



Northern Ireland Audit Office

# The exercise by local government auditors of their functions In the year to 31 March 2009

REPORT BY THE CHIEF LOCAL GOVERNMENT AUDITOR  
30 June 2009





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.

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Chief Local Government Auditor  
30 June 2009





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## Abbreviations

aasdni	<b>www.aasdni.gov.uk</b> 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).	NILGA	Northern Ireland Local Government Association
arc21	Eleven councils had joined together to form the Eastern Region Waste Management Group, which was eventually renamed arc21.	OE	Operating Expenditure
BWM	Biodegradable Municipal Waste	OJEU	Official Journal European Union
C&AG	Comptroller and Auditor General	PAC	Public Accounts Committee
CCTV	Closed Circuit Television	RPA	Review of Public Administration
CIPFA/LASAAC	Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee	Section (S) 115	Section 115 Local Government Act (NI) 1972
CLGA	Chief Local Government Auditor	SORP	Statement of Recommended Practice
DF	District Fund	SWaMP2008	Southern Waste Management Partnership
DFF	Department of Finance and Personnel	TOIL	Time Off In Lieu
DoE	Department of the Environment	VAT	Value Added Tax
FRAB	Financial Reporting and Advisory Body		
FSA	Financial Services Authority		
IFRS	International Financial Reporting Standards		
LAAP	Local Authority Advisory Panel		
LPS	Land and Property Services		
NFI	National Fraud Initiative		
NIAO	Northern Ireland Audit Office		
NIHE	Northern Ireland Housing Executive		



# Introduction

## I 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 as to 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 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 third 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 councils in the future. The accounts under audit during the year were mainly the financial statements for the year to 31 March 2008.
- 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 is comprised of 26 district councils and a number of joint committees. Local government auditors are responsible for the audit of these bodies and 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 £500 million and employ over 9,000 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.



# General Issues

## 4 Management of Resources

### Net revenue expenditure

4.1 The 26 district councils had net revenue expenditure of £464 million in the year to 31 March 2008 and a decrease of £11 million in District Fund reserves financed as follows:

	£m
General Grant from DoE	46
Rates	407
<b>Total</b>	<b>453</b>

4.2 The net revenue spending equates to £269 per head of population in Northern Ireland (£246 in 2006-07).

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

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

### Assets and liabilities

4.4 At 31 March 2008, councils had collective long term assets valued at £1,833 million; long term loans outstanding of £347 million; current assets of £223 million; and current liabilities of £135 million. They also had cash-backed reserves, mostly Capital Funds and Renewal & Repair Funds, totalling £74 million.

4.5 The total loans outstanding of £377 million (including £30 million for loans due for repayment within 12 months) are shown by council in Table 1. These loans, expressed 'per head of population' range from Moyle District Council at £521 per head 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	23.1	50,530	457
Ards	15.1	75,279	200
Armagh	21.6	55,755	388
Ballymena	30.3	60,738	499
Ballymoney	9.6	28,730	333
Banbridge	13.1	44,778	293
Belfast	20.9*	267,999	78
Carrickfergus	13.8	39,175	351
Castlereagh	18.0	65,665	274
Coleraine	27.8	56,565	492
Cookstown	1.7	34,102	50
Craigavon	8.2	84,679	97
Derry	21.1	107,296	196
Down	15.4	67,436	228
Dungannon	2.0	50,747	40
Fermanagh	2.5	59,712	42
Larne	6.2	31,067	200
Limavady	9.0	34,147	263
Lisburn	21.1	111,521	189
Magherafelt	0.0	41,819	0
Moyle	8.6	16,515	521
Newry and Mourne	21.8	91,572	238
Newtownabbey	28.4	80,834	351
North Down	24.4	78,272	312
Omagh	10.5	50,730	206
Strabane	2.5	38,745	65
<b>Total:</b>	<b>376.7</b>	<b>1,724,408</b>	<b>218</b>

\* £18million of this is in respect of Housing loans recoverable from NIHE. A small number of other councils also have housing loans but these do not comprise a significant amount of the loans outstanding in each council.

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

4.6 At 31 March 2008, a number of councils had significant District Fund balances. Balances for all 26 councils, totalling £60 million are shown in Table 2. The Table also shows the level of reserves in Capital Funds and Renewal and Repair Funds. Each council

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should continue to give careful consideration to the level of reserves held as it plans 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 During the period of this report local government auditors concentrated on the audit of the financial statements prepared by audited bodies, including the

revenue and capital income and expenditure, in the year to 31 March 2008.

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

**Table 2**  
Balances in Council Accounts at 31 March 2008

Council	Population	District Fund			Balance Sheet	
		Net Operating Expenditure (OE) £m	District Fund (DF) Balance £m	% DF of OE £m	Capital & Renewal & Repair Funds £m	Other Balances & Reserves £m
Antrim	50,530	15.0	1.1	7.2	0.1	0.6
Ards	75,279	13.9	1.5	11.1	3.4	0.0
Armagh	55,755	13.5	3.3	24.6	0.0	0.1
Ballymena	60,738	15.9	1.5	9.3	2.3	0.0
Ballymoney	28,730	8.5	0.8	9.5	1.0	0.0
Banbridge	44,778	10.1	2.4	23.8	1.2	0.0
Belfast	267,999	116.7	10.4	8.9	13.6	0.5
Carrickfergus	39,175	9.6	1.3	13.1	0.3	0.0
Castlereagh	65,665	11.4	2.9	25.3	1.6	0.1
Coleraine	56,565	15.8	1.0	6.4	1.0	0.8
Cookstown	34,102	6.5	2.7	42.2	0.5	0.0
Craigavon	84,679	21.3	5.2	24.3	2.5	0.0
Derry	107,296	31.6	2.5	7.9	23.5	0.1
Down	67,436	17.2	2.7	15.6	5.6	0.0
Dungannon	50,747	11.2	1.4	12.6	0.6	1.7
Fermanagh	59,712	11.7	0.8	7.1	0.8	0.0
Larne	31,067	8.7	2.1	24.5	0.0	0.0
Limavady	34,147	8.6	0.4	4.6	2.6	0.0
Lisburn	111,521	22.8	5.5	23.9	2.6	0.0
Magherafelt	41,819	7.8	0.2	2.3	3.7	0.0
Moyle	16,515	5.0	1.1	23.0	0.0	0.0
Newry and Mourne	91,572	21.9	1.5	7.0	2.0	0.0
Newtownabbey	80,834	21.9	3.4	15.7	0.0	0.0
North Down	78,272	18.5	1.5	7.9	3.5	0.0
Omagh	50,730	10.5	1.4	13.1	0.0	0.0
Strabane	38,745	8.4	1.1	12.6	1.4	0.0
<b>Totals</b>	<b>1,724,408</b>	<b>464.0</b>	<b>59.7</b>	<b>13.0</b>	<b>73.8</b>	<b>3.9</b>



## 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 2008, the statement of accounts for all 26 councils (23 of 26 at 31 October 2007) had been certified and published with the auditor's opinion.

## 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](http://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.

## 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 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 questionnaire have been used by local government auditors to raise issues of concern when finalising the audit of accounts.
- 7.3 For 2007-08, the questionnaire was extended to include sections on legal services and insurance, reflecting the increased importance attached to these activities in the management of councils. Responses received on insurance prompted the work outlined at paragraph 8.4 and Annex 1. The 2008-09 Financial Management Arrangements review included data quality for the first time. It has been completed and is available to local government auditors as they commence the audit of the 2008-09 council accounts. For the first time auditors are able to place reliance on the work district councils had completed to support the additional Annual Governance Statements included in the 2007-08 accounts.

### 8 Provision of Legal and Insurance Services

8.1 As part of the Financial Management Arrangements review in the previous year, councils were asked to provide specific information regarding legal and insurance services. A summary of responses was set out in my report dated June 2008.

8.2 With regard to legal services, my report last year concluded that:

*“while local government bodies are encouraged to introduce competition for the delivery of services, with the approach of RPA and the present councils due to cease within the next three years it is perhaps understandable that bodies would wish to continue with their present arrangements until the other side of RPA. Existing providers will have extensive knowledge of the present bodies which could be beneficial in the upcoming change process. However it would only be reasonable to argue for this position if the body is satisfied with the quality of service and the price paid”.*

8.3 Similarly I reported last year on the provision of insurance in councils, and concluded that:

*“it is pleasing to note that most councils have been actively testing the market in the provision of insurance brokerage services and underlying cover, in the recent past, with savings, in some cases very significant, resulting from the process. I would encourage councils who have retained their insurance broker for many years without competition to similarly consider bringing further competition into the process”.*

8.4 In further reflecting on insurance provision, and in anticipation of councils starting to consider this matter for the implementation of RPA, I commissioned an insurance broker with experience of the Northern Ireland local government sector to provide me with guidance on:

- the method of tendering Insurance Broking Services and Insurance covers in line with best practice as outlined under Public Procurement Procedures; and

- the range of risks which are insurable in relation to a typical Local Authority.

8.5 In Annex 1, I provide a copy of this guidance. Councils should review their own circumstances in the light of this guidance to determine whether or not they are following best practice and whether they have appropriate cover.

8.6 However, in moving towards the new structures enlarged councils should consider the opportunity to retain additional risk in the form of self-insurance. Each major category of risk should be examined, with a view to establishing the benefits or otherwise of introducing or increasing the level of self-insurance. This exercise should not be restricted to simply establishing a potential saving in premium cost, but other aspects including administration costs, the control of risk and the control of claims.

8.7 I understand that certain types of claim, for example industrial disease, may not be notified for a number of years and this should not be overlooked in establishing the extent of self-insurance.

8.8 Derry City Council moved to carry more risk by self insurance.

#### Good practice example:

Joe Campbell, City Treasurer, told me that:

“Derry City Council’s Self-Insurance Programme was introduced in 2003 in response to the hardening insurance market and the significant rate increases

being sought by all Insurers at that time. It was recognized that self-insurance would offer a more effective and flexible risk financing tool as opposed to a conventional insurance programme.

Research was completed, and a self-insurance model was developed by the Council in respect of its Public, Employer’s and Professional Liability risks. This model represented a move from total dependence on insurance to a more proactive approach of developing a level of risk retention, and operates as follows:-





- £10,000 excess applies in respect of each and every claim.
- Over and above the excess for each and every claim, the Council covers a further £250,000 self-insurance annual aggregate.
- If the aggregate is exhausted in any one year, the Insurer will pay any subsequent claims with a £10,000 excess applying to each and every claim.

Claims are handled in-house by the Council from the initial letter of claim through to settlement.

Insurers were requested to provide catastrophe cover based on the model devised by Council. The Self-Insurance Programme was initiated in April, 2003 and is now in its seventh year. In the five years up to 31 March 2008, the programme has resulted in savings in the region of £1.4 million, and a proportion of these savings have been passed onto ratepayers through reduced rates charges. It has also allowed the Council greater flexibility in both the management of liability claims, and in its risk financing arrangements, and has in addition financed a number of Health & Safety initiatives in a bid to further improve Council's claims experience record.

The Council's Self-Insurance programme was the winner of the Change Champions in Practice category at the 2008 NILGA Northern Ireland Local Government Awards."

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.

- 9.2 In preparing their 2007-08 financial statements councils responded well to this new requirement and provided Corporate Governance Statements. In some cases 2008-09 will see further progress in the introduction of corporate governance requirements.
- 9.3 The annual audit by the local government auditor does not extend to the system of internal control; rather the auditor will review the Governance Statement to ensure it reflects DoE guidance and is consistent with his findings. Where local government auditors found significant examples of governance weaknesses these were included in the audit report or annual audit letter to the relevant local government body.

## 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.*

### Importance of Audit Committee

- 9.4 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

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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.

9.5 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. We noted in response to an Assembly Question from Jim Shannon MLA that Lisburn City Council "has incorporated the audit function within its Corporate Services Committee." CIPFA's Audit Committees Practical Guide for Local Authorities states that audit Committees should be independent of the executive and scrutiny functions. Professional practice as seen by CIPFA and others would view the functions of Corporate Services and Audit Committees as incompatible.

9.6 A positive development with some Audit Committees over recent years has been the inclusion of external members. It is our view that all Audit Committees would benefit from the independent perspective that external members bring. A continuing concern local government auditors have noted over the past year is that audit committees have occasionally not had the required number of members to meet the quorum necessary for a meeting.

9.7 Useful references in relation to this topic are *Audit Committees: Practical Guidance for Local Authorities (CIPFA, 2005)*

*Code of Practice for Internal Audit in local government in the UK (CIPFA 2006)*

9.8 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 being as effective as possible.

### Council attendance

9.9 Included in the Coleraine Borough Council website is a table setting out the number of meetings councillors were expected to attend and the number actually attended. Although there is no statutory requirement for this disclosure I see this as information which will be welcomed by the local electorate and ratepayers. I commend the disclosure of councillor attendance information to all Northern Ireland councils. The website also shows, for 2008-09, details of members' allowances, analysed over basic allowance, responsibility allowance and mileage expenses. This too is to be commended at a time where there is a public wide focus on expenses claimed in the public sector.

## 10 Fraud

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

10.1 The Comptroller and Auditor General (C&AG) has been given new 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 extend to local government bodies.

10.2 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.

10.3 Under the new 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 has now been laid before the Assembly and is available on the NIAO website([www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk)).

10.4 The first exercise under these new powers was carried out during October 2008, and the matches were passed to participants from February 2009 onwards for investigation. It is important that local government bodies follow up on identified matches and report progress on the NFI database.

10.5 It is anticipated that during 2010 the C&AG will publish a report on the outworking of the NFI.

### Improving anti fraud measures

10.6 In 2007, the Department of Finance and Personnel (DFP) commissioned an Anti Fraud Measures Questionnaire and issued it to all departments, agencies, non departmental public bodies and other sponsored bodies, including the District Councils and Health Trusts.

10.7 In total 110 public sector organisations provided returns. A summary of the key findings is attached at

Annex 2. This information is provided here to assist councils to reflect on their arrangements in this regard.

10.8 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](http://www.aasdni.gov.uk).

## 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 wrong doing 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 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](http://www.aasdni.gov.uk). Councils are encouraged to consider this approach in reviewing their own procedures.

11.3 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 are currently progressing or awaiting feedback from councils.

## 12 Studies for 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 enable him to make

recommendations for improving economy, efficiency and effectiveness on 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 2007-08

12.2 In January 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 978-0-337-091407-7) or from the NIAO website ([www.niauditoffice.gov.uk](http://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 April 2005 – March 2008. 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 means that the resulting absenteeism data was much less susceptible to year-on-year fluctuations.

12.4 The main findings and recommendations from the report are that:

- councils lost almost 131,000 days to absenteeism in 2007-08;
- when viewed as lost productivity, absenteeism in cost £16.4m in 2007-08. For 2007-08, councils as a whole had an average absenteeism rate of 13.7 days;
- the 2007-08 absenteeism rates for councils is lower than any year since 2002-03. Had the absenteeism rate remained at this level there would have been an additional cost to councils in 2007-08 of £1.1 million in lost productivity;
- increased staff costs in councils of £18m in the year to 31 March 2008, when combined with the slightly lower level of absenteeism, have increased lost productivity due to absence by £0.9m, from £15.5m in 2006-07. This increase in lost productivity represents 2,000 additional days absence (129,000 in 2006-07, 131,000 in 2007-08);
- with 8.19 days, Magherafelt District Council had the lowest average annual absenteeism rate for the 2005-08 period. The equivalent absenteeism rates for five councils were more than double the rate recorded in Magherafelt District Council;
- the council with the highest average annual absenteeism rate was Larne Borough Council with 19.54 days for the 2005-08 period. Almost one third of this was due to stress related absenteeism, the second highest proportion recorded by any council;
- on average 37 per cent of council staff had no absence during 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;
- had all councils matched the lowest average annual absenteeism rate of 8.19 days, a total of £6.2 million a year could have been gained in productivity;
- a comparison of the councils' 2007-08 absenteeism rate with some other employment sectors shows that Northern Ireland councils as a sector continues to have a high absenteeism rate. The absenteeism rate 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 24 per cent of days lost in 2007-08 (20 per cent in 2006-07). Lost productivity due to stress related absence cost councils £3.9 million in 2007-08.





- 12.5 It is recommended that councils with high and with rising absenteeism rates should review their own management practices and benchmark these against those councils with low and falling absenteeism rates. The report includes five case studies where district councils have seen a reduction in their absenteeism rates.
- 12.6 Given the significance of this topic it is planned to review the matter again for the year ended 31 March 2009. Issues which we intend to examine include staff with very long terms of absence and a breakdown between sickness caused by work and non-related work factors.
- 12.7 The 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.
- 12.8 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/2007man date/reports/Report38\\_07\\_08R.htm](http://www.niassembly.gov.uk/public/2007man date/reports/Report38_07_08R.htm)

## 13 Use of statutory audit powers

### Fermanagh District Council

- 13.1 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 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 has still to come before the High Court for determination.

## 14 Review of Public Administration (RPA)

- 14.1 On 22 November 2005, the government (then under direct rule) 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 announced to commence in April 2008 with the current 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 by local Ministers and in March 2008 a final decision of an eleven council structure was taken.
- 14.3 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.
- 14.4 The DoE has issued Circulars providing advice on Winding Up Arrangements and the role of Transition Committees and Transition Management Teams.

## 15 Waste Management Issues

### Financial Penalties - the Landfill Allowance Scheme

- 15.1 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 district council.
- 15.2 The targets set are to reduce:
- by 2010 the quantity of BMW landfilled to 75% of that produced in 1995;
  - by 2013 the quantity of BMW landfilled to 50% of that produced in 1995; and
  - by 2020 the quantity of BMW landfilled to 35% of that produced in 1995.



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- 15.3 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 2007-08 councils did not incur financial penalties (The total amount of BMW reported to have been sent to landfill in 2007-08 was 510,205 tonnes (535,716 tonnes in 2006-07), against an allowance of 641,235 tonnes (655,545 tonnes in 2006-07)).
- 15.4 Over the next 12-13 years the allocations for each district council, and Northern Ireland as a whole, progressively reduce making it vital for more BMW to be diverted from landfill. In 2008-09, 626,925 tonnes of BMW can be sent to landfill in Northern Ireland. This amount further reduces to 470,000 tonnes in 2009-10, the first Landfill Directive target year.
- 15.5 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.
- 15.6 The source of the above information is the Landfill Allowance Scheme 2007-08 report and this report is available on the Northern Ireland Environment Agency website at [www.ni-environment.gov.uk](http://www.ni-environment.gov.uk).

## Waste Management Groups

- 15.7 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 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”. The North Western group remains a voluntary Joint Committee. Each of the three will have to review its organisational arrangements as a

consequence of the restructuring of councils from 26 to eleven under the RPA.

## 16 e-purchasing

- 16.1 In December 2008, the Finance Minister’s statement to the Assembly drew attention to the fact that:

*“public procurement policy requires that we advertise all procurement opportunities with a value in excess of £30,000. But to assist small businesses to respond to these opportunities, I can tell the Assembly that the Procurement Board, which I chair, has now agreed to implement a single e sourcing system for all of its procurement activities. The system will increase the visibility of tender opportunities and improve standardization of approach to the market place. This in turn will help small businesses and lead to a reduction in the time and cost of bidding”.*

- 16.2 Some councils have embarked on e-purchasing with good effect.

### Good practice example

Trevor Salmon, Belfast City Council, City Treasurer told me that:

“E-procurement is a key strand of the council’s efficiency programme. We have worked hard to analyse our expenditure on goods and services in order to identify procurement saving opportunities. We have combined this knowledge with new technology to carry out a number of e-auctions. For example, the e-auction on stationery / IT consumables and paper has delivered annual savings amounting to £200,000.

We have also been trying to make it easier to do business with the council. For example, all our tenders and select lists are put on the council’s website along with information regarding “selling to the council”, “green purchasing”, “tips for selling” and “frequently asked questions”.



## 17 Public Services Centre

- 17.1 An interesting development noted during the year was the development of a public services centre by Omagh District Council.

### Good practice example

Joan McCaffrey, Chief Finance Officer, Omagh District Council told me that:

#### PUBLIC SERVICES CENTRE

“An interesting development occurred during the year which was the opening of a Public Services Centre by Omagh District Council. The first of its kind in Northern Ireland, this innovative new initiative prides itself on bringing services closer to the customer. The custom built town centre venue provides the ideal shop-front for local public services and makes each more accessible for residents of the district. The emphasis of the Centre in the initial phase is to concentrate on the delivery of Omagh District Council services, and in parallel to build and develop interaction and partnership arrangements with other public bodies, with an overarching aim of providing more joined up and higher quality public services. Some examples of the types of services on offer include dog licensing, waste information, road pothole reporting, drainage issues and grant information.

The Public Services Centre opened on 22 April 2008 and figures to 30 April 2009 show that 5,281 customers used the Centre, with almost 88% of queries being resolved directly by staff working here. Enquiry breakdowns show that staff in the PSC successfully processed 99 dog licenses throughout the year, worked with Roads Service staff to resolve 129 enquiries, and provided information on waste to 439 customers. Other agencies have welcomed the availability of Hot Desk facilities in the Centre, and having used this facility, a representative of the Western Education and Library Board recently commented, “We were very impressed with the facilities, particularly the speed of the internet connection and the fact that a private meeting room was made available to us. This town centre venue is

an excellent asset for our staff in the work that we carry out and we look forward to working closely with staff in the Public Services Centre well into the future.”

When Omagh District Council were given the opportunity to commission a major new town centre building under their town centre and riverside regeneration plans, it created the ideal opportunity to integrate the Public Services Centre. The PSC is the High Street frontage of this new 25,000 sq. ft office development, with the remainder of the building leased to the Public Prosecution Service.

The Public Services Centre was officially opened by the Minister of the Environment, Mr Sammy Wilson, on 23 July 2008. Commenting on the initiative by ODC, Minister Wilson remarked, “I hope this is the first of many collaborative ventures across the public sector. I would also like to think Omagh will be held up as an example of how public services provided by local and central government can be delivered to communities in a modern and accessible way and in a manner which addresses their needs.”

This approach has also been warmly received by the people of Omagh, as customers to date have commended the “excellent facility that enhances the services already in place” and the “wide ranging and high quality service”.

## 18 Guide to Expenditure Appraisal

- 18.1 DoE reviewed procedures for making loan sanction applications and with effect from 1 January 2008 introduced a new application form and a template for completion of an economic appraisal as part of the application.
- 18.2 In November 2008, an exercise was carried out to review the working of the new arrangements and the DoE updated local government finance officers with the findings. This exercise as well as noting a degree of inconsistency in terms of what was submitted to justify the loan application, highlighted

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points of encouragement and made a number of recommendations to assist with the development of the process.

- 18.3 In February 2009, DFP issued a “Dear Finance Director” circular applicable to central government departments and non-departmental public bodies. (FD (DFP) 01/09 refers). As this circular contains much good practice advice I draw attention to its availability on [www.aasdni.gov.uk](http://www.aasdni.gov.uk) (FRAB section).
- 18.4 For example, the circular states that “retrospective appraisal, that is, going through the motions of appraisal after decisions have been taken or expenditure committed, represents poor management practice and is unacceptable. Appraisal should not be used merely as the means to refine the details of a predetermined option. It must not be used to provide post hoc justification for decisions that have already been taken, expenditure that has already been committed, or projects that have already commenced. Expenditure that is incurred without the necessary approvals is irregular”.

## 19 Rates

- 19.1 The collection of rates by Land and Property Services (LPS) was the subject of a report by John Dowdall, the C&AG.

### Level of arrears

- 19.2 It was noted that ratepayer arrears at 31 March 2008 were £124 million compared with £48 million at 31 March 2006. The C&AG highlighted that increasing arrears and delays in their recovery increases the risk of significant loss to public funds. These sums cover both the Regional Rates used to fund central government expenditure and District Rates collected on behalf of district councils.

### Accuracy of listed vacant property

- 19.3 Concern remains that there is inadequate audit evidence in verifying vacancies, representing £32 million of rate income, concerns over the

completeness of the property listing upon which rate assessments are raised and continuing significant system control problems.

- 19.4 Council staff have been working with LPS in carrying out inspections of listed vacant property, to determine if they genuinely are vacant, and it was noted from a response to an Assembly question that the Minister of Finance and Personnel was able to indicate that the inspection of property recorded as vacant but identified as occupied during the recent inspection exercise had, at 23 January 2009, resulted in rates bills being issued totaling £6.8 million. It was anticipated that continuing the exercise would result in further bills being issued.
- 19.5 In the C&AG’s report dated 20 May 2009 (Financial Auditing and Reporting 2007-2008 NIA 115/08-09), it is noted that 6,918 rate bills totalling £14 million had been issued in respect of properties which had previously been recorded as vacant. LPS had also indicated that the number of domestic properties incorrectly recorded as vacant could be as high as 23,000, and in February 2009, LPS provided councils with an estimate (for rate setting purposes) that an additional £16 million worth of income (from domestic and non-domestic properties) could be collected as a result of this exercise.
- 19.6 In the course of one council audit the auditor was informed that house vacancy checking locally had indicated that approximately 40 per cent of the houses listed as vacant were in fact occupied (and therefore not paying rates), and that a number of new houses were not on the schedules. One householder had indicated that rates had not been paid for 26 years.

### Estimated compared to Actual Penny Product

- 19.7 The subject of rates has led to a number of questions in the Assembly. For example, in December 2008, the Minister of Finance was asked to indicate the discrepancy between the estimated penny product and the actual penny product for each District Council and where the discrepancy is greater than one per cent.



19.8 The Minister replied that “LPS provides the Estimated Penny Product figures to councils to assist them in the consideration of striking a rate. The figures are estimates based on information available some 16 to 18 months in advance of the close of the financial year in question. Councils are free to use or to disregard the estimate in finalising a rate. There will always be variances between the initial estimate and final outcome; this is a natural part of the process caused by, for example, properties going into and out of occupation, and revisions to the tax base.”

19.9 The Minister supported his response by showing the differences between the Estimated Penny Product and the Actual Penny Product for 2007/08 in two categories – councils where the difference was less than one percent (12) and councils where the difference was greater than one percent (14).

## 20 Declaration of Interest

20.1 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 year and it is encouraging to note that some councils have been moving to improve clarity in this area. At a recent audit committee meeting the local government auditor was advised that following a review the council intends to adopt a similar arrangement to that of the Assembly whereby at the start of a meeting members are reminded of the declaration of interest principle.

20.2 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”.*

20.3 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”.*

## 21 Transition to International Financial Reporting Standards (IFRS)

21.1 From 2010-11, local government bodies’ Statement of Accounts will be prepared under an IFRS based Code of Practice on Local Authority Accounting. This is part of a wider move to international standards. This will require councils to restate balance sheets on 1 April 2009 and 2009-10 accounts on IFRS basis. When preparing budgets for 2010-11 any IFRS impacts on budgets will need to taken account of.

21.2 **Council Outline Project Plan: Two Key Milestones** – CIPFA has issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the ‘Implementation of IFRS –Outline Project Plan’. Councils should develop their own IFRS Project Plan with the key steps and dates including the two key milestones for the restatement of 1 April 2009 balance sheet and the 2009-10 accounts. The Chief Financial Officer and Audit Committees should monitor progress on completing the IFRS Project Plan.

21.3 **Impact assessment on Council Accounts** – Councils will need to carry out an impact

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assessment on their accounts including the key areas such as holiday pay (IAS19 Employee Benefits), component accounting (IAS 16 Property Plant and Equipment) and leases (IAS 17 Leases).

- 21.4 **Step to be done now** – The holiday pay accrual for IFRS balance sheet at 1 April 2009 should be calculated if it has not already been done.





## Issues Arising

### 22 Issues arising in the course of audits

- 22.1 This section includes a range of issues arising in the course of our audits which have been highlighted to local government bodies in correspondence, including annual audit letters and management letters.
- 22.2 I would encourage councils to reflect on the lessons highlighted in this section of my annual report. Last year one council used the topics as a check list to identify areas of risk and steps to improve controls.

## ACCOUNTING AND FINANCING

### 23 Accrual for capital work

- 23.1 The audit noted that the financial statements only included work on a project up until 31 January 2008. A further certificate issued by the consultant engineer on 7 April detailed over £600,000 of work carried out between 31 January and 7 April 2008. The financial statements for the year to 31 March should have reflected a significant proportion of this additional work. Consequently the work-in-progress and creditors balances were understated at the year end. The accounts were subsequently amended to correct the error.

### 24 Borrowing over too long a period

- 24.1 A local government auditor drew attention to the repackaging of a £3m loan which initially ran to 2035. The new arrangement extended the life of the loan to 2057. The auditor indicated that long terms loans should be repaid within the lifetime of the asset, raising the concern that in this case the loans may still be repayable when the associated assets are no longer in use.

### 25 Capital expenditure funding

- 25.1 A council's financial statements notes provide for an explanation of how capital expenditure is funded. Where expenditure is to be met by loans the relevant loan sanction should be sought in advance of incurring the expenditure. If the loan funding has not been drawn down to match the expenditure reference to the outstanding loan sanction should be provided to explain the under-funding.
- 25.2 In one funding note for the year, expenditure on capital assets was £4.9m with only £1.5m of receipts. An explanation in the accounts was necessary to assist reader understanding.
- 25.3 The auditor also noted that this council did not have a formal documented policy for carrying out post project evaluations.
- 25.4 In another council the auditor drew attention to special funds and reserves on the Balance Sheet totalling almost £5 million but identified cash backing of only £1.7 million. It transpired that the council had funded capital expenditure with monies from these funds and reserves before drawing down long terms loans. While Section 73 of the Local Government Act (Northern Ireland) 1972 provides for such short term arrangements DoE approval is required.

### 26 Fixed asset disposal – DoE approval

- 26.1 At one council the local government auditor drew attention to the agreement to a 99 year lease of a portion of land. Agreeing a lease of this duration is effectively a disposal. Since the disposal was not by way of a sale on the open market, the Council should, under section 96(5) of the Local Government Act (Northern Ireland) 1972, have obtained permission from the DoE before agreeing to this disposal.
- 26.2 Following the sale of the Tourist Information Centre site, the Council neither repaid the outstanding loan nor obtained permission from the DOE to transfer the loan against other capital projects.

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### 27 New accounting system - problems following implementation

27.1 The importance of fully testing new systems prior to going live and having staff adequately trained was highlighted by a local government auditor of one body that implemented a new accounting system part way through the year. The control weaknesses identified included:

- reduced cash flow through debtor statements being withheld as they were not up to date in that not all receipts had been posted to the nominal ledger. As a consequence over 25 per cent of the council's year end debt was over six months old;
- debtor cut off errors in year end accounts;
- lack of visibility in bank, creditor and debtor reconciliations due to numerous contra entries;
- VAT debtor not reconciled to the VAT return;
- 43 per cent, by value, of payments made through the direct payment route where no purchase order is required – this could result in greater opportunity for invalid invoices to be paid and creditors to be understated;
- 11.5 per cent, by value of payments made through large purchase orders where no goods received note is required and hence an increased risk of paying invalid invoices; and
- system weakness in being able to identify a duplicate payment before it occurs.

27.2 Many of these weaknesses have since been rectified by the council.

### 28 Quality of statement of accounts presented to audit

28.1 A local government auditor drew attention to the quality of the first two drafts of the financial statements, a second set of accounts having been presented to audit as the fieldwork started. From an initial review of the statements there were a number of issues identified which suggested there had been an inadequate review of the accounts prior to them being presented to audit. The auditor recommended that in future, there should be both a primary review of the draft financial statements and a secondary review to ensure quality and accuracy of the account prior to being presented for certification by the chief financial officer and approval by the council.

## CONTRACTS, TENDERING AND PROCUREMENT

### 29 Annual tender for tradesmen/labourers

29.1 In a review of invoices for a three month period a local government auditor noted a number of issues:

- charges were made by individual names rather than the work done (claims at joiner rates for labouring work);
- overtime was paid at time and a half; despite the contract making no reference to overtime rates;
- the contractor was not required to provide the council with appropriate insurance documentation;
- purchase orders were not used;
- timesheets were not completed; and
- it seemed that workmen were asked to do ad hoc jobs to complete full days work and thus there was no evidence of council considering



whether the tasks could have been carried out in house and tradesmen released to save costs.

- 29.2 The auditor also highlighted the potential for overcharging, value for money issues and potential claims against the council if tradesmen have or cause an accident.

### 30 Capital works – additional claim

- 30.1 A local government auditor referred to a council having included in the Fixed Asset additions and creditor balance for 2007-08 a £350,000 provision for additional costs at the development of a facility. This is significantly less than the contractors claim for additional work.
- 30.2 Apparently the contract was activities based and for any additional costs the contractor would have to prove that these costs were for events beyond the contractor's control. While council asserts that it has its own detailed records to substantiate and challenge the validity of additional claims, it would appear that the management of this contract could have been improved if:
- the council agreed additional cost claims with the contractor when these occurred;
  - councillors were kept fully informed of the level of outstanding contractor claims and the potential value; and
  - there had been a specific committee monitoring the detailed progression of this contract.
- 30.3 The auditor suggested that the council should enhance its contract management procedures to ensure that the weaknesses highlighted in the management of the contract are addressed.
- 30.4 The council remains confident that the project will be delivered within the contract and contingency sums agreed by the council.

### 31 Maintenance of vehicles – not subject to periodic tendering

- 31.1 A local government auditor drew attention to the fact that the servicing of the council's vehicle fleet had been with one firm for many years and not been subject to periodic tendering. The auditor identified the risk that value for money might not be achieved.

### 32 Maladministration in council land sale

- 32.1 The Ombudsman's investigation into the disposal by a council of surplus land uncovered major flaws in the process. He identified significant evidence of maladministration by the council and its officials which warranted his severest criticism. As a result of the recommendations arising from the investigation the council agreed to apologise to the unsuccessful bidder and consider rerunning the competitive tendering exercise. In addition the council agreed to refund costs incurred by the developer in pursuing his complaint.

### 33 Tender – significantly higher than preliminary estimate

- 33.1 A local government auditor highlighted that consultant engineers were awarded the contract for the planning, site design and supervision of site development. They estimated the total cost of the project to be £320,000, whereas the contract was subsequently awarded at a cost of £434,000, including £40,000 contingency.
- 33.2 Excluding the contingency, this is £74,000 over the initial estimate. This was apparently due to adverse ground conditions.
- 33.3 The auditor highlighted the risk of council not being provided with reliable costings as demonstrated by the tender price being much higher than estimate, and thus the council could be basing decisions on

inaccurate information. The consultants should have been asked to confirm that their estimate accurately reflected the ground conditions.

- 33.4 The auditor noted that the contractor commenced work on 14 January 2008 but was then prevented on 16 January 2008 from carrying out further work over a period of time by protestors. He understood that the contractor will be claiming for his costs during this obstruction period. The auditor highlighted that any nugatory costs arising in the period when the contractor was prevented from working should be expensed to the district fund and not capitalised.

### 34 Vehicle contract hire

- 34.1 A local government auditor highlighted to the council that the contract hire arrangement had been running for three to four years. Whilst cost benefit calculations had been performed at the start of the contract period the auditor encouraged the council to re-evaluate the contract to ensure that best value for money was being achieved.

### 35 Procurement process

- 35.1 A council advertised for interested parties to tender for the development of part of its district. Later the council, following specialist legal advice, decided to end the existing competition and start a new competition. The Press Release issued by the council said that this was necessary to avoid breaching public procurement rules because of public procurement law developments since the original competition. The new approach involved advertising in the Official Journal of the European Union (OJEU). The auditor recommended that the council should be informed of any nugatory costs arising from the decision and should consider what lessons for the future could be learnt from the matter.

## GRANTS, PARTNERSHIPS AND COMPANIES

### 36 Adhering to voluntary contributions procedures

- 36.1 A local government auditor drew council attention to two potential contribution payments of significant size.
- 36.2 As voluntary contributions were being considered for payment before all relevant information was provided by the applicant, council procedures for voluntary contributions were not adhered to. There was a risk that the council was taking a decision before considering the full facts and before showing due process had been followed.
- 36.3 The auditor recommended that in all instances relating to voluntary contribution payments, application should be completed and submitted by each organisation prior to a decision being made by council.

### 37 Funding with no clawback provision

- 37.1 A local government auditor drew attention to a council making a £60,000 contribution to a Training Body; part towards administration costs; part towards plant. The body ran into operational and financial difficulties and to address this the manager negotiated a transfer of assets etc to a private sector body [that could provide accreditation] for a sum of money. The auditor was advised that the directors of the Body were not informed of this agreement until it had taken place and the manager has now left. The council officers involved in the funding were also not fully aware of what was taking place.
- 37.2 The council has no charge over the item of plant that it funded and hence no part reimbursement of monies was secured.





## 38 Monitoring of outside bodies receiving council funds

- 38.1 A local government auditor commented on the related party disclosures in the financial statements, highlighting that the council provides significant funding to a number of external bodies. While he understood that council had a policy to receive audited accounts, which help corroborate that money was actually needed, he suggested that the council considers also asking for a copy of the management letter issued by the body's auditor.
- 38.2 The auditor indicated that the council should also review its funding strategy for these bodies to ensure they deliver all that council expects. The council should ensure that best practice is applied by considering:
- establishing a service level agreement;
  - seeking an action plan from the funded body including objectives;
  - establishing milestones and activities to take place;
  - seeking periodic update by the body of actions against objectives;
  - seeking an annual assurance statement from the body that council funds have been applied for the intended purposes;
  - establishing a lifespan for the proposed partnering arrangement; and,
  - that the council should be wary of full funding of partnership employees in case this creates employment or redundancy issues for the council.

## 39 Risk to council participating in companies and partnerships

- 39.1 A local government auditor highlighted that a council was involved in the running of three CCTV

companies, which suffered financial difficulties when both the external funding ceased and the police decided not to continue monitoring the CCTV cameras. As a consequence of the council being deemed to be a shadow director of the companies, the Liquidator of these companies sought to recover over £20,000 of costs from council. This was subsequently paid.

- 39.2 While it appears that the council's involvement in the CCTV provision in the local towns was undertaken for the good of the ratepayers, in the view of the auditor there were faults in the management and funding of the project including
- the police only agreed to monitor the cameras for three years and there was no contingency plan to meet future monitoring costs beyond this period;
  - there was no plan to build up reserves to fund new cameras once the analogue technology became obsolete; and
  - there did not appear to have been consideration that the council could be deemed to be a shadow director and the implications of this.
- 39.3 This case highlights the risk to councils from participation in companies and partnership.

## INCOME

### 40 Arts Centre – cash held / terms and conditions of exhibitions

- 40.1 During a visit to an Arts Centre it was noted that over £2,000 of cash was being held in the safe in relation to an event, which was scheduled to be held a week later. This money (less the cost of the hire of the hall) was to be transferred to the event promoters after the event. Our audit highlighted the risk that this money could be stolen while on Council premises.



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40.2 We also noted that all exhibitors were informed in writing of the terms and conditions of the exhibition, including commission rates. However none were asked to formally sign an agreement conforming to these terms and conditions.

### 41 Cash controls at a caravan park

41.1 An audit visit to a caravan park noted:

- weaknesses in segregation of duties;
- lodgements not being done on a regular basis resulting in high levels of cash (in excess of the insurance limit) on the premises; and
- no overall reconciliation carried out of users' bookings against payment collected.

41.2 Councils are encouraged to note these points and consider if they could apply to cash receiving locations in their own areas.

### 42 Cemetery income – lack of segregation of duties

42.1 A local government auditor drew attention to a cemetery supervisor being involved in both issuing invoices and receiving income. Monthly income averaged over £4,000. He identified the risk of loss through fraud or error as a consequence of the lack of segregation of duties.

### 43 Controls at an amenity site

43.1 In the course of attendance at a council Audit Committee a local government auditor listened to the review of the use of CCTV cameras at a local amenity site. On occasions it appeared that commercial customers were not always being asked to pay for use of the facility. The council took steps to improve the layout of the facility and income increased as a consequence.

43.2 In another audit the local government auditor raised concern about commercial users at the civic amenity site using the site free of charge. A review was carried out and a new registration system for vans using the site was created which yielded a significant increase in income.

### 44 Controls at a recreation facility

44.1 A local government auditor raised concerns with regard to the control environment and the lack of segregation of duties regarding cash collection procedures. He highlighted that:

- the manager could raise invoices and collect monies;
- the income is not recognized on the main accounting system until the monies are receipted;
- lodgments were made weekly despite the seasonal nature of the income stream – in one case a lodgment was over £10,000 including cash over £2,000; and
- cash was kept in an unsecure location.

44.2 The auditor made a range of recommendations and the council agreed to have their internal audit review the activity before the start of the following season.

### 45 Debtor – sports organisation

45.1 A local government auditor drew attention to £14,000 due to a council from the trustees of a former football club. He noted that there was no standing order in place to demonstrate a commitment to repay on a regular basis.



## 46 Treasury management – loss of interest

- 46.1 A local government auditor drew attention to a loss of investment interest when a finance officer with a treasury management role went off sick with significant sums remaining in a current account. The situation was not spotted until his return to work. The loss of interest was calculated at over £20,000.

## MEMBERS

### 47 Costs of overseas visits

- 47.1 A review of committee minutes noted proposals for accepting invitations before any costings were known. A council committee in March 2008 proposed that the Mayor and a Director accept an invitation from the Harvard Group to visit Harvard University in April 2008 in respect of the Harvard Design Studio Interim Report. No costings of this trip were provided at the meeting. In addition, at a later Economic Development Committee meeting, it was agreed that a councillor, the incoming Mayor and one council official attend the Sister Cities Conference in Kansas to include a visit to North Carolina. No detailed costings of this trip were provided at the meeting and an officer reminded members that there was no provision in the budget for such attendance.
- 47.2 The local government auditor recommended that before any decision is taken to accept overseas invitations, detailed costings of the trip should have been made known.
- 47.3 In another council the local government auditor drew attention to eleven delegates from two councils attending a week long tour of Mechanical Biological Treatment plants and other technologies in Germany and Italy. Attendance was approved without any detailed analysis of the costs against the perceived benefit of the number of delegates attending.

- 47.4 The auditor suggested that post event appraisal should be carried out so that an informed opinion could be made regarding levels of attendance (if any) at similar events in the future.

### 48 Councillors and their partners attending non-council functions

- 48.1 A local government auditor noted a council agreeing to purchase a table of ten for a High School 50th Anniversary Past Pupil Gala Dinner at a cost of £400. Five Councillors plus guests were appointed to attend.
- 48.2 Another school invited the council to appoint representatives to attend their 150th Jubilee Gala Ball at a cost of £600 for a table of ten. Council agreed to take a table of ten at the event and that the area councillors be appointed to attend this event, with partners. It was also agreed to appoint four councillors and their partners to attend the NI Tourism Awards at a cost of £600. At another meeting it was agreed to purchase a table of ten for five councillors and their partners at a cost of £1,000 for a sports club Gala dinner.
- 48.3 The auditor recommended that in approving such expenditure, the council should indicate the council services that will be charged and the legislative authority for the expenditure. Consideration should also be given as to whether the councillors' partners or guest's fee at these events should be paid by the council.
- 48.4 The management response was that this matter has been drawn to attention of all directors and will be tabled at a future party leaders meeting.
- 48.5 Audit is not aware of a legal power to provide for councillors' partners or guests to attend such events, and for councillors attending such events there needs to be a clear link to the functions of a council.
- 48.6 At the council's audit committee it was recommended that the local government auditor provide some form of guidelines for council in

## Report

relation to invitations to mayor/council officials/members and their partners to attend events, functions etc.

48.7 The local government auditor's view is that councils should consider only purchasing tables/seats for the mayor and partner, and/or deputy Mayor and partner at such functions and that expenditure come from the mayor and deputy mayor's budgets.

Consideration should also be given as to whether the chief executive or senior council official should attend such functions. The chief executive's or senior council official's attendance could be paid for under SI 15 expenditure which states that a council may make any payment for any purpose which in its opinion is in the interests of, and will bring direct benefit to:

- the council;
- its district or any part of its district; or
- the inhabitants of its district or any part of its district.

48.8 The attendance by the chief executive or senior council official should be formally recorded as SI 15 expenditure.

## 49 Members' expenses

49.1 A local government auditor drew attention to the lack of evidence of authorisation of members' expenses by a senior official. The auditor recommended that travel and subsistence claims are always authorised before payment is made and, if the nominated senior official is not available, the role should be designated to another member of the senior management team.

49.2 The auditor also highlighted a period of time when the nominated approving officer was on sick absence and found that there appeared to be little challenge as to the accuracy of mileage claimed. While claims were scanned for 'reasonableness' by the finance assistant, random formal checks using one of several websites that can give mileages were not used.

49.3 In a review of appropriate insurance evidence it was noted that three out of five members had not provided the council with a copy of their motor insurance certificate showing appropriate cover for business use. Anyone claiming mileage must have the appropriate insurance cover in place.

49.4 In another audit the local government auditor noted that one of the reasons given for an overseas visit by council, comprising councillors and officers, was a high level of reserves. The auditor found that the availability of funds should never be a primary consideration in spending public money. He recommended future visits are supported by a cost benefit analysis to provide evidence of value for money.

## 50 Related party disclosure – checklist forms

50.1 A local government auditor highlighted to a council that only six of over 20 councillors had returned related party disclosure checklist forms. The auditor highlighted that there was the risk that related party information may not be disclosed properly within the statement of accounts.

## STAFF

## 51 Chief executive authorising his own travel claim

51.1 A local government auditor noted that a council chief executive authorised his own claims for expenses and highlighted the lack of independence in this regard and suggested claims be countersigned. The council noted the recommendation but added "as the most senior officer of the council, the chief executive is aware of the importance of propriety at all times".



## 52 Cost of agency workers

52.1 It was noted in an audit that the cost of agency workers had increased by £180,000, from £728,000 in 2006-07 to £908,000 in 2007-08. This represented eight per cent of the council's total staff costs and was considerably higher than the costs of Agency workers in other local councils in Northern Ireland.

## 53 Length of time to complete job evaluations

53.1 A local government auditor noted two job evaluations paid out in the year amounting to approximately £23,000 and expressed concern about the length of time it has taken to evaluate and pay these job evaluations. Council approval was given for the effective date to be January and April 2000 for both posts, yet payment was not made until March 2008.

53.2 The PAC made a number of recommendations following consideration of a report on job evaluation in the Education and Library Boards. It recommended:

- that one of the main lessons to be learned from the implementation of this scheme, for other major exercises in the future, is the importance of strong project management from the outset based on clarity about the timescales of the process; the setting of target dates to be achieved; ongoing monitoring and regular reporting and feedback;
- when proven measures and other recommendations including the use of generic job descriptions are available to assist in planning the introduction of a job evaluation scheme it is irresponsible to ignore them. The Committee considers that the wider lesson for departments faced with the management of a similar exercise in the future is that they must avail themselves of any existing good practice lessons from elsewhere and apply these at the earliest possible stage;

- it is crucial that, in future, any major exercises such as this should be planned from the start within the context of an agreed timeframe and with clear lines of responsibility established for completion within that timeframe so that staff morale is not affected by long delays;
- that fully independent members with no trace of vested interest in the outcome should have the majority of seats on evaluation and appeals panels; and
- in agreeing any future job evaluation arrangements departments should ensure that they make use of skilled negotiators to ensure a fair balance is struck between the interests of taxpayers and employees.

53.3 Many of these points will be of relevance to councils.

## 54 Former employee living in council premises

54.1 A local government auditor highlighted that a former caretaker was continuing to occupy council accommodation having refused to leave until he was offered alternative accommodation. The auditor pointed out that there may be tax consequences and suggested that "live-in accommodation agreements" should be drawn up with employees.

## 55 Recovery of Study Course Fees

55.1 A local government auditor raised a concern with regard to a senior officer studying for the Institute of Directors Diploma in Company Direction at a cost of almost £10,000. The officer left the council's employment shortly after completion of the qualification and the auditor suggested that good practice would require repayment of all or a portion of these costs. The Council indicated that the officer's contract did not include any repayment of course fee conditions and that there was, at that time, no general policy under which the council

could seek recovery. The auditor suggested that failure to introduce such a policy prior to granting approval for this course was a significant value for money oversight.

## 56 Section 115 (S115) expenditure – staff Christmas party

- 56.1 A local government auditor noted expenditure of £6,992 (including £1,639 relating to the purchase of alcohol) for the Staff Christmas Party. The council approved this expenditure citing S115 and arguing the direct benefit required under legislation. Council tendering procedures require that purchases from £1,000-£15,000 require at least four quotes. Only three quotes were sought and only one company supplied a tender price. In addition, it was noted that approximately £10,000 of alcohol was purchased from this supplier in the year. Council tendering procedures were not being adhered to and there was a risk that the amount of alcohol purchased would be perceived to be excessive.
- 56.2 The auditor recommended that the Council tendering procedures should be adhered to; that it should be able to demonstrate that the amount of alcohol purchased appears reasonable; and because of public sensitivity and interest in such expenditure, that the S115 note in the financial statements show what the expenditure was for.
- 56.3 The council's response to this point was "Administration will note this for future" and asked "Is L.G.A asking for this spend to be shown as a note in the Annual Accounts? If so what is the precedent for such a note? It would be helpful if some guidance was given on 'excessive'." The auditor responded that for future financial statements, the CLGA will be recommending all Councils to show what S115 expenditure is in respect of.
- 56.4 I endorse this recommendation and would suggest an outline of all S115 expenditure should be included in the financial statements for the information of readers.

## 57 Temporary employee

- 57.1 A council appointed a person to temporarily fill a post in its finance department. It later transpired that the individual used council letterhead and copied the signature of the director of finance to provide details of salary in support of a funding application for a private vehicle. While the appointment came to a swift end it highlighted the need for good references to be taken up in appointments to sensitive positions within a council.

## 58 Time off in Lieu (TOIL)

- 58.1 Local government auditors noted a number of cases where TOIL was being operated without firm guidelines both relating to taking TOIL within a set period and formal approval of the amount which is carried forward each year.
- 58.2 In one case the auditor raised concern at the use of fifteen days of TOIL (including ten days carried forward for the previous leave year) to offset a period of notice when the individual left the council at short notice.
- 58.3 Local government auditors recommend regular reporting of TOIL earned, used and carried forward, to the appropriate committee of council.

## 59 Value for money – car leasing scheme

- 59.1 A local government auditor drew attention to a car leasing scheme. He understood that when the scheme was introduced some years ago it was considered beneficial to the council. However the scheme is now considered to be over generous to staff at a cost to ratepayers.
- 59.2 The council response was that the scheme is currently closed to new entrants and the number of staff in the scheme is reducing with staff turnover. Previous exercises carried out by independent





management consultants resulted in a 'buy out' proposal but it was not acceptable to the trade unions. The council indicated that this route could be revisited.

## OTHER ISSUES

### 60 Bank – charity account

- 60.1 A local government auditor drew attention to a bank account opened in the name of the council which had been inactive for the past two years but had a credit balance of over £3,000. The account had been opened in connection with an overseas humanitarian aid project for which there had been local fundraising.
- 60.2 The auditor indicated that the council was leaving itself open to criticism if funds were held back and not made available for charitable purposes. He also pointed out that a 'dormant' account increases the risk of fraud or misappropriation.

### 61 IT – administrator rights and access logs

- 61.1 In the course of an audit it was highlighted to the council that three IT staff had "administrative rights" which allowed them full access to the IT systems. While 'user logs' existed there appeared to be no regular review of these.
- 61.2 The auditor recommended that the Head of IT should review the IT user log on a regular basis and periodically review changes made by the other two administrators. This is in line with the Cabinet Office best practice in its Information Assurance Governance Framework (November 2005) which states that 'administrator account and changes to account permissions should always be audited, since this is the primary route for unauthorized access... The retention of logs is therefore an important part of the...process.'

### 62 Points from a corporate governance review

62.1 A local government auditor in his annual audit letter drew attention to points arising from a review of corporate governance and value for money arrangements. He highlighted:

- the development of departmental risk management procedures, including the compilation of a departmental risk register; in a number of departments was not completed by the target date;
- the council did not have fully documented Business Continuity Plans in place;
- there was currently no formal hospitality policy in place within the council;
- the council's policy on whistle blowing indicated that staff could raise their concerns with two of the council's senior officers. However, it did not inform staff that they have the option to contact external or internal audit, or the PSNI;
- there had been no Corporate Plan in place for 2006-07 and 2007-08;
- the council should consider adopting best practice with regard to the operation of an Audit Committee by appointing one or more independent non-executive members; and
- the council's formal pricing policy was incomplete.

### 63 Vacant site

63.1 A local government auditor drew attention to a previous council decision to undertake building adjustments to a large warehouse which included a significant area which the council did not need and was hoping to let out. The vacant site has not yet been let to a tenant despite being available for over two years.

### Report

63.2 While the council had a “heads of agreement” to provide a site to another public sector body, the actual requirements including whether this site would be suitable, were not agreed to.

63.3 The auditor asked the council to consider:

- with the benefit of hindsight whether (on the grounds of saving money / no return on cost of unoccupied site / opportunity costs of what this spend could have been used for), the council should have incurred all these building costs without a binding tenancy contract or alternatively should have bought a site of this size given the significant part not currently being used by council;
- the longer term strategy for such potential sites; and
- the performance of a post project evaluation to ensure that lessons learnt can be applied to future projects.



Northern Ireland Audit Office

# Annexes



## Annex I (paragraph 8.5)

### EXPOSURE OF RISK AND INSURANCE

#### INTRODUCTION

There is currently no common approach from the various Local Authorities in Northern Ireland to the process of tendering for Insurance Broking Services and the purchasing of Insurance covers.

There is often confusion and sometimes contradiction in the methods adopted to tender both Insurance Brokers and the various forms of Insurance covers purchased.

Consequently Local Authorities in Northern Ireland are not presently getting best value from the process in terms of additional services, but are often concentrating solely on price.

Many Local Authority tenders are presently based on the existing range of insurance covers in force. The focus is on the price of the existing range of covers and there is therefore no encouragement to highlight additional risk exposures which exist, but are not presently insured. There is no incentive to provide a more comprehensive option as this will most likely increase cost in terms of the price of insurance. This may in real terms result in a reduced net cost to the Local Authority if certain risk exposures not presently transferred to the insurance market were insured or other processes or procedures were contracted away from the Local Authority.

The shortcomings in the existing process were highlighted in a recent tender whereby the Local Authority tendered both the provision of Insurance Broking Services and the provision of insurance covers under the same tendering exercise.

The incumbent Insurance Broker placed the OJEU Notice, thereby controlling all insurance quotations from the Insurance Market in respect of the Local Authority.

Certain Insurers were pre-selected by the incumbent Insurance Broker and an agreement to quote exclusively to that provider was pre-agreed, thereby excluding the opportunity of an open tendering exercise.

Certain covers were not listed on the Insurance Tender, thereby making it impossible to establish and comment the adequacy or otherwise of the insurance programme currently in place.

There was no opportunity to comment on the risk exposures which the particular Local Authority might face and if consideration had been given to transferring these risks to the insurance market, or if an element of this risk exposure was considered as more appropriate to be retained by the Local Authority.

Within the example referred to, there appeared to be specific risk exposures which were not insured, but there appeared to be no opportunity for the highlighting of the absence of such an insurance cover and the costing of this presently uninsured cover to be awarded any benefit in the tendering process.

As RPA progresses, it is important that the process of tendering for both Insurance Broking Services and insurance covers are reviewed.

#### PROPOSAL ONE:

**“To provide guidance on the method of tendering Insurance Broking Services and Insurance covers in line with best practice as outlined under Public Procurement Procedures”.**

The procedure to be adopted in tendering insurance covers for Local Authorities in Northern Ireland is established under Statutory Instrument 2006 No. 6. The Utilities Contracts Regulations 2006.<sup>1</sup>

The definition of utilities extends to include Local Authorities and specifically extends to include Local Authorities in Northern Ireland.

At present, many Local Authorities do not appear to make any distinction between purchasing Insurance Broking Services and insurance covers.

We recommend that Local Authorities consider separating these two functions as separate tender exercises.

The tendering of the provision of Insurance Broking Services does not require to be completed under the

<sup>1</sup> “3 - (5) In the application of these Regulations to a local authority in Northern Ireland, “local authority” in paragraph (1) means a district council within the meaning of the Local Government Act (Northern Ireland) 1972”.





“Utilities Contracts Regulations 2006” as the value involved would qualify this tender as an exemption.

The Local Authority should therefore seek invitation to tender for the provision of Insurance Brokerage Services from suitable experienced firms by way of local advertising; alternatively the Local Authority could pre-select a range of suitably qualified and experienced firms.

Such proposed service providers should have Local Authority/Public Sector experience and be authorised and registered with the Financial Services Authority to provide advice and arrange Insurance covers.

Selection criteria should be pre-determined and include:

- Economic & Financial Capacity
- Evidence of FSA Membership, Fair Employment etc.
- Experience in Sector
- Technical Capacity including experience and quality of staff
- Range of relevant services available
- Quality and extent of service available
- Experience of proposed staff to handle account
- Experience of completing tender under OJEU
- Other relevant services available
- Cost of service

The tender for Insurance Broking Services should be completed some four or five months prior to renewal date of the insurance covers. This would enable the process of appointing an Insurance Broker to be completed at least three months prior to the renewal date of the insurance covers.

The appointed Insurance Broker should complete the tender for insurance covers from the Insurance Market under the OJEU Procedure.

The basis of the insurance programme to be tendered should be discussed and agreed between the Insurance Broker and the Local Authority prior to the OJEU tender process.

OJEU basis of tender should be agreed from the various options available:

- Open
- Restricted
- Negotiated

The Negotiated Procedure is the preferred method for Insurance Contracts, as it allows for an element of fine tuning. The other two Procedures do not allow for post-tender negotiation.

At present Contracts involving a value exceeding £139,893 should be subject to the OJEU Procedure.

It is possible to pre-select Insurers to tender for the Contract under the Negotiated Procedure and the range of Insurers should be discussed and considered.

The award criteria in selecting such Insurers should be agreed between the Insurance Broker and Local Authority ahead of selection and placement of the OJEU Tender Notice.

The criteria on which the Insurers should tender might include:

- Financial Capacity/Security
- Price
- Breadth of Cover & Extensions Available
- Claims Handling Service
- Policy/Document Issue Service
- Risk Management Service
- Experience in Sector
- Ability to Provide Level of Service at Local level

The placement of the Tender Notice operates within a timeframe, allowing a period of consideration and response from the various bidders and it is therefore important that the process is commenced at an early stage and preferably some 90 days ahead of the proposed placement date of the insurance programme.

The criteria for evaluation of the bids from the insurance cover providers should be pre-agreed and published within the Contract Notice.

## Annexes

The Broker should carry out the evaluation process and provide a Report with detailed recommendations to the Local Authority.

The Insurance Broker will complete the placement of the Contract Award Notice within the appropriate timeframe.

The Insurance Broker will complete any de-briefing meetings required from unsuccessful bidders.

### BENEFIT:

The benefit of this approach is to ensure prospective bidders concentrate on the areas on which they will be assessed, thereby assisting in the evaluation process and eliminating potential conflict.

The Local Authority selects a Broker based on experience, competency and ability to deliver a range of services at a competitive cost.

The Insurance Broker is in control of the tender process including collection and evaluation of the bids from the various Insurance Cover Providers.

In pre-selecting a range of Insurers, it is possible to create a competitive market place which will result in competitive bids relating to both price and any additional services available.

The current focus on price will be extended to include other services and benefits available from Insurers.

Adoption of the above Procedures would ensure there is a fair transparent and competitive tendering process in respect of both the selection of Insurance Broking Services Provider and separately the Provider of the Insurance covers.

### PROPOSAL TWO:

**“To provide guidance on the range of risks which are insurable in relation to a typical Local Authority”.**

At present many Local Authorities appear to tender their insurance covers based on their existing insurance arrangements.

The decision to decide which risks to insure should be made in consultation with the Councils Insurance Broker after reviewing the exposure to risk and deciding if that risk is to be retained by the Council or transferred into the insurance market.

The undernoted range of risk exposures and insurance covers are available in a generic format and should be considered in forming the basis of an insurance programme for a typical Local Authority within Northern Ireland.

## MAIN INSURABLE RISKS

### PROPERTY DAMAGE

#### Cover:

Insurers will indemnify the Insured against loss or damage arising from a peril insured occurring during the period of insurance, but subject always to the Policy Excess and the Limits, Terms, Conditions and Exclusions of the Policy.

#### Perils to Insure:

Loss or damage by:

- Fire
- Explosion – of boilers used for domestic purposes only or of gas used for domestic purposes only
- Lightning
- Earthquake
- Aircraft or aerial devices or articles dropped there from
- Storm
- Flood
- Riot, Civil Commotion, Strikes, Locked-out Workers or Labour Disturbances
- Malicious Damage
- Subterranean Fire
- Escape of Water from any tank, apparatus or pipe
- Impact by any road vehicle or animal both belonging to and not belonging to and under the control of the Insured
- Theft – by forcible or violent entry or exit to or from a building



- Accidental Damage
- Accidental Escape of Water from any automatic sprinkler installation
- Subsidence or Ground Heave
- Terrorism
- Glass or Sanitary Ware

## MONEY INSURANCE

Wide definition of money including loss whilst in transit, in the Insured's premises out of business hours, in the Insured's residence or that of any authorised employee including damage to safes or strongrooms.

Personal Accident Assault cover associated with intent to steal money or other property insured as covered by the Policy.

## FIDELITY GUARANTEE

Indemnifying the Insured for any direct loss of money or other property belonging to the Insured from the dishonest fraudulent, criminal or malicious act or omission of any Insured person and/or employee.

## GOODS IN TRANSIT

Loss of or damage to goods whilst in transit.

## EXHIBITION

Loss of or damage to property being exhibited at Exhibitions anywhere in the UK.

## CONTRACTORS ALL RISKS

Loss of or damage to Buildings in course of erection including materials on site for inclusion therein.

## BUSINESS INTERRUPTION

Definition of Business Interruption required e.g. loss resulting from interruption of or interference with the business carried on by the Insured at the premises in consequence of damage to property used by the Insured at the premises for the purpose of the business by an insured peril.

## Basis of Cover

To be determined as:

- Gross Profit
- Gross Revenue
- Gross Rentals
- Gross Fees.

## Indemnity Period

The Indemnity Period selected should represent a period of time commencing with the occurrence of the damage and ending at the maximum number of months thereafter during which the results of the business may be affected in consequence of the damage insured.

## Business Interruption Extensions

- Utilities Extension – loss or damage due to failure of Public Utilities
- Prevention of Access Extension
- Infectious Diseases Extension
- Customers Premises Extension
- Suppliers Premises Extension

## Increased Cost of Working

Definition required

## LIABILITIES

### Employers Liability

To indemnify against liability for damages, claimants costs and expenses in respect of bodily injury or death, disease or illness of any person employed during the period of insurance.

## Annexes

### Public/Product Liability Insurance

To provide an indemnity against legal liability for damages in respect of:

- a. Death, Disease or Bodily Injury to Third Parties
- b. Loss of or Damage to Third Party Property
- c. Wrongful Arrest, Invasion of Right of Privacy, Detention, Wrongful Imprisonment, Wrongful Eviction of any Person
- d. Nuisance, Trespass

Happening during any period of insurance in connection with the business

### Standard Extension to Cover

- Indemnity to Principals
- Defective Premises Act
- Corporate Manslaughter Act
- Contingent Motor Liability
- Cover to include Sports, Social, Welfare and First Aid Organisations
- Employees Personal Effects
- Compensation for Court Attendances
- Overseas Personal Liability
- Unsatisfied Court Judgments
- Data Protection Act 1984
- Legal Defence Costs following Prosecution under Health & Safety at Work Act 1974, the Consumer Protection Act 1987 Part II or the Food Safety Act 1998

### Officials Indemnity

Indemnifies the Insured subject to the limit of indemnity for all sums which the Insured shall become legally liable to pay as compensation for financial loss occasioned by an error committed or alleged to have been committed by an employee which is authorised by the named Insured or forms part of or arises from any powers conferred or duties placed upon that employee, either at the request of or with the approval of the named Insured or alternatively for the purposes of the named Insured.

The error or omission must arise out of the performance and exercise of the named Insured's statutory functions

and powers in connection with the business relating to a claim made and notified to the Company during the period of insurance.

### Professional Indemnity

Providing an indemnity against legal liability for compensation including Claimant's costs and expenses in respect of any claim which is both first made against the Insured and notified to the Company during the period of insurance incurred in the conduct of the business activity of the Insured within the territorial limits of the Policy due to breach of duty, dishonesty, libel and slander.

The Policy can also extend to include Accidental Damage to documents.

### Legal Expenses

- Employment Disputes
- Health & Safety Disputes
- Criminal Prosecution
- Property Disputes
- Data Protection
- Tax Protection
- Personal Injury

### Environmental Impairment Insurance

Insuring against loss or damage and death disease or bodily injury arising from pollution conditions. Extends to include clean-up costs.

Insurance cover can be in respect of first party loss (own site) or third party loss.

### Cyber Liability/Internet Insurance

Insures against loss due to misuse of internet website, e-mail or electronic images.

### MOTOR VEHICLE INSURANCE

- Motor Fleet
- Private Car
- Commercial Vehicles
- Agricultural Vehicles



- Special Types Vehicles
- Motor Contingency Cover
- Occasional Business Use
- Motor Trade

## MARINE INSURANCE

- Hull
- Liability
- Transit
- Small Craft

## ENGINEERING INSURANCE

- Computer
- Inspection
- Boiler & Pressure Vessels
- Lifting & Other Equipment
- Machinery & Electrical Breakdown
- Hired-in Plant
- Deterioration of Refrigerated Stock
- Business Interruption

## AGRICULTURAL INSURANCE

- Livestock
- Brucellosis
- Foot & Mouth
- Fish Mortality
- Woodlands

## MISCELLANEOUS INSURANCE

- Personal Accident
- Travel
- Credit
- Bonds
- Contingency



**Annexes  
(paragraph 10.7)**

Anti-Fraud Measures Summary

	Departments and Agencies		Other Bodies		Total	
	No.	% of total	No.	% of total	No.	% of total
<b>Total Number of questionnaires completed</b>	26		84		110	
<b>Organisations that:</b>						
Have an anti fraud policy in place	26	100	77	92	103	94
The anti fraud policy has been approved by the Board and/or Accounting Officer	26	100	74	88	100	91
Has nominated overall responsibility for the anti fraud strategy to a senior official	23	89	76	90	99	90
Has a separate fraud response plan in place	25	96	63	75	88	80
Provides clear channels for reporting suspicions of fraud	26	100	79	94	105	95
Has procedures in place which require DFP and the NIAO to be notified of all suspected and actual frauds	26	100	65	77	91	83
Has a whistle blowing policy in place which is accessible to staff	20	77	72	86	92	84
Have assessed the overall risk of fraud	20	77	63	75	83	75
Senior management monitors progress of all fraud cases under investigation	24	92	66	79	90	82
Has a specialist fraud investigation team or	10	38	5	6	15	14
Where a specialist team is not in place has used Finance or Internal Audit resources to undertake this work if required	16	62	69	82	85	78



Notes





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