



Northern Ireland Audit Office

Local Government Auditor's Report - 2014



REPORT BY THE LOCAL GOVERNMENT AUDITOR
18 November 2014



Northern Ireland Audit Office

The exercise by local government auditors of their functions – a report by the Local Government Auditor

In the year to 31 March 2014

Published 18 November 2014

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

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

Louise Mason
Local Government Auditor
18 November 2014

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Abbreviations

| | |
|---------|---|
| AAL | Annual Audit Letter |
| ALB | Arm's-Length Body |
| C&AG | Comptroller and Auditor General |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CPD | Central Procurement Directorate |
| DETI | Department of Enterprise, Trade and Investment |
| DFP | Department of Finance and Personnel |
| DoE | Department of the Environment |
| EU | European Union |
| FOI | Freedom of Information |
| FTE | Full Time Equivalents |
| LGA | Local Government Auditor |
| NFI | National Fraud Initiative |
| NIAO | Northern Ireland Audit Office |
| NICS | Northern Ireland Civil Service |
| NILGOSC | Northern Ireland Local Government Officers Superannuation Committee |
| PAC | Public Accounts Committee |
| PSNI | Police Service of Northern Ireland |
| RPA | Review of Public Administration |
| SOLACE | Society of Local Authority Chief Executives and Senior Managers |
| STC | Statutory Transition Committees |

Introduction



Introduction

1. Northern Ireland's 26 councils have a key role to play in providing public services to local communities. Council services mainly fall under two broad headings of Leisure and Recreation Services and Environmental Services. In addition, councils undertake regulatory activities such as building control and environmental health. Councils also have important roles to play in other areas such as economic development, tourism and community development.
2. In providing such a broad range of services, either directly or in partnership with others, local councils require substantial resources. Councils spend over £800 million per annum, employ 9,700 staff and utilise assets worth more than £2,000 million.
3. 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.
4. The Local Government Auditor is responsible for the audit of 26 councils, as well as for the audit of 18 joint committees, the Local Government Staff Commission, and the Northern Ireland Local Government Officers' Superannuation Committee. In total, audit opinions were given on 46 sets of financial statements in the year to 31 March 2014.
5. This report provides my perspective on the audits of local government bodies based on the key messages from audits performed primarily during the year to 31 March 2014. I have also considered important issues that may affect councils in the near future.
6. The Local Government (Northern Ireland) Order 2005, as amended by the Local Government Act (Northern Ireland) 2014 provides that the Department of the Environment (the Department) may, with the consent of the Comptroller and Auditor General for Northern Ireland (C&AG), designate a member of staff of the Northern Ireland Audit Office as the Local Government Auditor.
7. The Local Government Auditor must in respect of each financial year:
 - prepare a report on the exercise of the local government auditor's functions in that year; and
 - send a copy of the report to each council and to the Department.
8. My report highlights areas of strength and areas for improvement within local councils. Both councillors and officers should consider this report and review how their council is managing the issues I have highlighted.

Introduction

9. Councils have already been provided with annual audit letters, which highlight important issues that have arisen during the course of the audits. These letters detail how the matters I have set out in this report apply locally and where more actions are required. These letters are published by each council, normally on their website.
10. I have recently completed audits of financial statements for the year ended 31 March 2014 and I will report on these results in 2015.
11. The process of reform is now well advanced in the Local Government sector and I comment further on this in my report.

Part One: Managing Resources



Part One: Managing Resources

1.1 This section provides information on how councils manage their resources.

Income and Expenditure

1.2 Revenue expenditure relates to day-to-day costs involved with providing services. This includes staff costs, supplies such as fuel, and materials used for repair and maintenance. Capital expenditure is the cost of acquiring and upgrading assets. This includes building property and acquiring equipment which will be used to provide services to local communities. Capital expenditure is considered further at paragraph 1.8.

1.3 In the financial year 2012-13 (see **Figure 1**), councils received income of £817 million from rates, charges and grants. Council expenditure amounted to almost £835 million. Accounting adjustments and transfers from reserves accounted for the £18 million variance.

Figure 1: Councils' Income and Expenditure 2012-13

| Where the money came from | (£ million) |
|---|-------------|
| General revenue funding from government | 45 |
| Service fees and charges | 228 |
| Capital grants | 19 |
| District rates | 525 |
| Total Income | 817 |
| How the money was spent | |
| Leisure and Recreational Services | 328 |
| Environmental Services | 288 |
| Corporate Management | 48 |
| Other expenditure | 69 |
| Finance and Investment | 102 |
| Total spending on services | 835 |
| Accounting adjustments and transfers from reserves | -18 |
| Total expenditure and transfer from reserves | 817 |

Source: Councils' audited financial statements

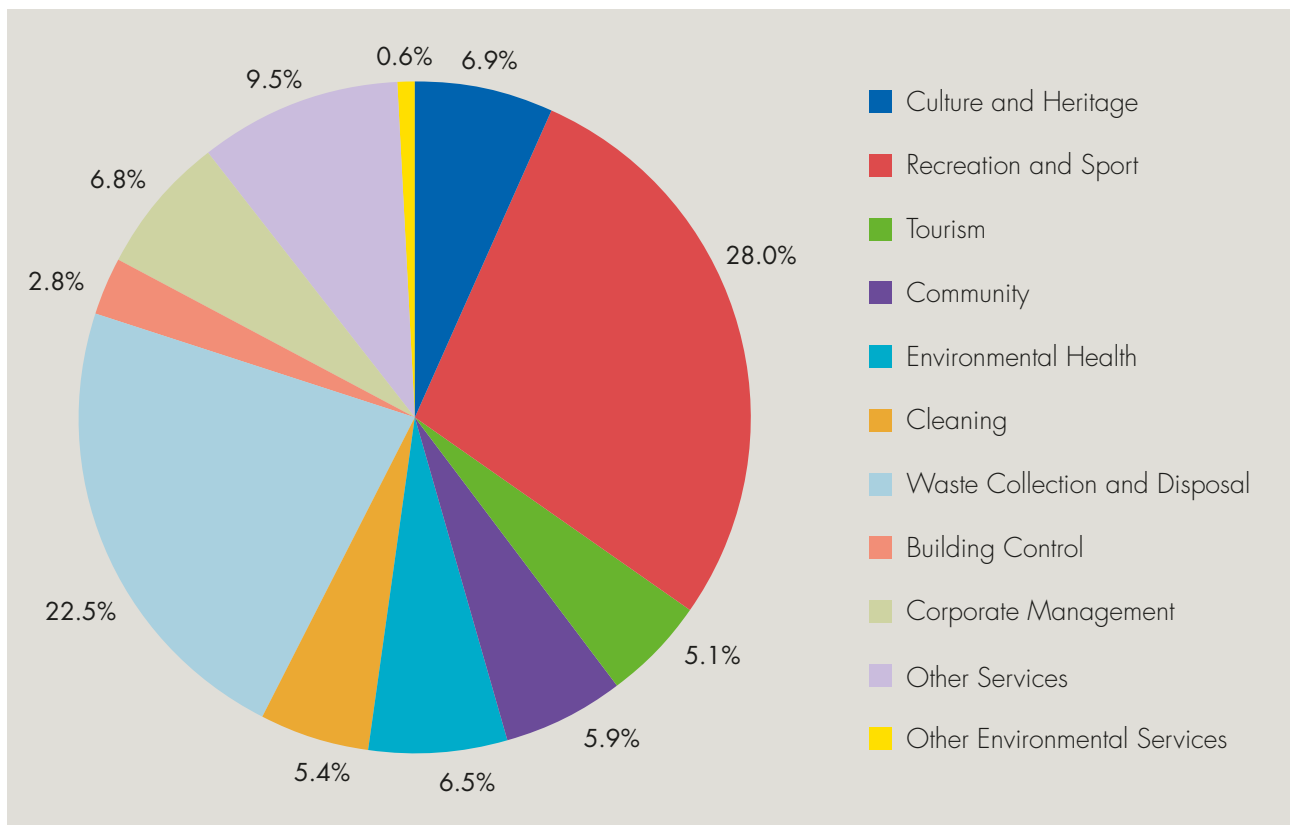
1.4 The majority of income, over 64 per cent (61 per cent in 2011-12), was received from district rates. Fees and charges accounted for almost 28 per cent (30 per cent in 2011-12) of councils' income over the period for services such as building control, waste collection and use of leisure facilities. General revenue funding from government¹ and capital grants accounted for six per cent and two per cent of income respectively.

¹ General revenue funding from government is paid to compensate councils for the statutory derating of certain property and to provide additional resources for those councils whose needs exceed their wealth base.



- 1.5 **Figure 2** provides additional detail on the categories of expenditure incurred by councils in the year to 31 March 2013. The largest area of expenditure related to Recreation and Sport, where councils incurred expenditure of £199 million in the 2012-13 financial year (£190 million in 2011-12). This category, combined with that of Waste Collection and Disposal (expenditure of £160 million) accounted for more than half of all expenditure incurred on services by councils.
- 1.6 Other categories of expenditure incurred by councils included Tourism (£36 million), Culture and Heritage (£49 million), and Building Control (£20 million).

Figure 2: Councils' expenditure by service during 2012-13



Source: Councils' audited financial statements

Loans

- 1.7 Loans outstanding at 31 March 2013 amounted to £473 million and are shown in **Figure 3**. This represents an increase from the position as at 31 March 2012 of £12.5 million (2.7 per cent). Total council borrowing now equates to around £260 per person based on the Northern Ireland population at June 2012. This varies considerably between councils.

Part One: Managing Resources

Figure 3: Councils' loan position as at 31 March 2013

| Council | Loans Outstanding as at 31 March 2012 (£ million) | Loans Outstanding as at 31 March 2013 (£ million) | Change (£ million) |
|-------------------------|---|---|--------------------|
| Antrim | 20.1 | 19.5 | -0.6 |
| Ards | 13.8 | 13.3 | -0.5 |
| Armagh | 27.0 | 27.7 | 0.7 |
| Ballymena | 26.2 | 25.5 | -0.7 |
| Ballymoney | 9.5 | 10.0 | 0.5 |
| Banbridge | 20.8 | 20.7 | -0.1 |
| Belfast | 28.5 | 27.7 | -0.8 |
| Carrickfergus | 21.1 | 22.3 | 1.2 |
| Castlereagh | 18.2 | 18.8 | 0.6 |
| Coleraine | 35.6 | 33.8 | -1.8 |
| Cookstown | 1.5 | 1.4 | -0.1 |
| Craigavon | 8.0 | 7.9 | -0.1 |
| Derry | 25.5 | 25.8 | 0.3 |
| Down | 23.8 | 27.5 | 3.7 |
| Dungannon | 5.3 | 4.9 | -0.4 |
| Fermanagh | 3.5 | 3.2 | -0.3 |
| Larne | 15.7 | 17.6 | 1.9 |
| Limavady | 12.7 | 12.3 | -0.4 |
| Lisburn | 20.0 | 19.0 | -1.0 |
| Magherafelt | 0.0 | 0.0 | 0.0 |
| Moyle | 8.7 | 8.3 | -0.4 |
| Newry | 18.8 | 20.2 | 1.4 |
| Newtownabbey | 46.8 | 44.6 | -2.2 |
| North Down | 36.9 | 49.4 | 12.5 |
| Omagh | 10.4 | 9.6 | -0.8 |
| Strabane | 2.3 | 2.2 | -0.1 |
| Northern Ireland | 460.7 | 473.2 | 12.5 |

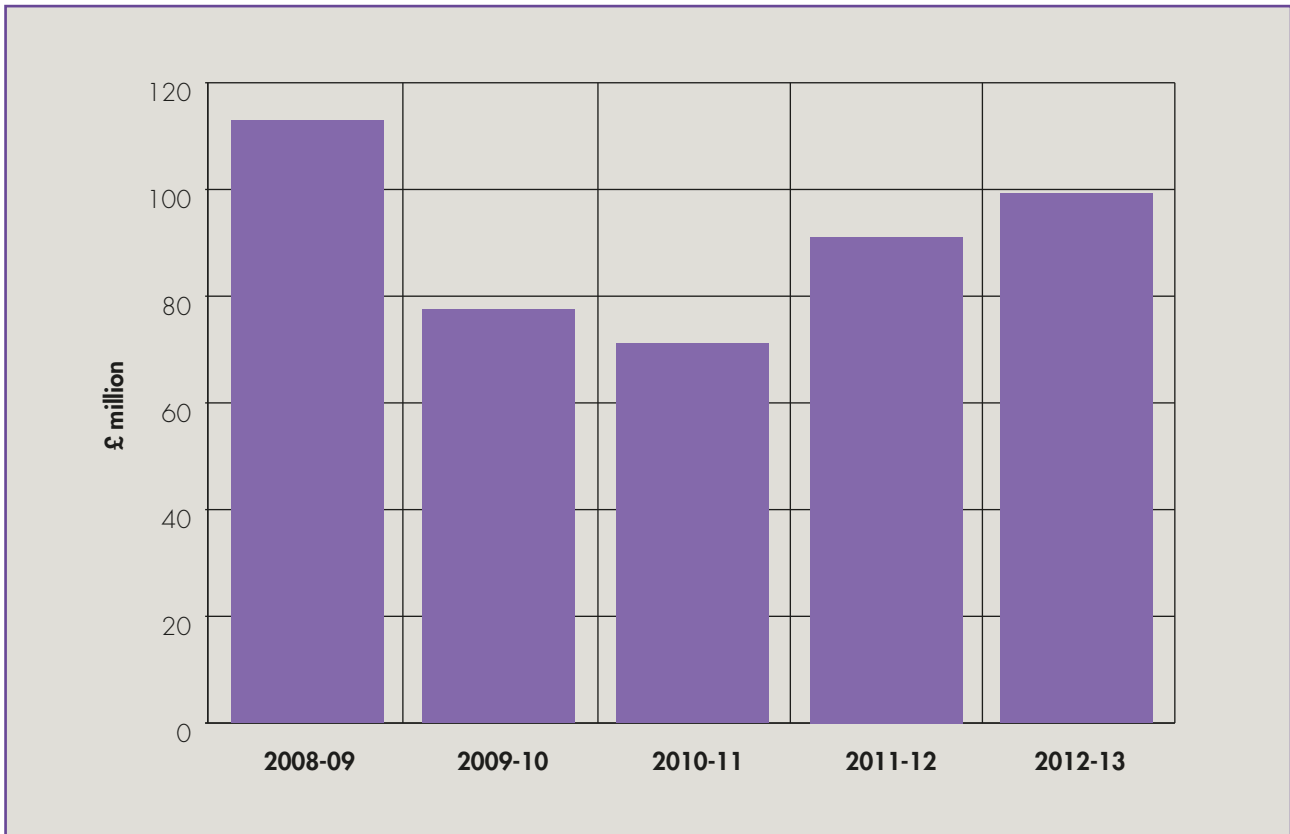
Source: Councils' audited financial statements



Capital Expenditure

1.8 Total capital expenditure in 2012-13 amounted to more than £99 million. This represents an increase of nine per cent from the previous year (£91 million) and 40 per cent compared to 2010-11 (£71 million) and continues an upward trend in recent years. Capital expenditure in 2008-09, however, was considerably greater at over £113 million.

Figure 4: Councils' capital expenditure from 2008-09 to 2012-13



Source: Councils' audited financial statements

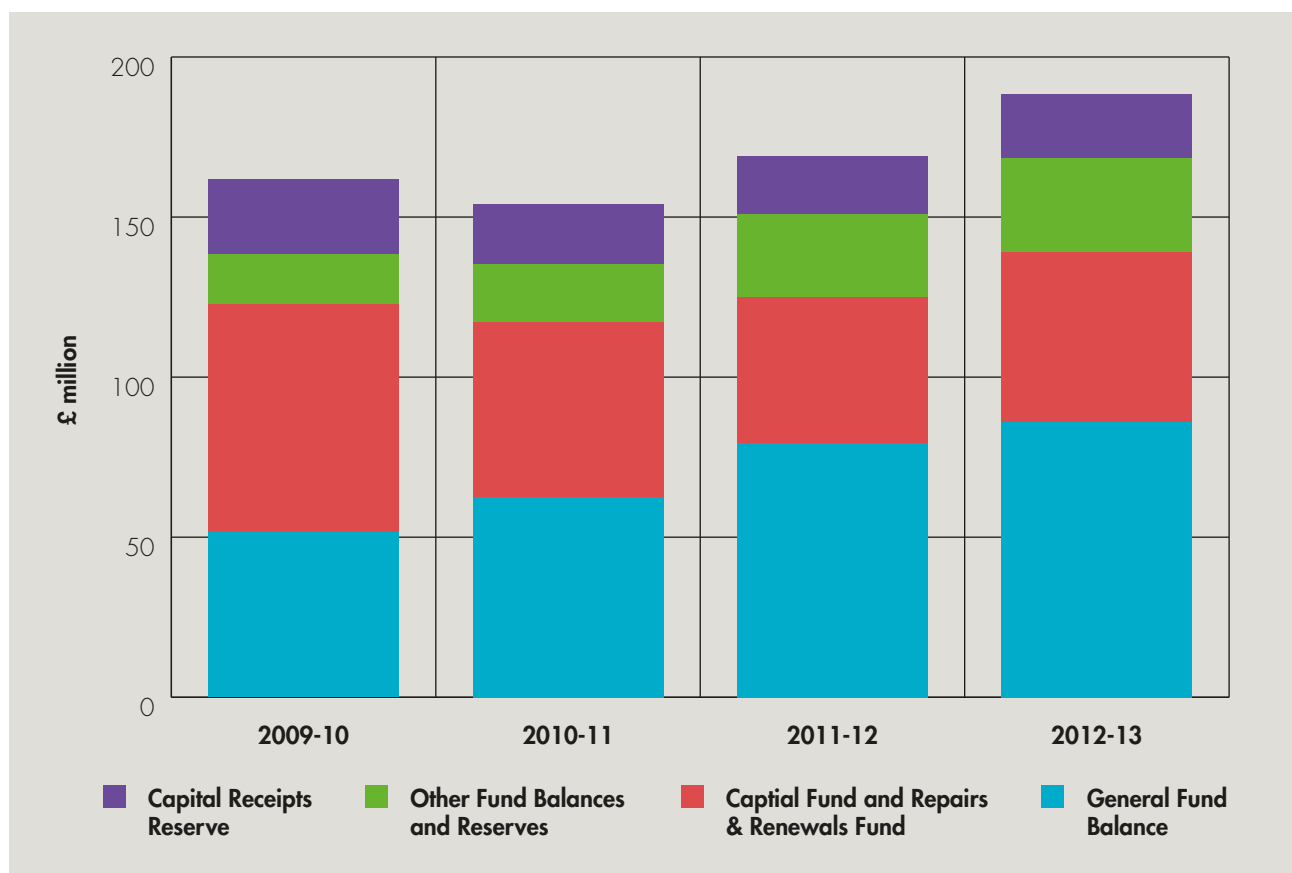
Reserves

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

Part One: Managing Resources

- 1.10 The overall level of usable reserves increased by over £19 million in the year to 31 March 2013. This represented an increase of over 11 per cent. Total usable reserves for all councils at 31 March 2013 were £188 million, compared to the prior year's total of £169 million. In 2012-13, 20 councils increased their usable reserves.

Figure 6: Councils' total usable reserves and balances



Source: Councils' audited financial statements

- 1.11 The General Fund is the main usable reserve. Overall, the total General Fund balance held by all councils has increased by almost £7 million. This represents an increase of over eight per cent compared to the prior year and now totals £86 million. The total General Fund balance held by all councils has increased by more than 67 per cent since 2009-10.
- 1.12 Whilst the average balance held by councils in their General Fund has increased sharply, the level varies considerably across councils. Each council's Chief Financial Officer is required to report on the adequacy of any proposed reserves for a financial year. This is part of a new prudential system for capital finance that was introduced on 1 April 2012 with



the implementation of the Local Government Finance Act (Northern Ireland) 2011. The key change is that it gives Councils more freedom to manage their finances without the need to obtain consent from the Department. More emphasis has therefore been placed on the Chief Financial Officers' assessment of affordability by applying the principles and requirements of the Prudential Code. It is a matter for judgement as to what is the appropriate level of reserves for each council. Councils should consider strategic, operational and financial risks facing the authority. Councils should also consider local factors and, during Local Government Reform, what is needed over the remaining life of the existing councils and what will be required by the new councils at start up to cover the operation of services from 1 April 2015. Councils should also have regard to regulatory requirements, guidance issued by the Department and other guidance such as the Prudential Code and relevant Local Authority Accounting Bulletins.

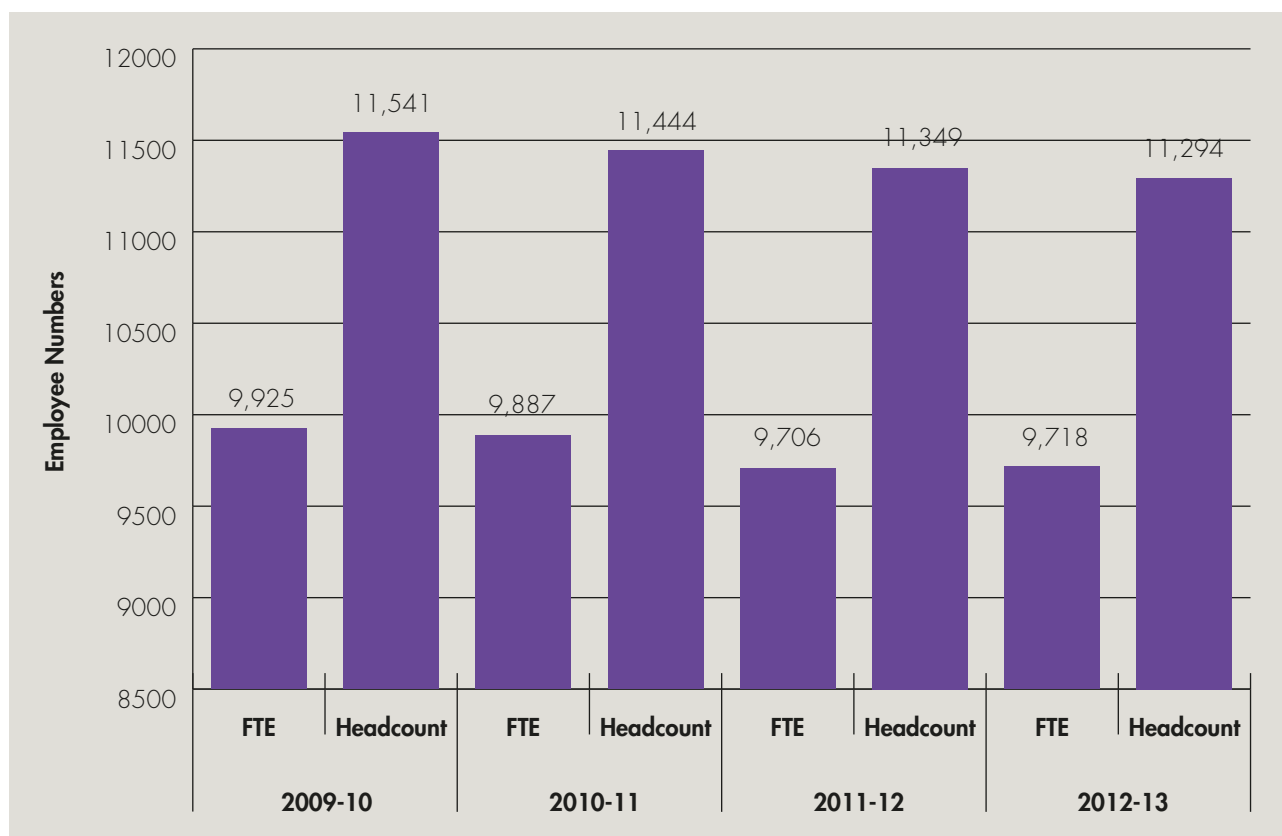
- 1.13 A well-managed council, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Such a council will ensure that those reserves are not only adequate but also are necessary.

Workforce

- 1.14 Between 31 March 2012 and 31 March 2013 there was a small decrease in the number of staff employed by councils as measured by headcount and a small increase in Full Time Equivalent (FTE) measure, as shown in **Figure 7**. FTEs increased marginally by 0.1 per cent. Headcount numbers continue to show a decline, from 11,349 to 11,294, a reduction of just under 0.5 per cent.

Part One: Managing Resources

Figure 7: Staff numbers in councils



Source: Councils' audited financial statements

- 1.15 These relatively small variances mask larger changes in individual councils. Overall, 12 councils increased staff in the year to 31 March 2013, whilst 12 councils decreased or maintained their staff numbers. Staff numbers in two councils remained unchanged.
- 1.16 Staff costs represent almost 36 per cent of gross expenditure in councils amounting to nearly £300 million in 2012-13. This represented a small increase of 0.4 per cent from 2011-12, broadly reflective of the economic climate and associated salary positions.
- 1.17 The average cost of employing a member of staff (including employers' National Insurance and superannuation costs) in a council also increased slightly from 2011-12. The cost changed from an average of £30,749 to an average of £30,823, an increase of 0.2 per cent. Between councils, changes ranged from an increase in average cost of nearly 13 per cent to a decrease in average cost of nearly 14 per cent. There are also considerable average staff cost variations between councils, with the lowest in Castlereagh and the highest in Belfast. Differences can be influenced by various factors such as the timing of equal pay settlements.



Agency staff

- 1.18 I note that in many councils significant expenditure was incurred on the engagement of agency staff. The total expenditure on agency staff is virtually unchanged at £13.8 million (2011-12, £13.2 million). In 13 councils agency costs represented two per cent or less of the total staff costs. However, in three councils, total agency staff costs for the year were greater than 10 per cent of annual staff costs, with the highest at 19 per cent.
- 1.19 I have previously commented that this is significant expenditure and councils must be satisfied that they are receiving value for money and that this is the best means of providing the relevant services.
- 1.20 I note that during 2012-13, one Council's Internal Audit function undertook a review of casual staff and gave an opinion of limited assurance. The key issues to be addressed were:
- the need to update the protocol in respect of employing casual staff;
 - ensuring that this protocol was implemented across all departments;
 - requiring a system to monitor the pattern of casual hours across all departments and facilities;
 - processing of annual leave entitlement to casuals; and
 - verifying casual hours claimed.
- 1.21 The Council has introduced procedures to rectify the weaknesses identified. I would encourage other councils to consider these issues and where appropriate incorporate these lessons into their own processes for employing and managing casual staff.

Senior Staff Remuneration Disclosures

- 1.22 The Accounts Direction prepared by the Department requires that all councils disclose the pay of their senior employees as a note to their annual accounts. Councils currently achieve this by noting the number of employees whose remuneration falls within bands.
- 1.23 I note that the disclosures made by central government bodies in Northern Ireland and local authorities in Great Britain considerably exceed those that are currently required in local councils.

Part One: Managing Resources

- 1.24 In England, local authorities are required to publish:
- Individual data on all senior employees earning more than £150,000 by job title and name;
 - Individual data on all senior employees earning between £50,000 and £150,000 by job title only; and
 - Banded data on all other employees earning over £50,000.
- 1.25 Central government bodies are required to publish a separate remuneration report as part of the Annual Report. As well as salary and pension information, the remuneration report must also include detailed information about compensation paid to senior management. The report also includes information about remuneration policy, service contracts offered to senior staff and compensation payable on early severance. Disclosures have recently been enhanced by including information related to 'fair pay'.
- 1.26 Making remuneration data public has a range of potential benefits, including:
- Benchmarking with other bodies;
 - Improved competitiveness and reduced costs;
 - External accountability;
 - Improved local decision making; and
 - A reduction in data enquiries such as freedom of information (FOI) requests.
- 1.27 The Department currently advises councils that they should consider disclosing officer remuneration in accordance with the guidance produced in England and Wales. I would encourage more comprehensive remuneration disclosures consistent with local government in other regions and also central government bodies. I understand the Department is reviewing the extent of disclosure required by local councils.



Exit Packages

1.28 My last Report noted that in 2011-12, a new requirement was introduced for councils to disclose, in bands, the numbers of exit packages agreed and the cost of those packages to the council. Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. Over the three financial years from 2010-11 to 2012-13 councils paid a total of £6.6 million in exit packages to staff, see **Figure 8**.

Figure 8: Exit Packages paid between 2010-11 and 2012-13

| | Number of Exit Packages | Cost of Exit Packages £ million | Number of Packages greater than £100,000 |
|--------------|-------------------------|------------------------------------|---|
| 2010-11 | 67 | 2.6 | Not Available |
| 2011-12 | 71 | 2.5 | 5 |
| 2012-13 | 55 | 1.5 | 2 |
| Total | 193 | 6.6 | |

Source: Councils' audited financial statements

1.29 In 2012-13, councils paid 55 exit packages with a total value of £1.5 million. This represents a significant decrease in the number paid from 71, costing £2.5 million, in 2011-12.

1.30 Of the £1.5 million paid in 2012-13, around half of this was paid by three councils. Eleven councils paid no exit packages in 2012-13.

Sickness Absenteeism

1.31 Absenteeism data shows that the average sickness rate in councils in 2012-13 was 11.77 days a year compared with 10.27 days a year in 2011-12. See Part Five of this report for further details.

Part Two: Good Governance



Part Two: Good Governance

Annual Governance Statements

- 2.1 The production of an annual governance statement is a key means for a local government body to demonstrate that they are complying with the basic tenets of good governance. Annual governance statements explain the key elements in a council's governance arrangements, the process for reviewing the effectiveness of the governance arrangements, and outline actions taken to deal with any significant governance issues.

My review of governance statements

- 2.2 In last year's report I noted that my review of the annual governance statements indicated that many councils stick too rigidly to the example format that was issued by the Department in its annual Accounts Direction, making it difficult to distinguish between different councils' governance statements. I recommended that guidance should not be seen as a template but rather that governance statements should accurately reflect the local priorities and circumstances of individual councils. This year's review found that some councils continue to have room for improvement in the individualisation of their governance statements.
- 2.3 In my last report I noted that in several instances councils had not given sufficient details of the issues they had highlighted as significant. Again this year's review of annual governance statements found several councils did not provide sufficient detail to illustrate how they were going to tackle the significant issues that had been highlighted. The majority of councils relied on the statement *"we propose over the coming year to take steps to address the above matters to further enhance our governance arrangements."* In my view, additional information would greatly assist in ensuring that these disclosures are meaningful and fully transparent. However, I found good practice displayed by two councils which included an action plan outlining steps to be taken in addressing each of the significant issues.
- 2.4 For the year ending 31 March 2013, three councils did not highlight any significant issues in their annual governance statements. This may be wholly reasonable, however, councils must be content that this reflects the results of a rigorous and robust review of performance rather than a desire to avoid criticism.



Issues highlighted by councils in their annual governance statements

2.5 The issues highlighted most frequently as significant by councils included:

- Complications in estimating future costs of waste/landfill;
- The Review of Public Administration in Local Government;
- Absenteeism (see Part Five of this report); and
- Weaknesses in procurement practices.

2.6 In the most comprehensive annual governance statements that I reviewed, councils clearly and succinctly outlined their governance arrangements and were open and transparent in disclosing significant governance issues. To assist with this process, I included a factsheet with my 2013-14 audit strategy outlining best practice and key recommendations to be considered in preparing a governance statement.

Proper arrangements to ensure economy, efficiency and effectiveness

2.7 The Local Government (Northern Ireland) Order 2005 requires me each year to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.

2.8 Based on my risk assessment of each council I review the relevant areas from those outlined in my Code of Audit Practice, outlined at **Figure 9**, to determine if proper arrangements are in place.

Part Two: Good Governance

Figure 9: The Code of Audit Practice outlines ten arrangements for securing Value for Money

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

Source: *Code of Audit Practice 2011*

- 2.9 In 2012-13, I was satisfied that 24 councils had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources. In two other Councils, namely Carrickfergus and Larne, I was not satisfied that they had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.
- 2.10 In the case of Carrickfergus, my concerns related to matters of procurement, risk and workforce management but I noted Carrickfergus had already procedures in place to address concerns. In the case of Larne, my concerns related to matters of financial planning, financial reporting, procurement, risk and workforce management.
- 2.11 My recommendations have been discussed with Council officers and I welcome their comments. The matters have also been discussed at audit committees with those charged with governance and there is a willingness to develop and improve the processes and procedures and understanding of officers and members. I encourage Carrickfergus and Larne to fully consider and implement the recommendations I have made and detailed in my report to those charged with governance.



Strengthening the Role of an Audit Committee

- 2.12 In 2012, I reported on the progress councils had made in strengthening the role of audit committees. An audit committee's role remains key in the continued improvement in governance, and it has an important role in scrutinising and advising on financial and governance issues.
- 2.13 My report highlighted that the appointment of independent members to an audit committee was one means of strengthening its independence and widening the range of specialist skills. I am pleased that more councils have now appointed independent members to their audit committees and would encourage those that have not yet done so to strongly consider the benefits of this. I also note that during 2012-13 two councils had vacancies in their independent member positions.
- 2.14 I had previously recommended that constituting an audit committee as a full committee reporting directly to the Council was a means of enhancing its objectivity and independence. My latest review of the councils' annual governance statements found that audit committees in five councils are still not operating as a full committee.

Audit Committee Meetings

- 2.15 CIPFA guidance on audit committees² advises that whilst the frequency and timing of meetings is a matter for each authority to determine, best practice suggests that an audit committee should meet at least four times annually. My review of councils' annual governance statements found two councils held only two meetings during the 2012-13 year, with four councils holding only three meetings. The remaining councils held at least four meetings. I recommend that all councils should ensure that they comply with good practice or explain the rationale for non-compliance.

Arrangements for the review of effectiveness of the system of Internal Audit

- 2.16 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires councils to maintain an adequate and effective system of internal audit. This legislation also requires councils to conduct a review of the effectiveness of their system of internal audit at least once a year. This annual review of the effectiveness of internal audit should form a key part of a council's assurance that their system of internal control is operating effectively.

2 Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

Part Two: Good Governance

- 2.17 My review found six councils failed to conduct the required annual review. In the case of one council that did carry out an independent review of the effectiveness of its externally provided Internal Audit service, I noted that the service was not fully compliant with the CIPFA code of Practice.
- 2.18 I recommend that all councils comply with the legislative requirements to undertake this annual review and the new eleven councils give full regard to best practice for audit committees.

Code of Conduct

- 2.19 The Local Government Act (Northern Ireland) 2014 contains a number of provisions for the reform of local government. These include a new ethical framework, a key element of which is the introduction of a mandatory code of conduct for councillors. Previously, councillors were guided by the non-mandatory Northern Ireland Code of Local Government Conduct (April 2003).
- 2.20 The Code of Conduct is based on 12 principles of conduct which are intended to promote the highest standards of behaviour for councillors. These draw on the Nolan principles of public life as well as further principles adopted by the Northern Ireland Assembly and are listed at **Figure 10**.

Figure 10: Principles of Conduct

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

Source: *The Northern Ireland Code of Conduct for Councillors, Department of the Environment*



- 2.21 The requirement for a code of conduct came into immediate effect in May 2014 and requires each Chief Executive to ensure that their council has established and maintains a register of members' interests. The Code also recommends that a register for gifts and hospitality should also be established and that procedures are in place for dealing with relevant declarations of interest. Further requirements, related to planning matters, will come into force on 1 April 2015.
- 2.22 I will monitor how the new code of conduct arrangements become embedded and I may report further at a later date.

Part Three: Theft, Fraud and Whistleblowing



Part Three: Theft, Fraud and Whistleblowing

- 3.1 Last year I provided guiding principles for the investigation of whistleblowing concerns. This section highlights councils' responses to a number of thefts and frauds that have come to my attention.

Theft and Fraud

- 3.2 The thefts and frauds reported by councils have included theft of cash by an employee (see **Case Study 2**), misappropriation of stock and external frauds perpetrated against councils.
- 3.3 Several councils have noted suspected and actual frauds in their governance statements. As a result of their investigative work, many councils have strengthened their controls which should help reduce their susceptibility to fraud in the future (see **Case Study 1**).

Case Study 1 – Craigavon Borough Council: Fraud at Fairgreen Recycling Centre

In February and March 2010, complaints were received from members of the public regarding requests for money made by staff who worked at Craigavon Council's Fairgreen Recycling Centre.

A Fraud Investigation Team (FIT) report was completed in September 2010 and the PSNI were informed. It was the opinion of FIT that fraudulent activity had become established. As a result, a disciplinary investigation was initiated and precautionary measures taken to avert recurrence. Disciplinary hearings were completed and resulted in three employees being dismissed from the Council's employment with effect from January 2012.

The Council subsequently approved an external review of the Fairgreen investigation to reflect concerns expressed by Members about the overall management issues and related proceedings.

In April 2013 a final report and action plan containing nine recommendations was presented to the Audit Committee. The Council is now implementing these recommendations.

Source: Craigavon Borough Council Annual Governance Statement (extract)



Case Study 2 – Fermanagh District Council: Theft by an employee

During the 2012-13 financial year, a theft by an employee was reported to the Council and was subsequently investigated. This resulted in the dismissal of an employee. The overall loss was around £20,000. However around £19,000 of this was recovered through the Council's insurers and the loss to the Council was reduced to around £1,000, which was the excess on the insurance policy. This matter has been referred to the PSNI. The Council undertook a review of controls around cash collection and recording and as a result introduced more stringent controls.

Source: *Fermanagh District Council Annual Audit Letter (extract)*

- 3.4 During the year, I have become aware of several instances of attempted bank mandate fraud against local government bodies. A significant fraud perpetrated against Belfast City Council in July 2013 is outlined in **Case Study 3**. I note that the Department of Finance and Personnel (DFP) issued a fraud alert to all central government bodies in December 2011, highlighting the dangers of frauds such as these. It is important that councils are aware of the potential for such frauds and learn lessons from the handling of such cases.

Case Study 3 – Belfast City Council: Bank Mandate Fraud

In July 2013, Belfast City Council discovered that it had been subjected to an external fraud. This involved fraudulent changes being submitted and made to bank account details held by the Council for one of its main contractors, which resulted in two payments totalling more than £292,000 being made to a fraudulent bank account.

Once the fraud was discovered actions were taken, including freezing subsequent payments to the fraudulent bank account, notifying the PSNI, activating the Council's Fraud Response Protocol and initiating a preliminary Human Resources investigation. This matter was reported to the Council's Strategic Policy and Resources Committee, the Audit Panel and the Local Government Auditor.

Following initial investigation by the PSNI, it concluded there was no evidence to suggest that either employees of the Contractor or Council staff were involved in the fraud. Initial review of the circumstances of the fraud by the Council's Audit Governance and Risk Services indicated that if controls which had been put in place had been followed, then the fraud would not have occurred.

A number of other follow up actions were undertaken by the Council, including the review of procedures and the re-validation of vendor details. A further layer of management checks have also been applied to changes to vendors' critical details.

The Council recovered much of the loss arising from the fraud from its insurers.

Source: *Belfast City Council Annual Audit Letter (extract)*

Part Three: Theft, Fraud and Whistleblowing

- 3.5 DFP's fraud alert gave useful advice on preventing frauds such as these. Organisations should:
- ensure they have appropriate procedures in place for authenticating and approving requests to amend bank details before actioning them;
 - closely scrutinise all requests for changes in payment details, no matter how minor; and
 - as part of standard procedures, independently contact suppliers to verify that any change of bank details or contact details is genuine.
- 3.6 I note that a similar attempt was made in May 2014 by suspected fraudsters against another local government body. Fraudsters made contact, claiming to be a legitimate supplier and sought to change the bank account details held by the local government body. In this instance, the organisation's standard procedures, which included making contact with suppliers to confirm any changes before they are made, identified and frustrated this attempted fraud.
- 3.7 It is widely accepted that the risk of fraud increases significantly during times of organisational change. In light of the extensive changes associated with the reform of local government, it is particularly important that councils review their policies and procedures to prevent and detect fraud and ensure that controls are appropriate and operating effectively.
- 3.8 The C&AG is required to be made aware of all actual or suspected frauds that are uncovered in central government. There is no such requirement for the Local Government Auditor to be made aware of frauds in local government bodies. I would strongly encourage the Department to consider the current structures in place to monitor frauds, gather and collate information and bring trends and lessons to the attention of the sector as a whole. I appreciate the actions of those councils who voluntarily bring suspected and actual frauds to my attention.

National Fraud Initiative

- 3.9 The National Fraud Initiative (NFI) exercise, which is carried out every two years, is a highly effective tool which helps public bodies identify potentially fraudulent and duplicate transactions using sophisticated computer based data matching techniques. The Serious Crime Act 2007 inserted provisions dealing with data matching exercises into the Audit and Accountability (Northern Ireland) Order 2003.



- 3.10 Local Councils were involved in the last NFI exercise which was carried out during 2013. This exercise produced outcomes to date of more than £5.5 million and is detailed in the report produced by the C&AG for Northern Ireland, published on 17 June 2014³.
- 3.11 During the process, councils in Northern Ireland received almost 20,500 data matches of which they have considered around 6,500 as significant. Examples of results from the NFI exercise include one council which made five duplicate payments amounting to almost £4,500. These amounts are being recovered from suppliers. In addition a pension fraud was uncovered that amounted to more than £10,000. (See **Case Study 4**)

Case Study 4 – NFI match

A local government pensioner failed to notify the pension paying body that they had become re-employed in the same sector. Overpayment of pension amounted to £10,700. The amount is being repaid by the pensioner in instalments.

Source: NILGOSC

- 3.12 The fourth NFI exercise in Northern Ireland has now been launched. When considering the data matches from this exercise, bodies should bear in mind a number of practical suggestions that can improve the effectiveness of the NFI tool (see **Figure 11**). In addition, the C&AG has highlighted the following:
- in some bodies, the NFI is not yet fully embedded in the organisation's counter fraud work;
 - some bodies are over-investigating their data matches rather than adopting a risk based approach; and
 - some bodies are not maximising the deterrent effect of NFI by publicising their participation in the NFI and their successful results.

Part Three: Theft, Fraud and Whistleblowing

Figure 11: Using the NFI more effectively

- Ensure that good quality data, which fully complies with the relevant data specification, is uploaded to the NFI. This will ensure better quality matches.
- Ensure that all staff involved in NFI work have watched the on-line training videos and read the guidance notes so that they are familiar with the most effective way of working.
- Ensure that work is clearly allocated so there is no duplication of effort.
- Review matches using a risk based approach so that finite resources can be applied most effectively to planned investigative work.
- Use the filter and sort options within the web application, or data analysis software, to help prioritise matches.
- To save time, make use of report comments where possible, rather than entering the same comment for multiple matches.
- Resources may be better used responding to enquiries from other organisations in relation to matches rather than continuing with needless investigative work.
- Work as much as possible within the web application, which is designed to streamline the whole NFI process.

Source: The National Fraud Initiative: Northern Ireland, Report by the C&AG, 17 June 2014

Whistleblowing

- 3.13 As I have noted previously, whistleblowers have an important role to play in bringing information to light about matters of concern in relation to the proper conduct of public business. The proper and timely investigation of such matters is a vital component of good governance arrangements, which instils confidence that, where wrongdoing exists, those responsible are held to account, mistakes are remedied and lessons learnt.
- 3.14 Last year I reported that one council did not have a whistleblowing policy and stated in its Annual Governance Statement that one was being prepared for approval by Council. My 2012-13 review confirms that the Council has now introduced the whistleblowing policy.



- 3.15 As the Local Government Auditor within the Northern Ireland Audit Office I am a prescribed person to whom protected disclosures can be made under the *Public Interest Disclosure (NI) Order 1998*. In that capacity I receive a significant number of whistleblowing concerns. In 2012-13, 22 cases were reported to me. A further 21 cases were reported in 2013-14.
- 3.16 In dealing with concerns, I will consider a range of possible actions, from discussing the issues raised with the audited body to carrying out a full audit investigation and I consider including relevant comments in our audit reports. I am also aware that most councils also receive whistleblowing complaints in line with their own policies. It is important that councils ensure they have procedures in place to deal quickly and robustly with concerns raised. To ensure investigations are not protracted, I would encourage councils to establish clear turnaround times and ensure that there are adequate procedures in place for checking information and explanations received as part of these investigations.

Part Four: General Matters



Part Four: General Matters

Annual Audit Letters: Issues arising in the course of audits

- 4.1 Following the conclusion of the audit of council accounts, I provide an annual audit letter and a report to those charged with governance. These detail the results of my audits and the actions agreed by management to address the issues raised.
- 4.2 A council is required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 to publish the annual audit letter "as soon as reasonably possible after [it] has received an annual audit letter from the local government auditor." Whilst councils normally satisfy this legislative requirement by making the document available on their websites, I would remind all councils of the need to ensure this is completed in a timely manner.
- 4.3 I have identified a number of common themes that have been brought to my attention during the audits of councils over the course of the year, including:
- weaknesses within procurement and contract management; and
 - the need for strengthened procedures around asset management.

Procurement and contract management

- 4.4 I have raised concerns in my last two reports on the need for appropriate procurement arrangements to be in place and the importance of monitoring contractor performance. I highlighted that without sufficiently rigorous tendering procedures, it is difficult for councils to demonstrate they are achieving value for money. I also stressed the importance of councils reviewing their procurement guidance regularly to ensure that it remains relevant and captures the key elements of best practice.
- 4.5 Procurement continues to be a major issue for a number of councils in Northern Ireland. Issues highlighted during my audits included:
- deviations from established procurement policy without any rationale or documented justification;
 - purchase orders being raised after goods have been ordered;
 - lack of procedures for identifying and reporting single tender actions;
 - absence of formally documented business cases or economic appraisals for the procurement of capital contracts;



- contracts being automatically renewed without being subject to a competitive process;
- tendering for services without an agreed costing or schedule of rates; and
- a lack of procurement expertise within individual councils.

4.6 I also noted a range of issues associated with contract management. These included:

- a failure to prepare and maintain a central contracts register;
- an informal and inconsistent approach to monitoring the performance of contractors across council departments; and
- the need for the provision of fuller management information on contracts for members' consideration.

4.7 It is important that adequate and proportionate arrangements are put in place to ensure that contracts are effectively managed throughout their lifespan. This will assist councils in evaluating and demonstrating that they are achieving value for money in their procurement and that contracts are being delivered on time, within budget and to the desired quality.

4.8 However, I am encouraged to see improvements and innovation in some councils that are seeking to strengthen their procurement practices. These include:

- identifying the need for improvement in procurement processes as both a corporate risk but also an opportunity for council to make savings;
- conducting a review and update of procurement policies;
- providing training for managers on contract management;
- appointing dedicated procurement specialists to address skills shortages; and
- in one instance, establishing a service level agreement to make use of the services of a Procurement Officer from a neighbouring council.

4.9 Procurement and contract management remain important issues that all councils should keep under review and should be a particularly important consideration as the new councils are created.

Part Four: General Matters

Asset Management

- 4.10 Councils in Northern Ireland utilise assets worth more than £2 billion. To ensure that these assets are being used effectively, I expect councils to have appropriate asset management arrangements in place.
- 4.11 I reported in December 2012 on the results of a survey examining the management arrangements for councils' property assets. In that report, I highlighted that many councils in Northern Ireland lagged behind progress made by local authorities in the rest of the United Kingdom. As a result, other regions may have been better placed to identify and realise efficiencies. At that time, many councils told me that their arrangements for property asset management were in the process of being reviewed and updated.
- 4.12 I am pleased to note that since that report, a number of councils have identified the importance of asset management and sought to improve their skills and capacity in this area. Several other councils have identified asset management as a potential area of risk in their governance statements. It is important that this issue remains a priority for councils in the future.
- 4.13 Councils in Northern Ireland own or occupy large numbers of buildings and a large amount of land. Most of this property is used to either provide services or back office functions. In addition, a number of councils own other buildings, such as investment properties. My review of the 2012-13 accounts found that at March 2013 local councils held land and buildings with a net book value⁴ of more than £1.3 billion.
- 4.14 Under International Financial Reporting Standards, Councils are required to disclose separately assets which are deemed surplus. These assets are not operational as they are not used to provide services. They are also not held as an investment to generate rental income or classified as held for sale. These could be assets that may be required for a future investment programme or land which the council has judged not suitable for disposal.
- 4.15 Councils held almost £24 million of assets which were deemed to be surplus. These are assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining and securing them. The amount of surplus assets is nearly five times the amount of assets that are classified by councils as held for sale.
- 4.16 Immediate disposal of these assets may not be appropriate. Nevertheless, it is important that councils do not hold assets which are potentially valuable for the wider community. It may be more appropriate, for example, to transfer assets or to invest in them to make them fit for purpose. I am, however, mindful of local government statutory requirements on the disposal of assets.

4 Net book value is defined as the value of an asset to the council, taking into account depreciation.



- 4.17 It is important that councils consider the assets that they are holding. It is also important, however, that consideration is given to how effectively these assets are being used. Useful indicators may be councils' use of floor space or occupancy levels. This may highlight where space could be used more efficiently. To do this, councils should collect and analyse data on the number and size of properties they hold, their running costs and current occupancy levels.
- 4.18 Councils should ensure their asset holdings are reviewed regularly to ensure surplus assets are identified and disposed of where appropriate. Asset management will be particularly important in the context of local government reform and in modernising and restructuring the delivery of local government services.

Objection to the 2011-12 Craigavon Borough Council accounts

- 4.19 It is unusual for the Local Government Auditor to receive objections to transactions in financial statements, as provided for by the Local Government (NI) Order 2005. In October 2012, I received an objection to the Craigavon Borough Council accounts for 2011-12. The Council published its unaudited accounts on its website on 31 October 2013 with a statement that:

"The 2011-12 unaudited financial statements were approved by Council on 20 June 2012. The Local Government Auditor has received an objection under Article 18 of the Local Government (Northern Ireland) Order 2005. The Local Government Auditor is considering the objection and has not at this point given a certificate, opinion or report under Article 10 of the Local Government (Northern Ireland) Order 2005 on the 2011-12 financial statements. We will publish the audited financial statements as soon as they have been certified by the Local Government Auditor."

- 4.20 I concluded my considerations and I issued a decision letter and statement of reasons on the objection on 8 October 2013. I declined to uphold the objection and decided not to make an application to the Court under Article 19 of the Local Government (Northern Ireland) Order 2005 for a declaration that the item was contrary to law.
- 4.21 I investigated this matter within the context of the legal framework and Code of Audit Practice. The Council was invited to identify the statutory power on which it relied to authorise the making of this payment. I considered the Council's response and I concluded the way in which the Council had proceeded was less than satisfactory, as it failed to identify any statutory enabling power capable of authorising the payment. I consider that there is a risk that the Council may act ultra vires and I recommended to those charged with governance that the Council should always ensure that there is a statutory power for a payment before making the payment.

Part Four: General Matters

Local Government Staff Commission

- 4.22 The Local Government Staff Commission's main aim is to exercise general oversight of matters connected with the recruitment, training and terms and conditions of employment of officers for the councils and the Northern Ireland Housing Executive and make recommendations on such matters. The majority of its income is contributions from councils.
- 4.23 In March 2013, the Department of the Environment, as sponsoring Department for the Commission, initiated a specific audit to examine the legitimacy of payments made to Senior Commission Officer(s) in respect of additional work undertaken for other employers. The Department's audit resulted in a number of detailed good governance recommendations for implementation by the Commission. The Commission stated these recommendations were fully implemented by 31 December 2013. I welcome the openness and transparency applied by the Commission in responding to the Department's audit.

Part Five: Absenteeism

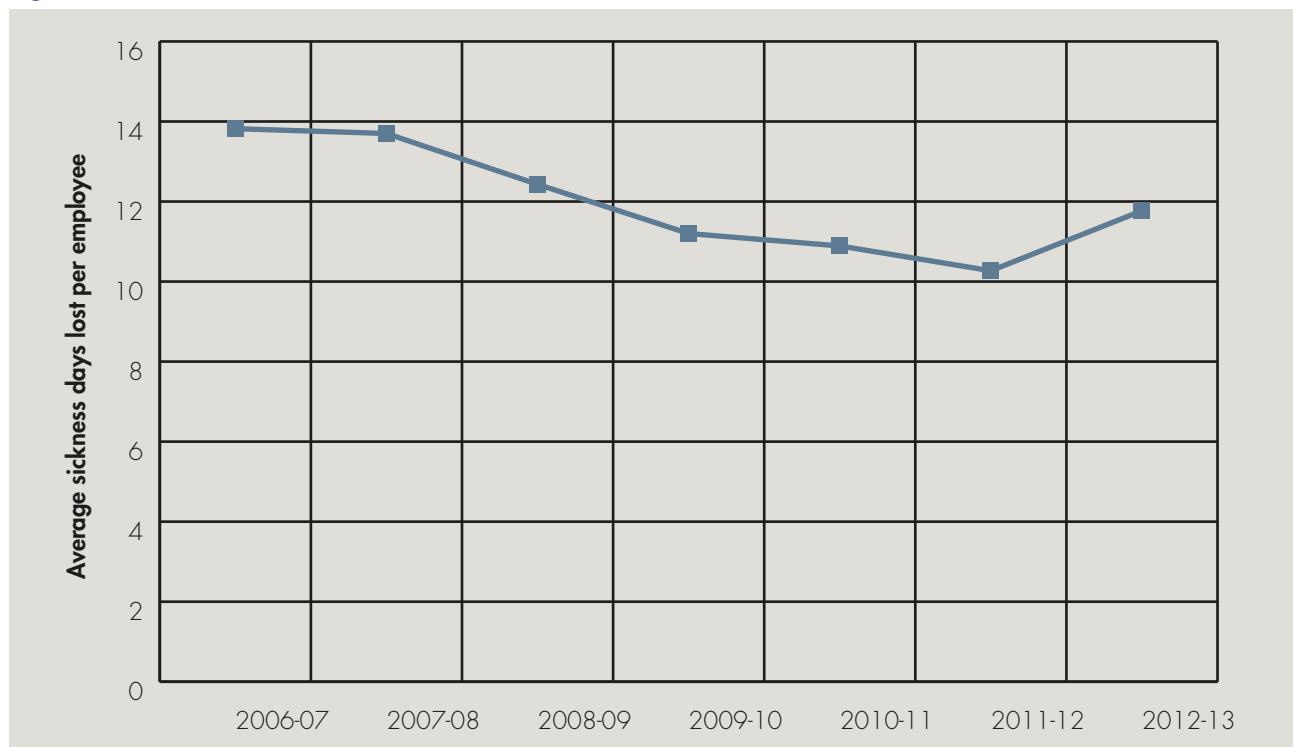


Part Five: Absenteeism

Absenteeism in Northern Ireland Councils

5.1 Historically, my work on absenteeism has identified variations across councils, and noted that the management of absenteeism varies between councils. **Figure 12** shows that until 2011-12, the level of absenteeism across the local government sector as a whole was gradually reducing. However, this year my review found the level of absenteeism rose, resulting in a decrease in productivity.

Figure 12: Sickness absence trend 2006-07 to 2012-13



Source: Northern Ireland Councils (unaudited)

- 5.2 It is important that those with high and rising absenteeism rates should review their own management practices and benchmark them against councils with low and falling absenteeism rates.
- 5.3 My annual audit letters for 2011-12 and 2012-13 contained an unaudited summary of the results of each council's absenteeism statistics for the year, alongside trends over a six year period. I have summarised the results in **Figure 13**. This reveals that levels of absenteeism have increased, with only five of the 26 councils reporting improved performance from 2011-12.



- 5.4 The average sickness absence rate in 2012-13 was 11.77 days a year compared with 10.27 days the previous year, an increase of 1.5 days per employee (15 per cent). The days lost per employee range from a high of 17.2 in Carrickfergus to a low of 6.64 in Cookstown.
- 5.5 Seven councils reported an increase in absence of more than 2.5 days per employee. Of these, Down had the biggest increase of 5.4 days per employee. The greatest decrease was in Castlereagh, where the absenteeism rate fell by 1.25 days per employee.
- 5.6 Most of the councils provided a reason for the variance in sickness absence rate, for example:
- eighteen councils indicated that the increase was due to an increase in long term sickness absence; and
 - two councils noted their decrease in days lost was due to more effective operation of the Absence Management System and procedures.
- 5.7 Attendance management policies and procedures are now embedded across the sector, and during this year some councils noted improvements to their absence management procedures (see **Case Study 5**).

Case Study 5: Improving Attendance Management Policies

Newtownabbey Borough Council recorded a slight increase in sickness absence per employee to 13.95 days in 2012-13, from 13.45 days in 2011-12, despite an initiative taken by the Council to improve health and wellbeing. The Council conducted a consultation on the proposed changes to the Managing Attendance Policy and Procedures at a local level with all of the recognised unions representing Council employees.

It is proposed that an amended policy and procedures are trialled for a year, supported by a training programme for managers and supervisors, with on-going coaching.

A fully revised draft Managing Attendance Policy and Procedure has been prepared and submitted to Antrim Borough Council for consideration to jointly agree a policy for the new Antrim and Newtownabbey Council. This work will be ongoing under the local joint forum.

Regular absence reports are presented to the Audit and Policy and Governance Committees. The Council believes these changes are necessary in order to reduce sickness absence levels, but remains committed to caring for the welfare of employees and all cases will continue to be treated with empathy and consistency.

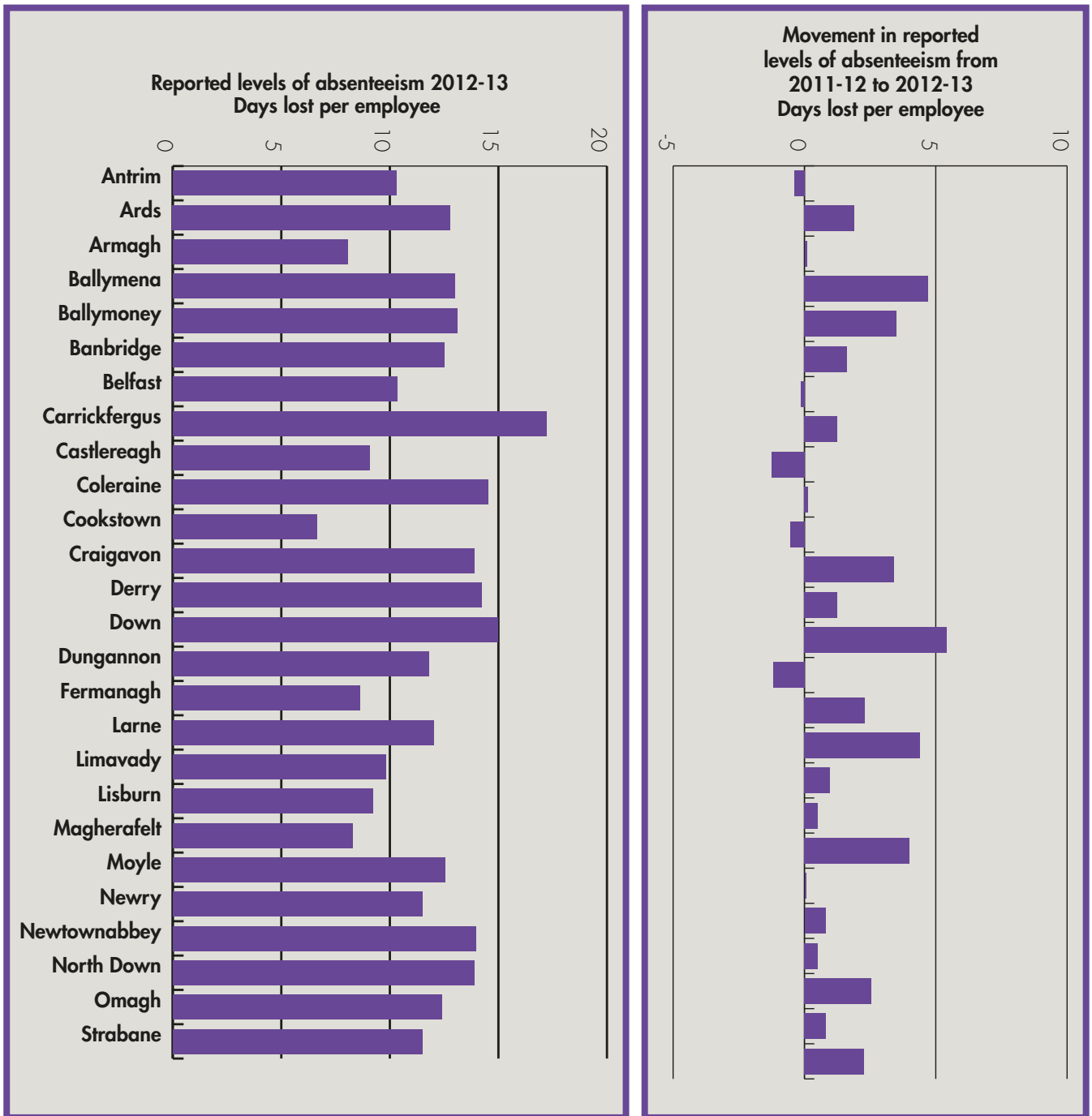
Source: Newtownabbey Council's Annual Governance Statement

Part Five: Absenteeism

- 5.8 Six councils noted sickness absence as a significant issue in their Annual Governance Statements. I am concerned to note that during 2012-13 one council had to introduce an interim organisational structure due to sickness absence at senior levels.
- 5.9 I will continue to collect data on absenteeism and report on it as part of future individual audits of councils. I will keep under review the benefits of a further detailed study at a future point.
- 5.10 Given the restructuring of local government in Northern Ireland, it is a period of uncertainty for councils and their staff. Therefore it is important that councils rigorously manage absence to ensure that staff welfare is protected and that the delivery of front line services is not adversely affected by absenteeism.



Figure 13: Absenteeism in Northern Ireland Councils 2011-12 and 2012-13



Source: Northern Ireland Councils (unaudited)

Part Six: Prompt Payment



Part Six: Prompt Payment

- 6.1 This section compares prompt payment performance in Northern Ireland councils with that of central government bodies⁵.

Legislation

- 6.2 Public sector organisations are required to pay invoices promptly. They are bound by the Late Payment of Commercial Debt (Interest) Act 1998 (as amended by the Late Payment of Commercial Debts Regulations 2002). This provides suppliers with a statutory right to claim interest and compensation on late payments of commercial debt. Payment is regarded as late if made outside the agreed terms, or 30 days after receipt of a valid invoice where no terms are agreed.
- 6.3 From 16 March 2013, a European Union Directive on Combating Late Payment in Commercial Transactions⁶ was implemented through the Late Payment of Commercial Debts Regulations 2013. These regulations apply to all contracts made from 16 March 2013 onwards. As a result of the regulations, all public bodies are required to pay suppliers for goods or services received within 30 days of receiving an undisputed invoice.

Disclosure of Performance

- 6.4 All councils have included a prompt payment note in their accounts from 2009-10 onwards. In June 2012, the Department issued guidance on the recording and prompt payment of invoices. It requested councils to record the 10 and 30 days performance targets from the start of 2012-13.
- 6.5 In October 2013, the Department provided more specific detail on how the 10 and 30 day targets should be calculated, and set up a cycle of quarterly reporting for prompt payment performance and added that, for transparency purposes, these statistics should be published on council websites. It aimed to improve the comparability of council prompt payment performance statistics both with other councils and central government. Most councils currently display prompt payment performance information on their websites.

5 The central government bodies include the 12 NICS Departments and 18 other bodies, including 12 agencies, 5 arm's length bodies, and 1 non-ministerial government department.

6 EU Directive 2011/7/EU.



Summary of Findings

- 6.6 In 2013-14 councils processed nearly 325,000 invoices. This represents an increase of around 10 per cent on the number of invoices processed in 2012-13. Overall, 16 councils have reported improvements in paying valid invoices within the 30 day and 10 day targets. However, with an average of 42 per cent of all invoices being paid within 10 working days, and 81 per cent within 30 working days, the performance still falls well behind central government bodies.
- 6.7 In general, performance in both councils and central government bodies against the 30 day prompt payment target has remained static (see **Figure 14**) since I last reported on the issue in 2013. Whilst improvements in individual councils are welcomed, there is still considerable action required to maximise the number of valid invoices paid within both the 30 and 10 day targets.

Figure 14: Comparison of 30 day payment performance against central government bodies

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

Source: Department of the Environment and Account NI data.

Figure 15: Comparison of 10 day payment performance against central government bodies

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

Source: Department of the Environment and Account NI data.

Part Six: Prompt Payment

Performance against 30 Day Target

6.8 Central government bodies significantly out perform councils in complying with the 30 day target (see **Figure 14**). Central government bodies achieved an average prompt payment performance of 97 per cent of valid invoices in both 2012-13 and 2013-14. Councils maintained their prompt payment performance, paying 81 per cent of valid invoices within 30 days in both 2012-13 and 2013-14.

Performance against 10 Day Target

6.9 As with the 30 day target, central government bodies outperformed the councils in complying with the 10 day target (see **Figure 15**). Average performance across this sector fell marginally, by one per cent, with an average of 89 per cent of valid invoices paid within 10 working days in 2013-14.

6.10 Councils have reported an improvement for the 10 day target, paying five per cent more valid invoices within 10 days in 2013-14 than in 2012-13. Again I welcome this improvement, with an average of 42 per cent of all valid council invoices being paid within 10 working days, but the performance still falls well behind the central government bodies.

6.11 **Figure 16** summarises the average number of invoices paid in 2012-13 and 2013-14, per body, in each sector.

Figure 16: Annual invoices paid on average per body in each sector in 2012-13 and 2013-14

| Sector | 2012-13 | 2013-14 |
|---------------------------|---------|---------|
| Central government bodies | 15,380 | 17,310 |
| Councils | 11,371 | 12,495 |

Source: Department of the Environment and Account NI data.

Councils' performance against 30 day Target

6.12 **Figure 17** sets out the performance of each Council against the 30 day target.



Figure 17: Percentage of valid invoices paid within 30 days by councils in 2012-13 and 2013-14

| Council | 2012-13 (%) | 2013-14 (%) | Movement |
|----------------------|-------------|-------------|----------|
| Antrim | 54 | 81 | +27 |
| Ards | 87 | 86 | -1 |
| Armagh | 95 | 96 | +1 |
| Ballymena | 89 | 94 | +5 |
| Ballymoney | 81 | 45 | -36 |
| Banbridge | 66 | 75 | +9 |
| Belfast | 80 | 85 | +5 |
| Carrickfergus | 67 | 85 | +18 |
| Castlereagh | 96 | 86 | -10 |
| Coleraine | 80 | 81 | +1 |
| Cookstown | 98 | 81 | -17 |
| Craigavon | 68 | 68 | - |
| Derry | 75 | 64 | -11 |
| Down | 80 | 71 | -9 |
| Dungannon & S Tyrone | 94 | 96 | +2 |
| Fermanagh | 77 | 78 | +1 |
| Larne | 71 | 71 | - |
| Limavady | 84 | 85 | +1 |
| Lisburn | 87 | 89 | +2 |
| Magherafelt | 97 | 98 | +1 |
| Moyle | 75 | 89 | +14 |
| Newry & Mourne | 72 | 41 | -31 |
| Newtownabbey | 87 | 99 | +12 |
| North Down | 85 | 93 | +8 |
| Omagh | 78 | 86 | +8 |
| Strabane | 84 | 73 | -11 |

Source: 2012-13 figures from Northern Ireland Councils and 2013-14 figures from Department of the Environment (Unaudited figures)

Part Six: Prompt Payment

- 6.13 Eighteen councils have improved or maintained their performance in paying valid invoices within 30 calendar days. The higher performing councils across both years were Magherafelt (97 per cent in 2012-13 and 98 per cent in 2013-14) and Armagh (95 per cent in 2012-13 and 96 per cent in 2013-14).
- 6.14 A number of councils have made significant improvements since 2012-13. Carrickfergus increased the percentage of valid invoices paid within 30 days in 2013-14, paying 85 per cent of valid invoices, a significant turnaround from 2012-13 when it paid 67 per cent. Newtownabbey increased its percentage, paying 99 per cent of valid invoices within the target compared to 87 per cent in 2012-13. However, for some councils, such as Ballymoney and Newry and Mourne, performance has significantly deteriorated.
- 6.15 In my last Report I noted that Moyle had reported a significant improvement, with a 27 per cent increase, paying 75 per cent of valid invoices within 30 days in 2012-13 compared to 48 per cent in 2011-12. They have continued to improve and this year have achieved another significant improvement, paying 89 per cent of valid invoices in 30 days.

Performance against 10 Day Target

- 6.16 Eighteen councils have improved or maintained their performance in 2013-14 compared with 2012-13, (see **Figure 18**). A number of councils improved significantly in 2013-14 – Magherafelt (an increase of 34 per cent), Newtownabbey (an increase of 32 per cent) and Carrickfergus (an increase of 21 per cent).
- 6.17 The highest performing councils in 2013-14 were Newtownabbey (91 per cent), Magherafelt (86 per cent) and Cookstown (68 per cent). The councils paying the lowest percentage of valid invoices within the target in 2013-14 were Down (7 per cent), Newry and Mourne (10 per cent), and Ballymoney (10 per cent).
- 6.18 North Down, which had the best record in 2012-13, reported a decline in 2013-14, paying 58 per cent of valid invoices within 10 working days in 2013-14 compared with 68 per cent in 2012-13.
- 6.19 Overall, I found that councils have made progress in terms of prompt payment performance since 2012-13. However, work remains to be done, especially in the poorly performing councils, in order to achieve the results reported by central government bodies.
- 6.20 I am aware that the Department now collects and compiles councils' prompt payment performance statistics on a quarterly basis and these are published on the Department's website. I encourage this step as a means of ensuring that their performance is in the public domain.



Figure 18: Percentage of valid invoices paid within 10 days by councils during 2012-13 and 2013-14

| Council | 2012-13 (%) | 2013-14 (%) | Movement |
|----------------------|-------------|-------------|----------|
| Antrim | 14 | 32 | +18 |
| Ards | 53 | 53 | - |
| Armagh | 41 | 44 | +3 |
| Ballymena | 42 | 62 | +20 |
| Ballymoney | 17 | 10 | -7 |
| Banbridge | 28 | 32 | +4 |
| Belfast | 45 | 41 | -4 |
| Carrickfergus | 24 | 45 | +21 |
| Castlereagh | 36 | 51 | +15 |
| Coleraine | 29 | 25 | -4 |
| Cookstown | 63 | 68 | +5 |
| Craigavon | 19 | 21 | +2 |
| Derry | 37 | 35 | -2 |
| Down | 30 | 7 | -23 |
| Dungannon & S Tyrone | 63 | 67 | +4 |
| Fermanagh | 34 | 34 | - |
| Larne | 27 | 26 | -1 |
| Limavady | 22 | 42 | +20 |
| Lisburn | 43 | 51 | +8 |
| Magherafelt | 52 | 86 | +34 |
| Moyle | 30 | 36 | +6 |
| Newry & Mourne | 12 | 10 | -2 |
| Newtownabbey | 59 | 91 | +32 |
| North Down | 68 | 58 | -10 |
| Omagh | 44 | 52 | +8 |
| Strabane | 24 | 34 | +10 |

Source: 2012-13 figures from Northern Ireland Councils and 2013-14 figures from Department of the Environment (Unaudited figures)

Part Seven: Local Government Reform



Part Seven: Local Government Reform

- 7.1 The Local Government Bill received Royal Assent on 12 May 2014 and is known as the Local Government Act (Northern Ireland) 2014 (The Act). The Act provides for a reduction in the number of local councils from 26 to 11. It forms the legislative basis for the local government reform programme that will impact on every aspect of the operation of councils. This includes how decisions are made, how positions of responsibility are shared across political parties, how improvements in the delivery of council functions can be achieved to reflect the needs of local communities, and how effectively and efficiently council services are delivered to local citizens.
- 7.2 The legislation introduces new governance arrangements for councils, a revised ethical standards regime, the transfer of certain functions from central government, a new council-led community planning process, a general power of competence, a new framework to support the continuous improvement in the performance and delivery of council services, a partnership panel and the end to dual mandate.
- 7.3 The Act has also made transitional provisions for the transfer of staff, assets and liabilities from the current councils to the new councils, and from Government departments transferring functions to the new councils.
- 7.4 Prior to the new councils coming into effect, there are 11 'shadow' councils in operation. They operate in parallel with the 26 outgoing councils during the transition period. These 'shadow' councils are responsible for appointing senior staff, striking rates and approving business and financial plans for the new councils taking on full powers and responsibilities in April 2015.
- 7.5 As well as additional audit work required in relation to the 'shadow' councils and statutory transition committees in the transitional year, the Act provides that I will undertake improvement audits and assessments each year. These will specifically entail:
- undertaking improvement audits, to review whether councils have discharged their duties for publishing improvement planning and performance information;
 - carrying out improvement assessments, to determine whether councils are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
 - reporting on improvement audit and assessment work.



- 7.6 In preparation for this extra work I have begun a process of engagement with relevant external stakeholders and have established a team to manage and develop a best practice audit approach and methodology which will enable my staff to carry out their work with independence, integrity and objectivity, in accordance with the key principles set out in my 'Code of Audit Practice'. This key document will also be updated to reflect the additional roles and functions of the Local Government Auditor.
- 7.7 My staff have also been in close liaison with the Department of the Environment, particularly in considering various consultation documents that will shape the regulations, supplementary legislation and guidance underpinning the reform process.



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