular concerns in relation to weighing procedures, CCTV operation, segregation of financial duties and independent review of procedures.
- 22.6 In another Council the tonnage specification around the procurement of rock crushing was significantly understated. The tender was based upon estimated work to the value of £36,000 but final costs were £150,000. Had the correct tonnage levels been assessed then perhaps a more favorable tender price would have been received. There are lessons to be learned in establishing the requirements of a service at the outset and conducting a proper economic appraisal and business case before entering procurement procedures. Additionally, retendering once initial works had been completed should have been considered and contract change specifications should have been formally agreed.

Business Continuity Plans

- 22.7 In a number of Councils business continuity plans and crisis management plans were either not developed or not adequately tested. It is important that a Council can continue to meet the needs of the public should key systems failures occur, for whatever reason. Councils should make plans to maintain vital services, and test the operation of those plans, for all eventualities arising.

Land Encroachment

- 22.8 A number of instances occurred in Councils where land encroachment issues arose. Often this leads to a loss to the Council through ownership transferring from adverse possession or from a sale agreement which is not subject to open market conditions. Also as noted at paragraph 18 it can cause even greater cost to Councils when a legal

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dispute arises. Therefore, Councils should ensure that a comprehensive land terrier⁶ is compiled that reconciles to the fixed asset register. This land should be inspected and managed appropriately to protect the Council's interests.

Related party disclosure

22.9 There continued to be issues with councillors not submitting annual returns detailing all interests held. There is the risk that related party disclosures are incomplete in the financial statements. It is expected that senior staff also complete a related party return.

Gifts and Hospitality Policies

22.10 Most Councils now have gifts and hospitality policies in place, however, there are still two Councils where this is not the case. This gap should be closed and all Councils should comply with good practice in the acceptance of gifts and hospitality.

Corporate governance arrangements

22.11 A number of Councils still do not have a fully embedded risk management process. I noted that one Council did not have a Risk Management Strategy. In other Councils, the Audit Committees did not regularly review the risk registers. There is a possibility that new and existing risks would not be identified and/or managed at an early point and the Council may suffer a loss as a result.

Internal Audit

22.12 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. This review is still not being completed in some Councils before the Governance Statement is signed by the Chief Executive.

22.13 The annual review should be completed before the Governance Statement is signed by the Chief

Executive and be considered by the Audit Committee.

22.14 In some Councils the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 is not being applied. This included cases where the Internal Audit function did not have specified terms of reference and in others the function was not sufficiently independent of management. Any deviations from this Code should be discussed at the Councils' Audit Committee and disclosed in the Annual Governance Statements.

22.15 I would encourage Councils to reflect on the issues highlighted in this section of my annual report. Some Councils have considered the issues as a checklist to identify areas of risk and steps to improve controls.

6. A land terrier is a record system for an organisation's land and property holdings. It should include documentation on the legal ownership of the land, including maps and clear boundary lines. This information should be sufficient to defend any legal claims of ownership.



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