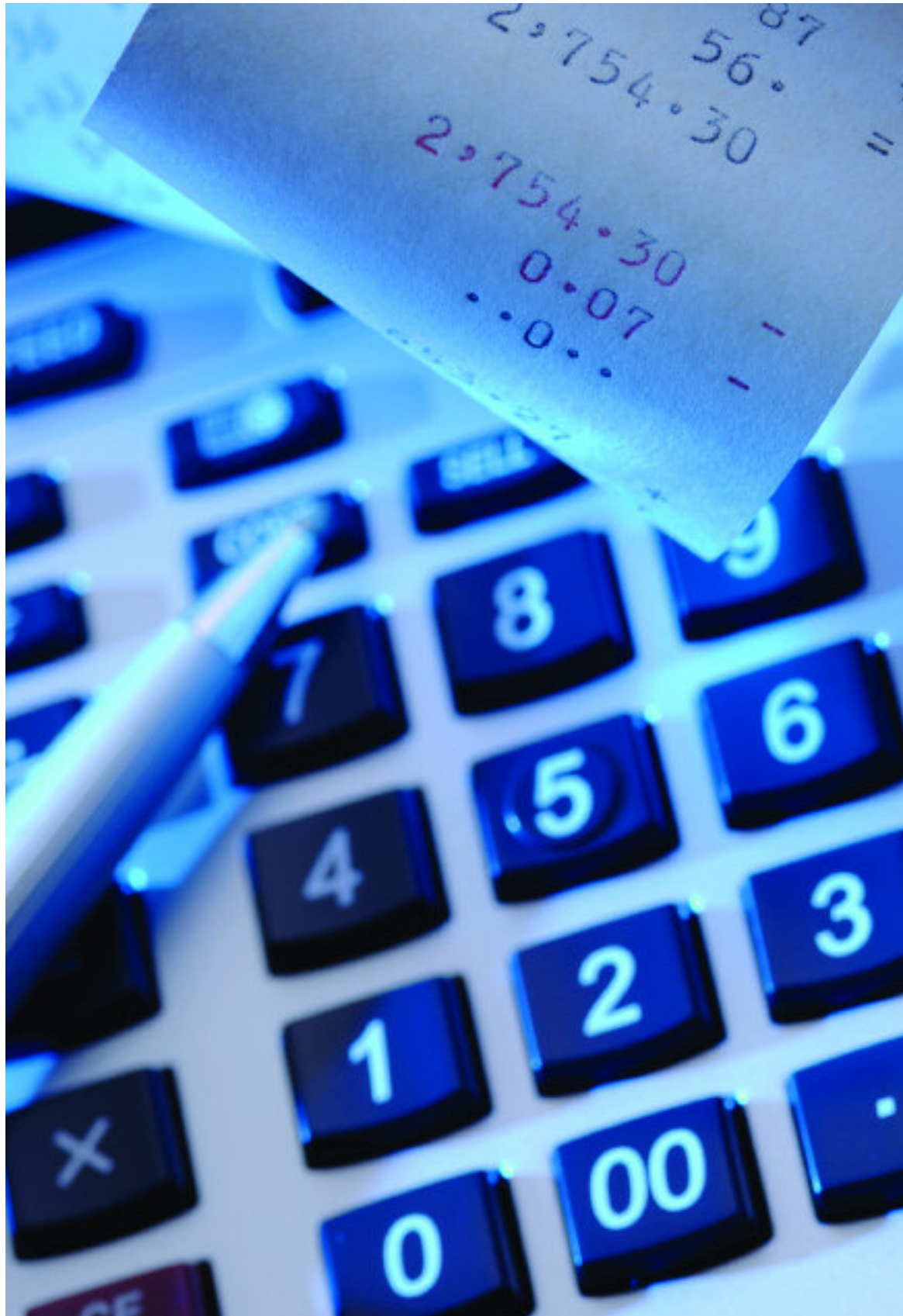


The exercise by local government auditors of their functions In the year to 31 March 2008

REPORT BY THE CHIEF LOCAL GOVERNMENT AUDITOR
12 June 2008





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

John Buchanan
Chief Local Government Auditor
12 June 2008

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. 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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Introduction

- 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 Department of the Environment 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.
- 1.3 The Order provides that:
 - the DoE, with the consent of the Comptroller and Auditor General for Northern Ireland, may designate persons who are members of staff of the Northern Ireland Audit Office as local government auditors - Article 4(1)
 - the DoE may also designate a local government auditor as chief local government auditor - Article 4(3)
- 1.4 The chief local government auditor 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
 - 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

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

Summary

- 2.1 The main aim of this report is to provide key messages from audits performed during the past year. The accounts under audit during the year were mainly the financial statements for the year to 31 March 2007.
- 2.2 Elected members and officers should review this report and identify how their council is dealing with the sort of issues raised and where rectification or other action may be required.

Local Government in Northern Ireland

- 3.1 Local Government in Northern Ireland is made up of 26 district councils and together with the Local Government Staff Commission, the Northern Ireland Local Government Officers Superannuation Committee and ARC21 are the bodies that are audited by local government auditors.
- 3.2 Councils vary widely in size, with populations ranging from about 16,000 in Moyle to over 260,000 in Belfast and employ over 9,000 full-time equivalent staff. Council services fall under two broad headings of Leisure & Recreational Services and Environmental Services. Councils also undertake regulatory activities such as Building Control and Environmental Health.
- 3.3 Councils are independent of central government and are accountable to their local electorate and ratepayers. In making decisions 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.

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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.

3.5 Following the Review of Public Administration (RPA), direct rule Ministers announced a reduction in the number of councils from 26 to 7 and a transfer of functions to councils. "The Northern Ireland Executive, under the devolved administration, revisited this decision and in March 2008 a decision was announced to move to an 11 council structure in 2011.

4.5 The total loans outstanding, amounting to £369 million, comprise £336 million for long term loans and £33 million for loans due for repayment within 12 months, are scheduled by council in Table 1.

Management of Resources

4.1 The 26 district councils had net revenue expenditure of £422 million in the year to 31 March 2007 and an increase of £8 million in District Fund reserves financed as follows:

	£m
General Grant from DoE	43
Rates	387
Total	430

4.2 The net revenue spending equates to £246 per head of population in Northern Ireland.

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

Year to		£363.8m	+7.5%
31 March 2005		390.3m	+7.3%
31 March 2006		427.6m	+9.6%
31 March 2007		458.0m	+7.1%
31 March 2008		489.3m	+6.8%

4.4 At 31 March 2007 councils had collective long term assets valued at £1,651 million. At the end of the financial year councils had long term loans outstanding of £336 million, current assets of £224 million, and current liabilities of £116 million. They also had cash-backed reserves, mostly Capital Funds and Renewal & Repair Funds totalling £68 million.

**Table 1:
Council Loan position at 31 March 2007**

Council	£'m	pop	£ per head
Antrim	21.5	49,833	430
Ards	15.7	74,648	211
Armagh	20.2	54,876	367
Ballymena	34.0	60,026	566
Ballymoney	8.3	28,260	295
Banbridge	12.9	43,774	296
Belfast *	21.1	268,978	79
Carrickfergus	11.2	38,715	290
Castlereagh	19.9	65,795	302
Coleraine	27.2	56,530	481
Cookstown	1.8	33,660	53
Craigavon	8.3	83,168	100
Derry	21.1	106,889	197
Down	15.0	66,759	225
Dungannon	2.0	49,307	40
Fermanagh	2.7	59,279	45
Larne	6.5	30,908	212
Limavady	9.0	34,010	264
Lisburn	20.4	110,247	185
Magherafelt	0.0	41,296	0
Moyle	7.8	16,424	477
Newry and Mourne	20.6	90,290	228
Newtownabbey	27.9	80,279	348
North Down	21.7	77,624	279
Omagh	9.5	50,082	189
Strabane	2.6	38,665	66
Total	368.9	1,710,322	
Per Head			216

* Belfast mostly (£18m) in respect of Housing loans recoverable from NIHE.
A small number of other councils also have housing loans.



4.6 These loans, expressed 'per head of population' range by council from Ballymena Borough Council at £566 per head to Magherafelt District Council at nil as the Council has no loan debt.

4.7 At 31 March 2007 a number of councils had significant District Fund balances totalling £62 million which are scheduled in Table 2. The Table

also shows the level of reserves in Capital Funds and Renewal and Repair Funds.

4.8 Each Council should give careful consideration to the level of reserves held as it plans ahead its expenditure profile in the run up to RPA implementation. Consideration should also be given to any unfunded elements of capital expenditure.

Table 2:
Balances in Council Accounts at 31 March 2007

Council	Population	Net Operating Expenditure £'M	District Fund Balance £'M	% DF/OE	Capital & R+R Funds £'M	Other Balances & Reserves £'M
Antrim	49,833	12.8	2.5	19.3	0.3	0.55
Ards	74,648	14.8	1.2	8.1	2.4	0.00
Armagh	54,876	12.3	2.3	18.7	0.0	0.04
Ballymena	60,026	14.2	0.6	4.2	2.1	0.00
Ballymoney	28,260	5.5	1.9	34.4	0.8	0.00
Banbridge	43,774	9.1	1.8	19.8	1.1	0.04
Belfast	268,978	103.5	15.4	14.9	12.8	0.40
Carrickfergus	38,715	9.0	1.1	12.2	0.0	0.00
Castlereagh	65,795	11.0	1.7	15.3	0.9	0.11
Coleraine	56,530	14.3	1.6	11.2	0.8	0.35
Cookstown	33,660	7.2	2.7	37.6	0.6	0.00
Craigavon	83,168	19.7	4.3	21.9	4.0	0.00
Derry	106,889	28.3	1.4	5.0	23.2	1.21
Down	66,759	14.9	2.5	16.9	4.8	0.04
Dungannon	49,307	10.1	2.0	19.7	0.6	1.45
Fermanagh	59,279	11.4	0.8	6.8	0.7	0.00
Larne	30,908	8.2	2.3	28.6	0.0	0.00
Limavady	34,010	7.3	0.4	5.3	0.0	0.00
Lisburn	110,247	21.5	5.2	24.2	2.9	0.00
Magherafelt	41,296	7.0	0.2	2.4	4.6	0.00
Moyle	16,424	4.7	0.9	19.9	0.0	0.00
Newry and Mourne	90,290	20.1	1.5	7.5	0.5	0.00
Newtownabbey	80,279	20.4	4.4	21.6	0.0	0.00
North Down	77,624	17.4	1.1	6.4	3.1	0.00
Omagh	50,082	9.8	1.3	13.4	0.0	0.00
Strabane	38,665	7.5	1.3	16.7	1.4	0.03
Totals	1,710,322	421.9	62.4	14.8	67.6	4.2

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- 4.9 The revenue and capital expenditure in the year to 31 March 2007 formed the basis of the financial statements prepared by councils and audited by local government auditors in our work during the period of this report.

unaudited statements of accounts were published, together with an explanation as to the reasons for the auditor being unable to certify the accounts. The auditor for each council will also address the reasons for the delay in certification in his annual audit letter.

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 audit. 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.
- 5.2 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.
- 5.3 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).
- 5.4 At 31 October 2007 the statement of accounts for 23 of the 26 councils had been certified and published with the auditor's opinion. The statement of accounts of one council was certified on 10 March 2008 and the other two audits remain open.
- 5.5 The accounts of those three councils were not of an acceptable standard and required further work. However to comply with the legislation their

Code of Audit Practice

- 6.1 The Local Government (Northern Ireland) Order 2005 introduced a requirement for the Chief Local Government Auditor 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. In developing the Code the Chief Local Government Auditor must consult interested parties before the Code is laid in the Assembly.
- 6.2 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/pubs/corporate/Documents/Code of Audit Practice](http://www.niauditoffice.gov.uk/pubs/corporate/Documents/Code%20of%20Audit%20Practice)).
- 6.3 The Code must be approved by the Assembly every five years. In the intervening period the Chief Local Government Auditor may update the Code where this is thought to be necessary. To date no such updates have been made to the Code.

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 address this we ask for the completion of an annual questionnaire by local government bodies. The questionnaire was developed by local government audit staff to cover the key issues of 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 2006-07 the questionnaire was extended to include sections on corporate performance to reflect the increasing importance attached to formal corporate governance arrangements throughout the public sector. The 2007-08 Financial Management Arrangements review has been completed and is available to local government auditors as they commence the audit of the 2007-08 council accounts.
- 7.4 An interesting development at Belfast City Council was the Council's use of 'value-creation maps' to set out their strategic aims. This approach received positive mention in Public Finance (18-24 April 2008) in an article titled 'Performance anxiety' where Bernard Marr (Chief Executive and Director of Research at the Advanced Performance Institute) took a look at the number-crunching of public sector performance targets.

Analysis of Legal and Insurance Services

- 8.1 As part of the audit of corporate performance and financial management arrangements, councils were asked to provide specific information regarding legal and insurance services. A summary of responses is set out below.

Provision of Legal Services

- 8.2 Councils were asked whether legal services were mainly provided in-house; obtained from the legal

department of another local government body; or obtained from a private sector individual or firm.

- 8.3 Two councils (Belfast & Derry) provide their own in-house legal services department. Six councils stated that they used the legal department of another local government body (usually Belfast City Council) with four of these indicating they also made use of private sector firms on occasion.
- 8.4 Twenty-two councils, including the four mentioned at the end of the preceding paragraph, stated that legal services were mainly obtained from a private sector individual or firm. This equates to approximately 85% of councils.
- 8.5 Of the councils who stated that they obtain their legal services mainly through a private sector individual or firm, there was a large variation in the length of time this arrangement had been in place.

Length of time	0-5 years	5-10 years	10-15 years	15-20 years	Over 20 years
No. of councils	4	2	3	5	8
%	18%	9%	14%	23%	36%

- 8.6 Councils were asked to provide their rationale for staying with the relevant arrangement for the period stated. The most common reasons given have been grouped below, with the number of times used. (Councils tended to have more than one reason.)

Reason	Number of times used
Retaining expert knowledge	12
Cost effective/good value for money	8
Quality of service	6
Continuity of service	5

- 8.7 The councils were asked when the provision of legal services was last tendered. Again there was a

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large variation in the responses. The table below indicates when the last time a tender was carried out for this provision:

Length of time	0-5 years	5-10 years	10-15 years	15-20 years	Never/ Over 20 years
No. of councils	4	2	1	2	17
%	15%	8%	4%	8%	65%

8.8 Two councils have plans to tender for legal services in the next 12 months.

8.9 Five councils indicated they would offer legal services to tender in respect of 'one-off' transactions, for example in the case of a major land conveyance.

Expenditure on Legal Services

8.10 From the returns it appears that the total expenditure on legal services for the year to 31 March 2007 for all of councils amounts to approximately £2.5 million. Excluding Belfast from the figures gives an average spend per council of just under £50,000 on legal services provision in the year to 31 March 2007.

8.11 The councils were then asked to break down their overall spend into three categories: spend with 'council solicitor'; other firms; and counsel fees. Not all councils were able to give the split but based on those that did, the average £50,000 breaks down as:

	£'000
• 'Council solicitor':	28
• Other firms:	15
• Counsel fees:	7

8.12 Of the 26 councils only 7 stated that they would send significant invoices for 'taxation' (an independent verification source on the

reasonableness of the charges). A number of councils indicated that they did not have significant invoices.

8.13 The above information shows that a large number of councils have left the main legal services provision with the same individual or firm for more than 20 years without seeking to expose the service to competition. There must be an argument that a number of councils should have reviewed their legal advice arrangements on a more regular basis.

8.14 While local government bodies are encouraged to introduce competition for the delivery of services, with the approach of RPA implementation 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.

Provision of Insurance

8.15 Councils were asked whether insurance cover was fully placed with the market or whether a form of self-insurance was used. Five councils indicated that they had significantly increased the excess levels on certain insurance policies which places them in a position of self-insurance for any claims made against them up to the level of the excess amounts. This is done in an effort to reduce the total cost of insurance payable.

8.16 Four councils advised they had changed their practice in regard to the setting of increased excess levels within the past ten years. Ten councils indicated their stance in this regard has not changed since their formation.

8.17 In explaining the rationale for using a form of self-insurance, councils cited the reduced cost of premiums, greater flexibility in the settlement of certain claims, and the accrual of investment



income on retained premium amounts as advantages in taking this approach. Those councils which have not taken this approach have indicated that:

- fully placing insurances with the market is a better fit with their attitude to risk,
- reviews of the market do not indicate any significant benefit in changing current arrangements,
- the council size limits the ability to self-insure, and,
- the necessary expertise for self-insurance is not available in-house.

8.18 Most councils had tendered for the provision of insurance brokerage services in the last six years, with a majority of the resultant contracts awarded within the last three years. Two councils had not gone through a formal tendering process for at least ten years.

Time since insurance brokerage contract awarded	Within the last year	1-3 years	4-6 years	7-9 years	10+ years
No. of councils	4	13	6	1	2
%	15%	50%	23%	4%	8%

8.19 Five councils have plans to tender for insurance brokerage services in the next 12 months.

Expenditure on Insurances

8.20 From the returns it appears that the total expenditure on insurance policies for the year to 31 March 2007 for all councils amounts to just over £9 million. This gives an average spend per council of some £350,000 in the year to 31 March 2007.

8.21 Councils were asked to analyse their insurance costs into five categories: public liability; employers' liability; motor; fire; and other insurances. Almost half of councils had a combined liability policy covering the first two categories.

8.22 After combining the liability insurance costs, average expenditures for the resultant four categories are set out below (based on 25 returns).

	£'000
• combined liability:	186
• motor:	52
• Fire:	49
• other:	59

8.23 These averages should be treated with caution as premiums paid are dependent on the amount of cover sought and the level of excesses agreed. In most councils for example, public and employers' liability cover is set at £10 million each, however some councils have set their cover at £5 million, £15 million or £25 million.

8.24 Councils were asked what savings had been achieved as a result of the last tendering process. Some did not provide an answer, indicating the information was not available. In some cases this was due to the length of time since the process had been undertaken. Twelve councils quoted a range of savings of between 5 to 55 per cent. Those councils providing monetary amounts indicated significant thousands of savings in most cases.

Amount of savings	No information	Less than £50,000	£51,000-200,000	£200,001 +
No. of councils	15	7	3	1
%	58%	27%	11%	4%

8.25 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

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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.

Corporate Governance

9.1 The Department of the Environment (DoE) introduced the Local Government (Accounts and Audit) (Amendment) Regulations 2006 in December 2006 which place additional corporate governance responsibilities on local government bodies from April 2007. These include formal requirements for local government bodies to:

- *ensure they have a sound system of internal control which facilitates the effective exercise of functions including arrangements for the management of risk.* The system of internal control is to be reviewed at least annually, the review is to be considered by the local government body or by a committee, and this review must include approving a Statement of Internal Control for their 2007/08 accounts. The DoE in February 2008, noting the development in England of the CIPFA/SOLACE guidance "Delivering Good Governance in Local Government", amended its Accounts Direction to require councils in Northern Ireland to move to a Governance Statement which is seen as satisfying the requirement set out in Regulations 2A of the Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 for authorities to prepare a statement of internal control in accordance with "proper practices".
- *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 The annual audit by the local government auditor does not extend to the system of internal control;

rather he will report if the Governance Statement does not reflect DoE guidance or is inconsistent with his findings. From 2007-08 the local government auditor's report or annual audit letter to a local government body may include significant examples of governance weaknesses.

9.3 As part of our discussions with local government bodies we have talked with the Society of Local Authority Chief Executives (SOLACE), the Association of Local Government Finance Officers (ALGFOs) and the Local Government Internal Audit Practitioners Group (IAPG) with regard to the auditor's approach in relation to the Governance Statement.

9.4 In relation to internal audit I would draw attention to guidance issued to central government bodies in August 2007 (DAO (DFP) 10/07) which would helpfully assist local government bodies in maintaining appropriate internal audit arrangements.

9.5 The guidance explains that one of the fundamental principles of internal audit is that it must be independent and, as such, have no executive responsibilities. In central government, Accounting Officers are responsible for ensuring they receive independent assurance from an internal audit function, and, within the public sector both in-house and contracted in internal audit services can be used by Accounting Officers to fulfil this responsibility.

9.6 In further clarification of the guidance in December 2007, the Treasury Officer of Accounts (DFP) outlined:

"if an organisation decides to use a private firm to provide all internal audit function, then a member of the staff from the firm must act in the capacity as head of internal audit, and has to supply the annual opinion to the accounting officer. Whilst this type of arrangement can provide an organisation with a high level of expertise, there is a much greater potential for a conflict of interest if the same firm is contracted to provide other non-internal audit work including consultancy. The guidance in the DAO does not preclude



this happening, but it states that the Accounting Officer must be able to justify this, particularly during the period of the audit contract”.

- 9.7 Also in relation to the work of internal audit an extract from a local government auditor’s management letter to a council during the past year is helpful:

“The proforma Statement of Internal Financial Control includes narrative on internal audit providing an annual assurance statement on controls. This is also stated in the Government Internal Audit Standards. Indeed in a recent Dear Accounting Office letter DAO(DFP) 11/07, while not strictly applicable to local government it is an indicator of best practice, the following was stated:-

- *‘Under Government Internal Audit Standards (GIAS) Heads of Internal Audit are required to provide an independent and objective opinion to the Accounting Officer on risk management, control and governance by measuring and evaluating their effectiveness in achieving an organisation’s agreed objectives.*
- *Risk management, control and governance comprises of the policies, procedures and operations established to ensure the achievement of objectives; the appropriate assessment of risk; the reliability of internal and external reporting and accountability processes; compliance with applicable laws and regulations; and compliance with the behavioural and ethical standards set for an organization.*
- *In line with Government Internal Audit Standards, Heads of Internal Audit are required to provide an audit opinion for individual assignments and an overall opinion as part of their annual report. The opinion provided by internal audit is a key element supporting an Accounting Officer in their completion of the Statement of Internal Control”.*

- 9.8 The auditor went on to recommend:

“that internal audit provides an annual assurance opinion on the risk management, control and governance by measuring and evaluating their effectiveness in achieving the organisation’s agreed objectives to the Accounting Officer”.

- 9.9 Recent developments in internal control and governance arrangements provide for Directors of central government bodies to present Annual Assurance Statements to the Accounting Officer or in the case of a local government body to the Chief Financial Officer before he/she signs off on the Governance Statement.

- 9.10 In addition to the usual internal audit system audits, we noted several different audits being performed, which we understand the relevant councils found worthwhile, including:-

- review of partnering arrangements with bodies part funded by council including consideration of partnership strategy, service level agreements, constitution choice of partnership model, monitoring arrangements by council in light of council corporate objectives, lifespan of partnership and exit strategy, conflicts of interest and financial regulations;
- review of procurement including detailed explanations of variations in spend versus budget, progress of delivery of contracts, composition of tender evaluation panels including matters of independence and experience, guidance of how and where contractual documentation should be retained, conflicts of interest, need for a business case and administration of tender queries;
- review of assets including assets on the asset register but not on insurance register, assets on insurance register despite being disposed of, vehicle utilisation targets and costs of claims against council including analysis of claims per driver;
- appointment of consultants including consideration of setting aside standing orders, retention of key information and appointment by reference to recommendation;
- cost comparison and functionality from different phone providers.

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9.11 In relation to Audit Committees, it is our view that an Audit Committee provides an audited body with a focus to consider corporate governance issues. Although there is no requirement for councils to introduce Audit Committees 20 out of the 26 councils now have them in place and appear to be working well as an effective means of drawing together the consideration of its corporate governance responsibilities. This work has increased in importance in 2007-08 with the introduction of enhanced corporate governance responsibilities referred to earlier in this section.

9.12 A positive development with some Audit Committees during the period has been the inclusion of external members. However, the one concern local government auditors have noted over the past year is that sometimes audit committees they have attended did not have the required number of members to meet the quorum necessary for a meeting.

9.13 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)

National Fraud Initiative 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;
- the C&AG may require certain bodies, including local government bodies, to provide data for a data matching exercise;
- the C&AG 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 draft Code was issued for consultation on 12 March 2008 and responses are invited by 4 June 2008. A copy of the draft Code has been sent to the chief executives of local government bodies for comment. The document can also be viewed on the Northern Ireland Audit Office website, www.niauditoffice.gov.uk.

10.4 The first exercise under these new powers will be carried out during the year to 31 March 2009.

10.5 All public bodies are encouraged to keep under review measures to discourage fraud within their organisation.

10.6 In August 2007 the Department of Finance and Personnel (DFP) wrote to a full range of Government Departments, Agencies, NDPBs and other Arms Length Bodies, including local authority bodies, to obtain information on anti-fraud measures.

10.7 The letter included a questionnaire which as well as providing DFP with information to assess the wider public sector picture, provides a very useful checklist for internal review – FD (DFP) 10/07 dated 10 August 2007 refers.



Data Protection

- 11.1 In the light of recent events within the public sector, which have highlighted the vulnerability of the storage and transmission of personal data I would encourage local government bodies, if they have not already done so, to have a review of data retention and security arrangements against the background of the Data Protection Act 1998 (DPA).
- 11.2 It is suggested that such a review would include:
- a detailed review of policy and procedures to be completed by the Information Manager / Network Manager, and
 - a census of personal data held.

Studies for Improving Economy, Efficiency and Effectiveness

- 12.1 Article 26 of the Local Government (Northern Ireland) Order 2005 permits the Chief Local Government Auditor 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 Chief Local Government Auditor.
- 12.2 During the year one study was completed in January 2008 – Absenteeism in Northern Ireland Councils 2006-07. The report and accompanying press release was sent to the national media and 44 local newspapers. The report is available from the Stationery Office, (ISBN 978-0-337-08983-1) or from the NIAO website (www.niauditoffice.gov.uk).

Absenteeism in Northern Ireland Councils 2006-07

- 13.1 The report published on 30 January 2008 examined the relative position of absenteeism within Northern Ireland councils and considered absenteeism for the sector as a whole when compared with other employment sectors.
- 13.2 The comparative analysis between councils was three-yearly based and an average annual absenteeism rate derived for the period. This countered the impact of annual fluctuations in absenteeism which could have distorted the findings, particularly within the smaller Northern Ireland councils. When considering Northern Ireland 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.
- 13.3 Main Findings and Recommendations
- When viewed as lost productivity, absenteeism in Northern Ireland councils cost £15.5m in 2006-07. For 2006-07, Northern Ireland councils as a whole had an average absenteeism rate of 13.82 days.
 - This rate has increased marginally when compared to the 2005-06 rate of 13.73 days. The 2006-07 absenteeism rates for Northern Ireland councils remain lower than the rates recorded for the years 2002-03 to 2004-05.
 - Increased staff costs in Northern Ireland councils of £20m in the year to 31 March 2007, when combined with the slightly higher level of absenteeism, have increased lost productivity due to absence by £1.5m, from £14m in 2005-06. This increase in lost productivity represents 4,000 additional days absence (125,000 in 2005-06, 129,000 in 2006-07).
 - With 7.41 days, Magherafelt District Council had the lowest average annual absenteeism rate for the 2004-07 period. The equivalent

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absenteeism rates for ten 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 20.29 days for the 2004-07 period. Almost one third of this was due to stress related absenteeism, the highest proportion recorded by any Northern Ireland council.
- 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. We recommend 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.
- Had all councils matched the lowest average annual absenteeism rate of 7.41 days, a total of £6.8 million a year could have been gained in productivity.
- A comparison of the councils' 2006-07 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 for Northern Ireland councils is, however, marginally lower than the Northern Ireland Health Service.
- Stress, depression, mental health and fatigue remain the largest cause of absenteeism, responsible for one fifth of days lost in both 2005-06 and 2006-07. Lost productivity due to stress related absence cost Northern Ireland councils £3.1m in 2006-07.
- Given the significance of this topic it is our intention to review the matter again for the year ended 31 March 2008.

13.4 From time to time local government bodies raise with audit the possibility of giving access to council recreational facilities to staff at reduced prices as an encouragement to promote a healthier lifestyle that would assist with good attendance at work.

13.5 Legal advice to audit a few years ago indicated:

"The Council is empowered by the Recreation and Youth Service (Northern Ireland) Order 1986 to establish, maintain and manage recreational (and other) facilities and may make byelaws regulating the days and times of, and charges for, admission to land and buildings provided as recreational facilities.

However, absent express statutory authority, the Council is not empowered to discriminate between one class of ratepayer and another in setting charges: see Prescott v Birmingham Corporation [1955] Ch. 210 - free travel for pensioners on corporation buses held to be unlawful. (The effect of the judgment in Prescott was reversed by statute conferring express powers). The question here is whether the power to make byelaws regulating charges empowers the Council to discriminate in making charges in favour of its employees and/or employees of employers who take out corporate membership of the healthier lifestyle scheme. On the face of it, there is no express statutory power on which the Council can rely.

There is, however, no reason why the Council cannot offer reduced charges to all at certain (presumably off peak) times and/or why employers should not meet the cost of their employees taking advantage of the availability of facilities at reduced charges (by purchasing a "healthier lifestyle" season ticket or otherwise)".

13.6 From information returned with the absenteeism data it is noted that some councils:

- appear to be giving staff free access to leisure centre facilities
- recognise a staff social club which issues discounted fitness vouchers



- provide free physio sessions to staff following medical advice
- pay for level one cover to a Health Scheme
- pay for or subsidise screening tests
- make use of the Carecall service.

13.7 Local government bodies are encouraged to review their practices in light of the above legal advice and consider the legality of their practices.

Use of Statutory Audit Powers

Newry & Mourne District Council

14.1 In October 2005 the auditor upheld an objection at audit and issued a certificate of loss or deficiency against 17 members of the Council in the sum of £10,809.40.

14.2 Section 82 of the Local Government Act (Northern Ireland) 1972 (now replaced by Article 20 of the Local Government (Northern Ireland) Order 2005, provides, so far as material, that:

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

(a)

(b) that a loss has been incurred or deficiency caused by the wilful misconduct of any person,

he shall certify that the sum, or as the case may be, the amount of the loss or the deficiency is due from that person and, subject to subsections 3 and 5, both he and the council concerned may recover that sum or amount for the benefit of that council; and if the auditor certifies under this section that any sum or amount is due from two or more persons, they shall be jointly and severally liable for that sum or amount.”

14.3 An appeal reached the High Court in October 2007 and at opening exchanges Counsel for the

members sought an adjournment to explore repayment of the surcharged sum. Upon consent of the parties the High Court ordered that:

- without prejudice to the merits of the Appeal, the Certificate of the Respondent (the local government auditor) be set aside on the grounds only that payment in full has been made;
- the Appellants (the members) and each of them do pay the costs of these proceedings, such costs to be taxed in default of agreement;
- the said appeal shall be dismissed without adjudication upon the merits thereof.

14.4 The sum of the surcharge was recovered in full and paid over to Newry & Mourne District Council for the benefit of the ratepayers. The auditor’s court costs payable by the appellants (which are substantially greater than the surcharge) have still to be settled but are the subject of correspondence between the parties.

14.5 Had the members accepted the auditor’s views on this matter at a much earlier date some of the substantial legal costs could have been avoided.

Fermanagh District Council

14.6 As summarised in my report last year, 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. At the date of this report the High Court has not handed down its decision.

Review of Public Administration (RPA)

15.1 On 22 November 2005 the government (then under direct rule) announced an intention to reduce the number of councils from 26 to 7 and introduced legislation to give effect to this. New councils, in shadow form, were announced to

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commence in April 2008 with the current councils ceasing to exist in March 2009.

- 15.2 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 was announced to an 11 council structure from 2011.
- 15.3 How councils deal with capital expenditure and the use of reserves in the run up to the closure of the present authorities will be an important topic for ratepayer and audit interest. In my report last year I shared legal advice I received in relation to a specific case of proposed capital expenditure. Authorities will wish to be aware of that advice.
- 15.4 In due course I would expect that DoE will bring forward legislation and guidance which should assist in the appropriate handling of such matters.

Waste Management Issues

Financial Penalties - The Landfill Allowance Scheme

- 16.1 The Northern Ireland Landfill Allowance Scheme came into operation on 1 April 2005 and is designed to ensure that the amount of Biodegradable Municipal Waste (BMW) sent to landfill by each district council is reduced through setting limits.
- 16.2 The targets for the reduction of BMW landfilled are:
- To reduce by 2010 the quantity of BMW landfilled to 75% of that produced in 1995;
By 2013 to 50%; and
By 2020 to 35%.
- 16.3 The Regulations place a statutory responsibility on district councils, in each scheme year, to landfill only the quantity of BMW they have allowance for; to exceed this may result in financial penalties of £150

per tonne of exceeded allowances. In 2006-2007 councils did not incur financial penalties (the total amount of BMW reported to have been sent to landfill in 2006-07 was 535,716 tonnes, the landfill allowance for that year was 655,545 tonnes).

- 16.4 The risk of councils incurring financial penalties will increase as the allowances are progressively reduced each year. The allowances for the target years 2009-10, 2012-13, 2019-20 are shown in the table below.

Target years	Allowance (tonnes)
2009-10	470,000
2012-13	320,000
2019-20	220,000

- 16.5 Accordingly there is a significant challenge to councils to ensure that they have taken the appropriate steps to avoid being in a position of incurring penalties.
- 16.6 The source of the above information is the Landfill Allowance Scheme 2006-07 report and this report is available on the Environment and Heritage Service (EHS) website at www.ehsni.gov.uk

Range of Council Recycling Percentages

- 16.7 Part of the drive to reduce the amount of BMW is the encouragement to householders to recycle and compost as much waste as possible. Again the EHS has compiled information in this regard which for 2006-07 shows that 27.5% of household waste was recycled and composted, (up from 24.5% in 2005-06). While this overall increase is encouraging individual council percentages range from Belfast City Council at 19% to Antrim Borough Council at 47.1%.
- 16.8 The 2006-07 Municipal Waste Management report in full is available on the EHS website at www.ehsni.gov.uk



Waste Management Groups

16.9 To address the Waste Disposal issue following publication of the Northern Ireland Waste Management Strategy in 2000, the 26 councils established three sub-regional Waste Management Groups covering the 26 councils. Since then the Eastern Region Group has renamed as Arc21 comprising 11 councils, including Belfast CC, 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 proposes to re-establish itself as Body Corporate while 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 11 under the Review of Public Administration.

Provision for Landfill Closure and Aftercare Costs

16.10 The closure of landfill sites involves substantial expenditure on such matters as surface water drainage layer, containment layer, gas collection layer, subsoil and topsoil, gas vents and extraction pipes. There are also annual costs after the closure of the landfill site for 'aftercare' e.g. on maintenance, leachate treatment and environmental monitoring.

16.11 Councils should include in their accounts a provision to meet the closure and aftercare costs (arising from waste dumped in the site). The provision should be discounted as specified by FRS (Financial Reporting Standard) 12 and a Capital Fund/Renewal and Repairs Fund established to match the liability with monies to the same value should be placed in a separate bank account.

Long Term Loans without matching assets

- 17.1 A local government auditor drew attention to a situation whereby a council had taken out loans over a 15 - 40 year period for their landfill site but the site was now closed with over 20 years of loan repayments still to be made. This will mean that ratepayers in future years will be contributing towards an extinguished asset which is not bringing any related benefit to them.
- 17.2 There is the added dimension of RPA, with ratepayers from a neighbouring authority also contributing to this loan repayment in the future having derived no benefit from the asset.
- 17.3 With economic appraisal now required as part of a loan sanction request to the DoE such mismatching of loans with the life of the asset should be largely eliminated.
- 17.4 With regard to economic appraisal it is important that bodies draw up an Economic Appraisal Policy, in line with the Green Book (HM Treasury Guidance) and DoE guidance. I would also encourage local government bodies to carry out post project evaluations on capital projects.

ISSUES ARISING IN THE COURSE OF AUDITS

- 18.1 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.

Mobile Phone use

- 18.2 Extensive use of a mobile phone came to the attention of audit. After the council had investigated the numbers used it was concluded that there was significant personal usage of the telephone. The officer had signed the mobile phone policy and had

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indicated that he did not wish to have a line 2 installed (a line 2 helps identify personal calls). He had also declared to the council that he had not made any personal calls in the previous five months.

- 18.3 The officer resigned and the money (over £1,000) was recovered.
- 18.4 The council as part of its subsequent review moved to:
- review all larger monthly mobile phone bills
 - ask all officers to sign the mobile phone policy or surrender the phone
 - ask the phone company to bar all calls to 070 or 0871 numbers as well as 0900 numbers
 - speak with the phone company to bar such numbers on the business line
 - forward all line 1 calls (business line) to officers for review to see if any personal calls have been made.
- 18.5 This case illustrates the need for authorities to have robust measures in place in relation to the use of mobile phones.
- 18.6 In another case an auditor noted that a council had approximately 150 mobile phones in use, 30 of which could be shared – not allocated to specific individuals. The cost to the council before consideration of personal use was over £35,000 for the year and the auditor highlighted that no periodic independent check was performed by the council on the completeness of the personal calls being declared.
- 18.7 The matter was taken to the council's management team which agreed that new steps be introduced.

Telephone Network Compromised

- 18.8 Keeping to the theme of telephones, fraudulent use of the telephone system was picked up in a council

when the Customer Fraud Management section of the telephone company contacted the council to say that they had detected an increase in international usage (mainly to Morocco, Senegal, Pakistan – destinations which are mostly involved in PBX hacks) from the council's system.

- 18.9 Over three days there had been approximately 18 hours of international usage, all out of normal working hours, which had not been dialled from the council's system. They indicated that this call pattern strongly suggested that the council's telephone system had been compromised.
- 18.10 The council took steps to protect its systems but the fraud is highlighted in this report for the information of and appropriate action by other councils.

Recognition of Long Service

- 18.11 A local government auditor was approached by a council seeking a view on proposals to recognize the long service of two retiring employees. The proposal was for either a carriage clock, or a watch or a piece of crystal to a maximum value of £125 (10-25 years) or £250 (over 25 years).
- 18.12 The auditor explained that for any council expenditure there must be a statutory power and that he was not aware of suitable cover. He acknowledged that some councils may be in the practice of recognising long service by way of a long service medal, at a modest cost, which auditors have chosen not to challenge.
- 18.13 The auditor explained that he was not aware of long service recognition at public expense in other parts of the public sector where it was customary for colleagues to take up a staff collection to pay for a retirement gift.
- 18.14 Section 47 of the Local Government Act (Northern Ireland) 1972 states that an officer of a council shall not, under colour of his office or employment, exact or accept (whether directly or indirectly for himself or for or through another)



any fee or reward whatsoever other than his proper remuneration.

Retirement Functions

18.15 An audit view was sought during the year about the appropriateness of the council funding an event to mark the retirement of a senior officer of the council.

18.16 While section 37 (1) (b) of the Local Government Act (Northern Ireland) 1972 provides for a council defraying 'any expenses reasonably incurred in the reception and entertainment by way of official courtesy of distinguished persons residing in or visiting the district of the council...' the audit view is that this legislation is not appropriate for such expenditure.

18.17 The Northern Ireland Public Accounts Committee's view is helpful in this regard when it considered a report on the Upgrade of the Belfast to Bangor Railway Line (June 2007). The Executive Summary states: *The Committee understands that the normal practice within the public sector is that retirement functions for staff held in high standing are funded by donations from their colleagues. The Committee recommends that Translink and every other public sector body conforms to this practice.*

Appointment of staff to council funded body

18.18 During the year an individual wrote to audit indicating that they were a claimant in a Fair Employment Tribunal case where the respondent was a company with significant local authority funding. The claimant also expressed the view, as a member of the public, about concern regarding the use of taxpayers and ratepayers money by the organisation.

18.19 The claimant drew attention to council member and officer involvement in the company and that its recruitment practices were criticised by the Tribunal. Quoting from the Tribunal report the claimant drew attention to:

18.20 *'There have been serious breaches of relevant aspects of the Fair Employment Code, especially in relation to the decisions in eligibility and in relation to the preservation of recruitment process documents.'*

18.21 The Tribunal concluded that the claimant was treated unfairly by the selection committee but the claimant's claims were dismissed as the successful candidate was 'not a proper statutory comparator' and "the claimant had failed to prove facts from which a reasonable tribunal could conclude, in the absence of an adequate explanation, that any relevant treatment was accorded to the claimant on a relevant prohibited ground".

18.22 The Local Government Companies (Best Value) Order (Northern Ireland) 2006 provides a power for district councils to establish or participate in companies.

18.23 The above case illustrates the need for councils to ensure that companies supported by ratepayers' funds have adequate arrangements to deal with fair recruitment for posts.

Contributions to an arms length body

18.24 A local government auditor drew attention to funding to a body (by a significant number of councils) whereby the body, as shown by their annual accounts, was holding as creditors in their balance sheet almost £200,000 of funding from councils which was unspent at the year end. The figure had fallen from over £270,000 the previous year.

18.25 The auditor pointed out the body had effectively created a reserve from monies funded by the councils in previous years and that they were only now starting to use the funds. The councils had in effect paid these monies out to the organisation in advance of need.

18.26 The audit recommended that the councils consider withholding some or all of their payments until proof of need is established.

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18.27 Councils providing regular funds to other bodies / companies should satisfy themselves that funds provided are needed.

Inspection of members and officers car insurance details

18.28 A council was in the habit of seeking sight of car insurance details when a member indicated that he had legal advice that he did not have to pass over his car insurance cover to the council – saying that the council should take his word that he had appropriate insurance cover.

18.29 The auditor indicated that he thought the risk to council was that the council could be sued if the member caused damage/injury while on council business and was not properly insured. The auditor recommended that the council take legal advice to clarify whether the council could be held negligent if the member said he had appropriate insurance but did not and whether an appropriately worded self-declaration was sufficient.

Payment to an Employee following a “Compromise Agreement”

18.30 Last year’s report included a significant piece about a Compromise Agreement entered into by a council. During the past year a council approached audit concerned about implementing a recommendation to pay an employee a sum (less than £1,000) – the recommendation had arisen as a result of an internal appeal system within the council.

18.31 Legal advice to the council was to settle at a particular sum rather than have the costs of defending proceedings at a Tribunal with the possibility of a higher award of compensation.

18.32 Audit responded by saying that we did not see any difficulty with the council accepting the legal advice but indicated that if the allegations made were upheld then presumably disciplinary and/or recovery proceedings against the employee’s colleague (the subject of the employee’s complaint)

would be considered. The audit response indicated that if the allegations were not upheld then it was difficult to see the case for any compensation.

Council Landfill Debtor

18.33 At the time of the audit the council was owed a significant sum in respect of invoices raised on a contract. The invoices covered a five month period and the invoiced contractor was not keeping to the normal arrangement for payment within three months. The council terminated the contractor’s ability to continue using the Council’s landfill site and had to commence legal action to recover the debt of over £90,000.

18.34 The auditor recommended that the council should

- review credit terms in respect of the number of days given;
- before a contract commences set a maximum monetary credit limit which should not be exceeded; and
- in the event of landfill coming from a government source that the government body be approached to pay landfill charges direct to the council and only pay the contractor a transport and gate fee.

Market Income

18.35 During the course of an audit it became apparent that internal control measures had failed with regard to market income. It transpired that income amounting to approximately £12,000 was unaccounted for.

18.36 The review highlighted:

- a lack of income and budgetary control by senior managers;
- only one employee was involved in the collection and lodgement of cash resulting in cash not being lodged on a timely basis;



- no control over receipt books issued to the Markets Officer;
- a lack of written procedures for staff to follow;
- a lack of countersigning income returns; and
- the Markets Officer had not been claiming overtime or travelling expenses for a period of time.

18.37 The council was able to offset some of the loss by way of monies due to the Markets Officer and recovered the balance from his pension funds with NILGOSC.

18.38 The case illustrates to local government bodies the need to have good internal control arrangements with regard to cash receipts to avoid such misappropriations and fraud.

Tendering Procedures not followed

18.39 In an audit it was noted that a council operated centre did not adhere to the council's tendering procedures whereby almost £10,000 was paid to an organisation without any quotations, requisitions or orders being processed for any of the payments. The work was placed directly with the company by an officer of the council who had an ownership role in the company. Procedures covering the expenditure meant that expenditure over £1,000 needed to go through a quotations process but the internal purchasing procedures were by-passed by the officer.

18.40 This case is highlighted as a reminder to local government bodies to review their arrangements including related party disclosure by officers.

18.41 In a separate case attention was drawn to furniture costing some £3,000 having been purchased without quotations or tenders being sought. The body responded to audit by indicating that refresher training would be provided on the Purchasing Policy and managers' attention drawn to the need to adhere to the policy.

Confirming the existence of assets

18.42 A local government auditor drew attention to a council's lack of procedures to confirm physically the existence of assets. The auditor suggested that appropriate confirmation procedures could include perhaps vouching 50% of assets in year one and the remaining 50% the next year, with the aim of confirming existence of all assets every two years.

18.43 The council responded by committing to implement random physical inspections of plant & machinery and IT equipment on a periodic basis.

Attendance at Stocktake

18.44 A local government auditor recommended that, as a minimum, independent audit checks be carried out at the annual stocktakes at the council depot and leisure centre either by a member of finance or internal audit. The auditor highlighted the risk of misappropriation of council stock or inaccurate stock counts. The council agreed to the proposal.

Leisure centre café

18.45 A local government auditor noted that no annual or quarterly café trading accounts were prepared by Finance at the time of the audit visit. He highlighted the need for appropriate management information. The council agreed to implement appropriate trading accounts.

18.46 For cafes and tourist information shops etc which have a trading role, it is important that they produce regular financial outturn figures for management and internal control purposes.

Carry-over of annual leave

18.47 A local government auditor noted from council minutes that the council had concerns about the levels of carry-over of annual leave into the new leave year. On reviewing the report the auditor noted over 20 employees carrying forward leave in excess of council policy with four employees having carried over more than 20 days.

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- 18.48 The audit understanding on the legal position on annual leave is that there is no general entitlement to carry-over or to be paid in respect of untaken leave in a prior year.
- 18.49 The auditor recommended that the council should strictly observe its policy on carry-over of annual leave. Only in exceptional circumstances should carry-over of leave above the normal limit be approved and the carried over leave should then be taken within an agreed timescale.

BACS payments

- 18.50 A local government auditor drew attention to the need for sound verification arrangements with regard to amending standing data details to prevent fraud or error. The system should provide for checking of changes in detail.

Expenses - Mayor and Deputy Mayor

- 18.51 A local government auditor noted that included within expense claims was a number of restaurant and drinks receipts with no supporting back up as to what the purpose of the hospitality was and who was being entertained. He recommended that appropriate supporting documentation be present to support the validity of the expenses being claimed.
- 18.52 The council accepted the point and undertook to ensure that future expenditure would be supported by appropriate documentation.

Expenses - Councillors

- 18.53 Out of a sample of expense claims the auditor noted that some claims had supporting declarations for expenses incurred rather than being supported by receipts
- 18.54 As regards declarations of expenses the auditor recommend that some guidance be introduced as to what is acceptable e.g. a specific allowance for telephone calls/newspapers when an overnight stay is involved.

- 18.55 The council response undertook to advise members in this regard.

- 18.56 In another case a local government auditor drew attention to members' travel claims which were not signed by the member. It transpired that the claims were prepared by staff from attendance at meetings.

- 18.57 The auditor advised that it was important that any claim for expenses was properly certified by the claimant and recommended that incomplete claims are not processed. This was agreed to by the council.

- 18.58 For ease of checking and authorisation before payment of travel claims it is recommended that they be made no more than 3 months after the date to which the claim relates. (DoE Regulations cover this point).

Loans – the need for a sinking fund

- 18.59 A local government auditor drew attention to a local government body's need to establish a sinking fund (Appendix 5 of the Local Government Act (NI) 1972) to provide for the repayment of loans which were not subject to annual repayment. Failure to do so was in breach of legislation and meant that current ratepayers were not meeting an appropriate share of the loan repayment.

Landfill site operation

- 18.60 A local government auditor drew attention to weaknesses in a council's control arrangements over the completeness of income, recommending:
- access to the free of charge field (on the accounting system) by landfill staff be removed
 - both the inward and outward barriers be kept in good repair
 - the council considers whether a back-up generator be purchased



- the council satisfies itself that the financial recording of landfill activity will be able to continue satisfactorily in the event of the weighbridge breaking down
- zip pen devices recording the daily back-up of landfill activity be stored overnight in a fire proof safe
- credit checks be performed on new customers – for invoiced accounts
- that the system is enhanced whereby database total weight is reconciled to customer report which is reconciled to the ultimate billing.
- It is important that organisations keep their employees informed of the boundaries established for the use of ICT resources. An up-to-date, all-encompassing ICT policy coupled with awareness training at appropriate intervals should clearly set these boundaries and should include, but not be limited to, use of internet and email facilities, security of ICT equipment and the network, the use of portable storage devices such as CDs and USB pens.
- Passwords were not changed regularly which contravened the policies in place and did not conform to good practice regarding the complexity of passwords.

Part funding of Work-Space Units

18.61 A local government auditor noted that a council had agreed to part fund a number of workspace units under its economic development powers. While the council would usually have a clawback clause in its letter of offer to recover monies should units be sold or cease operating, it did not have a policy of registering charges on the physical units.

18.62 The auditor recommended that the council consider raising such a charge and the council undertook to implement this in appropriate circumstances in the future.

ICT systems

18.63 In the course of our audit work during the year a number of issues in relation to ICT systems were raised in specific audits. These are noted below for consideration by local government bodies:

- The joint initiative to develop a generic ICT strategy has not yet reached completion. Local government bodies should consider whether they should produce their own strategies. This issue is particularly relevant as we approach the implementation of the Review of Public Administration, where tight control over ICT expenditure and direction should be enforced.

- Group user accounts were used on occasion, even for administrator level access. Individual user accounts should always be used, particularly for administrator access, to ensure full accountability.
- Communication lines between Human Resources and ICT were not always operating efficiently whenever changes to staff or their roles took place. For example, it is important for ICT to be informed of the expected leaving date of an employee so that system privileges can be removed in a timely manner.
- Insecure locations have been used, whether short-term or long-term, for the storage of back-up media.
- There is a lack of documented disaster recovery plans. Plans for the recovery of key council systems should be documented. Councils very often place reliance on their financial software supplier to provide a disaster recovery service and do not document any plans beyond this.

Conferences and courses

18.64 A local government auditor raised concern in an audit with regard to attendance at conferences and courses by members and officers where the council

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did not have a formal written policy in relation to booking places nor an evaluation form to record post attendance assessment.

- 18.65 The auditor recommended that a policy be put in place and that it include a requirement, where appropriate, to prepare a post evaluation report on the conference /course. This would assist in course selection process. The council agreed to draw up a formal policy.

Pricing contracts

- 18.66 A local government auditor drew attention to a scheme where council staff estimated the cost to be approximately £200,000 but the lowest tender was just over 70% of this. While on the one hand the figures suggest good value for money they equally raised questions over the in-house costing. The auditor suggested that without reliable cost estimates there is no realistic challenge to tender prices.
- 18.67 The council agreed to review its procedures for estimating but emphasised that in this case a new contractor had entered the market for this type of work and the prices were much lower than anticipated.

Single Status

- 18.68 The harmonisation of terms and conditions of employment for staff, including seeking to have local authority staff on a common pay scale, was first aired some 10 years ago. Often referred to as the initiative "Single Status Pay and Grading Reviews" there have been on-going discussions between employers and unions in seeking to find/agree implementation procedures. The process has resulted in significant job evaluation and associated costs for local authorities.
- 18.69 Part of the process is the harmonisation of working hours to a common working week, usually 37 hours. Most councils have for some years now been appointing new staff on a 37 hour basis while some staff continue to enjoy a working week with less hours.

- 18.70 In an audit during the year a local government auditor raised concern that a significant number of staff were still working lower weekly hours which suggested that potentially too many staff were being employed by the council.

- 18.71 The council responded that the "single status negotiations will commence in January 2008 after the appeals mechanism has been agreed. In the interim legal advice has been obtained and this is currently being considered".

- 18.72 There was a failure to find an agreed approach to this harmonisation exercise across bodies and thus each local government body has been working to differing timescales.

- 18.73 Delays in finalising arrangements have meant that in some bodies significant arrears have had to be budgeted for and paid. While many authorities appear to have made significant progress others are moving at a slower pace.

Estimating the cost of works

- 18.74 A local government auditor noted that quantity surveyor costs obtained in advance of tendering were understated compared with bids. In the event the body used these estimates to support an application for government grant.

- 18.75 The auditor pointed out the risks to the body of making a grant application on estimated figures and that potentially grant monies were not maximised. The underestimate also had implications for the body's financing of the project.

Tendering for Contracts

- 18.76 At a recent legal course for local government audit staff the legal principles relating to tendering for contracts were mentioned including:
- complying with European Union rules;
 - transparency on how process is conducted and that it is seen to be fair;



- equality - all tenderers should be treated the same with an opportunity given to one tenderer being given to another. If further clarification is given to a tenderer then the body should give the same opportunity/clarity to all. Correspondence to and from tenderers should be disclosed to all tenderers.
- contract decisions are subject to the 'Wednesbury' principles.
- terms of payment;
- early delivery or completion dates;
- warranties and guarantees;
- documentation requirements;
- procedures for remedial action in the event of unsatisfactory service.

18.77 A particular issue that was raised was “post tender clarification” (PTC) and “post tender negotiations” (PTN).

18.78 It sometimes transpires that queries from one tenderer will trigger the need for PTC which should be shared with other tenderers - this may arise from either the local government body or a tenderer seeking to ensure that they fully understand what the other requires or is offering, so that work may be commissioned and undertaken without any misconceptions.

18.79 In addition there may be an opportunity for PTN - in principle this can happen, as the Office of Government Commerce’s (OGC) puts it –

“Negotiation after receipt of formal bids or tenders and before the letting of contracts with those companies submitting tenders offering the best value for money with a view to obtaining an improvement in content in circumstances which do not put the other tenderers at a disadvantage, distort competition or affect adversely trust in the competitive tendering process.”

18.80 Councils should refer to the guidance on post tender negotiation in the OGC website.
www.ogc.gov.uk/briefings_post_tender_negotiation.asp

18.81 PTN will usually be over more significant aspects of the bid but should not be used to beat down the price of the preferred tenderer. Rather its primary purpose should be to identify whether any improvements to the tenderer’s offer are available to achieve a better deal on a mutually acceptable basis. This could cover such matters as:

18.82 If there is an upper limit on the budget for the contract, the body should inform all tenderers before awarding the contract. If there is the possibility that the body may not undertake the full project but only parts of it, then the tender should ask for individual constituent part elements to be priced. The body should not later negotiate on price with the successful tenderer.

Related party disclosure

18.83 A local government auditor pointed out that only 6 of over 20 councillors had submitted their related party interest forms. The auditor pointed out the risk that the related party disclosure in the body’s statement of accounts might be incorrect. The council responded by accepting that it is necessary to ensure correct disclosure and would be taking steps to ensure compliance.

Land disposal

18.84 A local government auditor had his attention drawn to the disposal of a small strip of land following an approach from the purchaser, who outlined that it was intended for grazing.

18.85 The council sold the land freehold and it was later included in a residential development planning application submitted to the Planning Service. Although the piece of land appears to have been withdrawn from the proposal the auditor drew attention to the disposal noting that if the planning application is successful in time, and the land reintroduced to the proposal, it will have a value higher than the council received on disposal.

Report

18.86 The land in question was zoned as “white land” meaning it was open for all types of planning application. The auditor recommended that in future disposal cases of ‘white land’ the Council should consider placing restrictions on future use.

Age of Debtors

18.87 A local government auditor drew attention to the level of debts over five months old – 27% of the total value. He also drew attention to some £8,000 received which could not be matched to specific invoices. The body accepted that a more robust approach was required regarding the collection of debts and that the matching of money received would be resolved in the next financial year.

Suspense Account

18.88 A local government auditor noted a suspense account within Creditors of almost £2,000 and indicated that such accounts should be of a temporary nature, until some underlying issue or query is resolved, but should be cleared at or before the end of the financial year. The body accepted the point.

Use of the District Fund Balance

18.89 A local government auditor drew attention to the fact that although the District Fund was showing a balance in hand of over £2m that the council had incurred capital expenditure of £1.8m for which it had not addressed funding. The auditor recommended, as a matter of urgency, that the body should provide a funding source for the capital expenditure and thus clarify the level of reserve in the District Fund.

A council’s internal control environment

18.90 A local government auditor in his annual audit letter indicated that he was unable to place reliance on the council’s internal control environment for the purposes of forming his opinion on the financial statements.

18.91 The statement of internal financial control within the accounts made no reference to significant financial control weaknesses. The auditor also indicated a concern about the low priority given by the council to internal audit during the financial year.

Late Submission of Accounts

18.92 A local government auditor in his annual audit letter drew attention to the statutory requirement for a council to complete their statement of accounts by 30 June each year. However, in this case the accounts approved by a council committee in July did not meet an acceptable standard and further submissions were received in September and December 2007 and again in January 2008. The auditor certified the accounts in March 2008.

18.93 The auditor reported that in his view the council would have prepared its statement of accounts more cost effectively had it prepared a complete and fully supported version at the outset. He commended the council however for its clear disclosure of the reasons why its accounts, which had to be published by 31 October 2007 in draft, were published without an audit opinion.

Location of local government auditors

19.1 Legislation provided for staff employed by the DoE on the audit of the accounts of district councils and a number of non-departmental public bodies to transfer to the Northern Ireland Audit Office, from 1 April 2003.

19.2 Local government auditors were based in Room 56 at the City Hall, Belfast, accommodation which they had occupied for approximately 80 years. In May 2007 we moved to join colleagues in the renovated NIAO offices at 106 University Street, Belfast.



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Notes



Notes





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