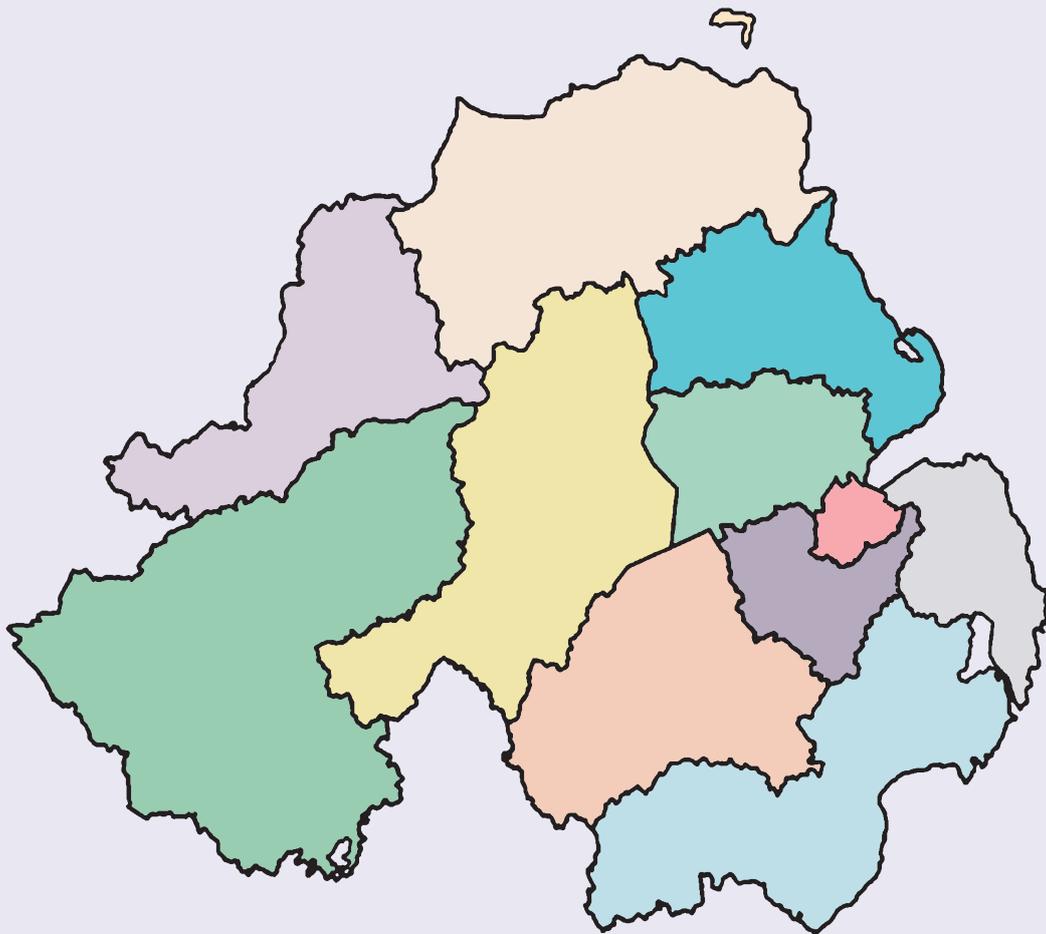


Local Government Auditor's Report – 2017





Northern Ireland Audit Office

Report on the exercise of the Local Government Auditor's functions

In the year to 31 March 2017

Published 5 July 2017

The Department for Communities may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate a member of Northern Ireland Audit Office staff as the Local Government Auditor.

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
5 July 2017

Contents

	Page
Part One: Introduction	3
Part Two: Managing Resources	5
Income and expenditure	6
Loans	8
Capital expenditure	9
Reserves	10
Workforce	13
Agency staff	14
Exit packages	14
Efficiency savings from reduction in councils from 26 to 11	15
Part Three: Good Governance	19
Review of governance statements in the financial statements	20
Significant issues highlighted by councils in governance statements	21
Proper arrangements to ensure economy, efficiency and effectiveness	24
Audit and Risk Committees	26
Strengthening the role of an Audit and Risk Committee	26
Conflicts of interest	27
Code of Conduct/NI Local Government Commissioner for Standards	27
Reporting suspected and actual fraud	29
Whistleblowing	29
National Fraud Initiative (NFI)	30
Part Four: Significant themes arising from Reports to those Charged with Governance	31
Part Five: General Matters	37
Absenteeism	38
Part Six: Performance Improvement	41
Background	42
Key observations and messages in 2016-17	42
Looking forward	44
Part Seven – Looking Forward	45
Appendix 1: Potential lessons from central government Value for Money reports 2016-17	49

Our Performance

Our Local Government work at a Glance



20 FINANCIAL AUDITS

11 Local Councils and 9 other local government bodies all certified by 30 September with unqualified audit opinion



OTHER FINANCIAL AUDIT OUTPUTS

- 20 Reports to Those Charged with Governance
- 19 Annual Audit Letters



IMPROVEMENT AUDITS AND ASSESSMENTS

- 11 Audit and Assessment reports issued
- 11 Annual Improvement reports published



WHISTLEBLOWING/ FRAUD

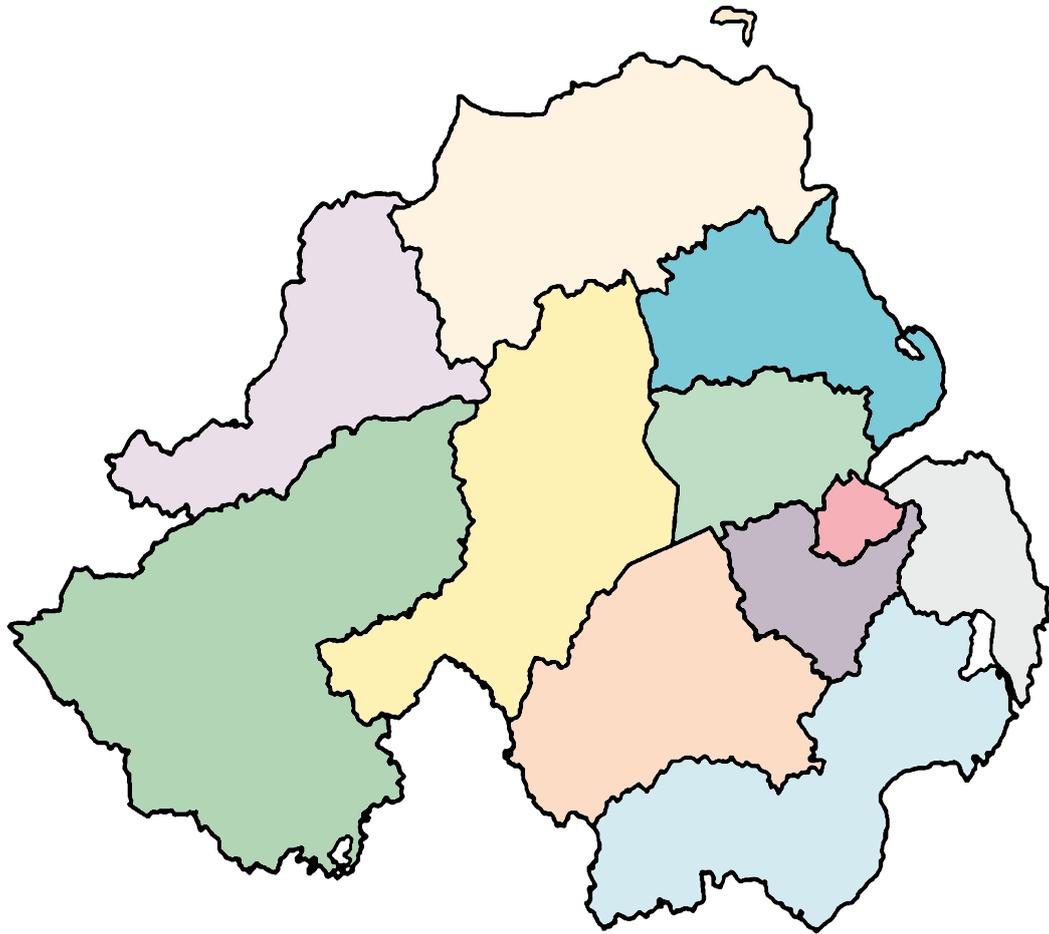
- 12 whistleblowing concerns reported to Local Government Auditor in Year
- National Fraud Initiative – matches advised to councils in January 2017



GOOD PRACTICE GUIDES ISSUED IN YEAR BY NIAO

- Board Effectiveness – November 2016

Part One: Introduction



Part One: Introduction

- 1.1 Following local government reform, 2015-16 was the first year of the new councils, which have now reduced from 26 to 11. For that year in my role as the Local Government Auditor, I was required under statute to audit the accounts and provide audit opinions of the 11 new Councils, 7 joint committees¹, the Local Government Staff Commission, and the Northern Ireland Local Government Officers' Superannuation Committee. In total, audit opinions were issued on 20 sets of financial statements. Also for the first time, the financial statements for the larger local government bodies included a remuneration report.
- 1.2 I am pleased to report that all 20 audit opinions were unqualified. Whilst my report focuses primarily on the accounts and outputs from the 11 councils, it also includes work performed in relation to councils' performance improvement responsibilities and my statutory responsibility to audit and assess these responsibilities (see **Part Six**).
- 1.3 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.
- 1.4 In providing such a broad range of services, either directly or in partnership with others, councils require substantial resources. In the 2015-16 financial year they spent almost £860 million, employed over 9,900 full time equivalent staff and utilised assets worth more than £2,200 million.
- 1.5 As outlined in my Code of Audit Practice² published on 31 March 2016, as part of my audit work I also seek to examine that each council has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for. I can, if considered appropriate, make a report in the public interest on any matter coming to my notice in the course of an audit. No public interest reports were made during the year and my audit findings were issued to each council in their annual audit letter.
- 1.6 The Statement of Responsibilities³, published on 29 July 2016, serves as the formal terms of engagement between the Local Government Auditor and Local Government Bodies.
- 1.7 This report provides my perspective on the audits of local councils based on the key messages from audits performed up to 31 March 2017, covering the local government financial accounting period from 1 April 2015 to 31 March 2016 (the 2015-16 financial year) and the performance improvement period from 1 April 2016 to 31 March 2017 (the 2016-17 financial year).

1 A joint committee is made up of two or more participant councils and may be constituted as a body corporate.

2 <https://www.niauditoffice.gov.uk/publication/code-audit-practice-2016>

3 <https://www.niauditoffice.gov.uk/publication/statement-responsibilities-local-government-auditor-and-local-government-bodies>

Part One: Introduction

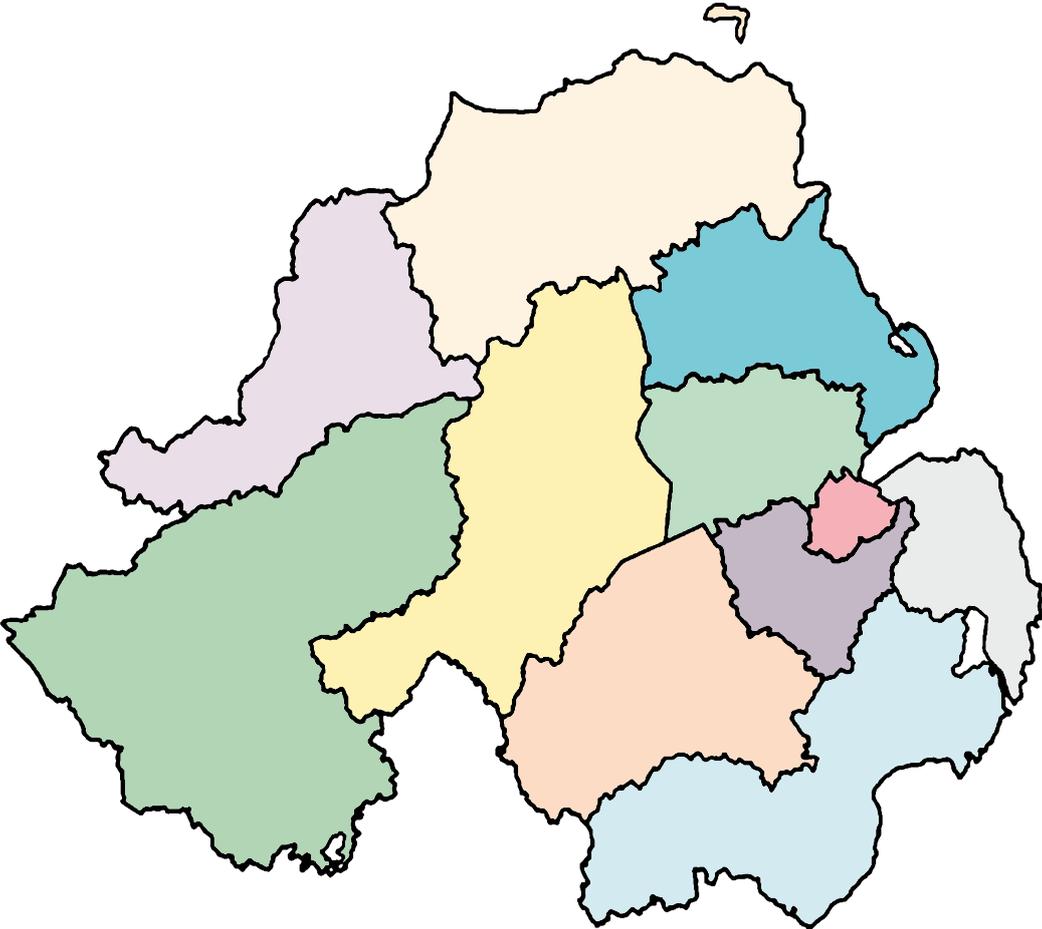
- 1.8 My report highlights areas of strength and areas for improvement within local councils. I have also considered several important issues that may affect the new councils in the near future. Both councillors and officers should consider this report and review how their new council is managing the issues I have highlighted.
- 1.9 The annual audit letters which I issue to councils are published on the councils' websites. They highlight important issues that arose during the course of both the financial and proper arrangement audits. These letters detail how the matters I have set out in my annual reports apply locally and where more actions are required. I expect the 11 new councils to take these actions forward, where appropriate. In relation to my improvement audit and assessments, which focus on councils' new performance improvement responsibilities, each council met their 2016-17 responsibilities, both in relation to improvement planning and the publication of improvement information. However, while each council has begun to establish arrangements to secure improvements, it is too early, in this new framework, to determine the extent to which improvements are being made.

Figure 1: New council districts



Source: NIAO

Part Two:
Managing Resources



Part Two: Managing Resources

2.1 This section provides information on how councils managed their resources in the 2015-16 financial year.

Income and expenditure

2.2 In the financial year 2015-16 (see **Figure 2**), councils received income of £864 million from rates, charges and grants. Council revenue expenditure in the same year amounted to almost £858 million. (For 2014-15 the total income and expenditure figures for the 26 legacy councils were income of £833 million and revenue expenditure of £818 million).

Figure 2: Councils' Income and Expenditure 2015-16⁴

Where the money came from	£ Million
General revenue funding from government	50
Services including fees and charges	186
Capital grants	62
District rates	566
Total Income	864
How the money was spent	£ Million
Leisure and recreational services	319
Environmental services	287
Planning and development services	111
Highways and transport services	7
Democratic representation and corporate management	58
Other expenditure	35
Finance and Investment	41
Total spending on services	858
Accounting adjustments ⁵	-5
Total expenditure charged to general fund	853

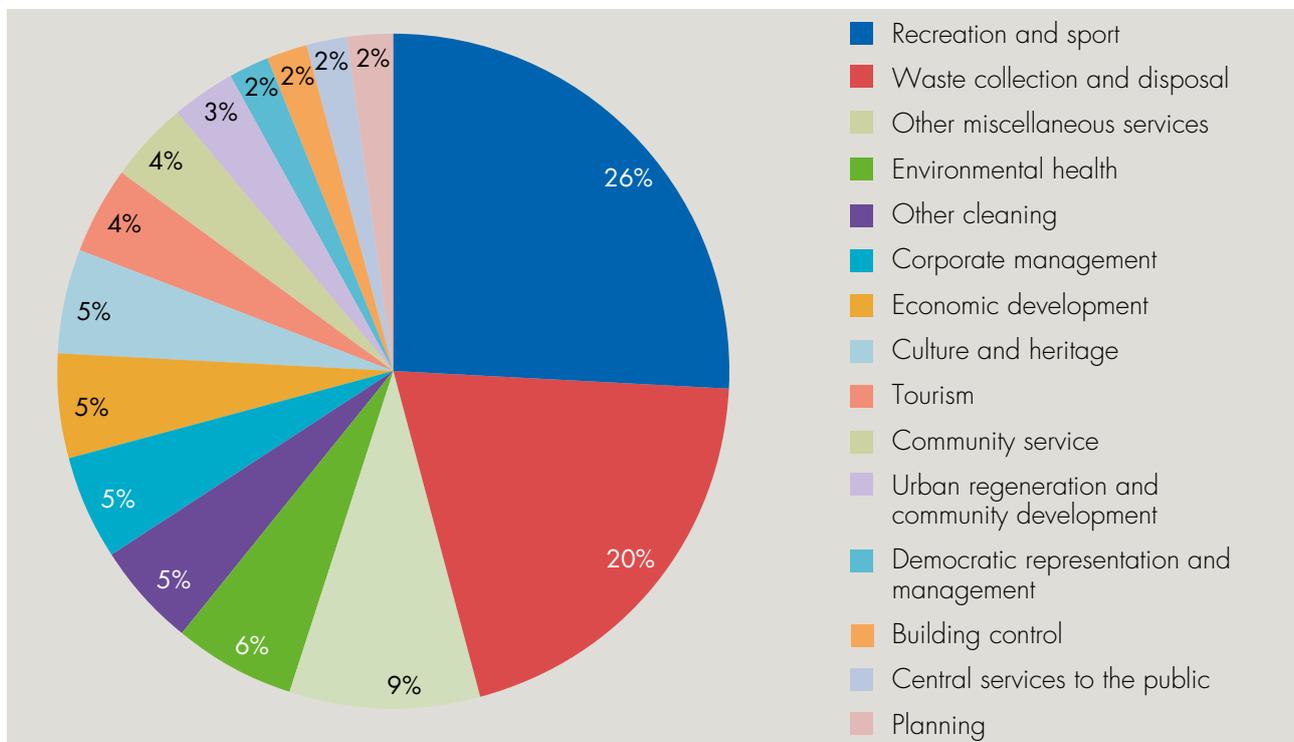
Source: Councils' audited financial statements for 2015-16

4 **Figure 2** is a high level summary of 11 Councils' 'Comprehensive Income and Expenditure Statements' extracted from the 2015-16 financial statements.

5 Local Authority accounting adjustments, as permitted by the Accounts Direction and the CIPFA Code of Practice for Local Authority Accounting in the UK.

- 2.3 The majority of councils' income, 66 per cent (65 per cent in 2014-15), was received from district rates. Income generated from services accounted for almost 22 per cent (23 per cent in 2014-15). Example services include building control, waste collection, planning and use of leisure facilities. General revenue funding and capital grants accounted for six per cent and seven per cent of income respectively.
- 2.4 While £50.4 million of general revenue funding⁶ from the Department for Communities (the Department) reflected an increase of £4.8million over the total amount paid to the legacy councils in 2014-15, this increase is not being repeated in 2016-17.
- 2.5 **Figure 3** provides additional detail on the categories of expenditure on services incurred by councils in the financial year (excluding Finance and Investment). The largest single area of expenditure related to Recreation and Sport⁷, where councils spent £211 million (£198 million in legacy councils in 2014-15). This category, combined with that of Waste Collection and Disposal which totalled £164 million (£165 million in legacy councils in 2014-15) accounted for 44 per cent of all expenditure incurred on services by councils.

Figure 3: Councils' expenditure by service during 2015-16



Source: Councils' audited financial statements

⁶ General revenue funding from government is paid to both compensate councils for the statutory de-rating of certain property and to provide additional resources for those councils whose needs exceed their wealth base.

⁷ By way of example, the 'Recreation and sport' service is one of a number of 'sub' services, which also include 'Culture and heritage', 'Community service' and Tourism, making up the 'Leisure and recreational service's category in **Figure 2**.

Part Two: Managing Resources

- 2.6 Other categories of service expenditure incurred by councils included Environmental Health (£51 million), Tourism (£37 million), and Economic Development (£38 million). In the 2015-16 year, councils had responsibility for the first time for some local planning functions and off-street parking, following the transfer of these functions from central government to local government on 1 April 2015. Expenditure on these services was £12 million (local planning functions) and £7 million (off-street parking).

Loans

- 2.7 Loans outstanding at 31 March 2016 totalled £493.7 million and are shown in **Figure 4**. This represents a decrease of £5 million (1 per cent) in the loans outstanding from the legacy councils at 31 March 2015. £4.5 million of the loan increase in Belfast/decrease in Lisburn and Castlereagh was due to loan transfers on assets arising from boundary changes. Total council borrowing was approximately £264 per person (£275 in 2014-15) based on the estimated Northern Ireland population at June 2017. The loan amounts vary considerably between councils.

Figure 4: Councils' loan position as at 31 March 2016

Council	Loans Outstanding as at 31 March 2016 (£ million)	Loans Outstanding in legacy councils combined as at 31 March 2015 (£ million)	Change (£ million)
Antrim and Newtownabbey Borough Council	57.5	60.7	-3.2
Ards and North Down Borough Council	55.6	58.1	-2.5
Armagh City Banbridge and Craigavon Borough Council	47.3	51.7	-4.4
Belfast City Council	34.8	23.2	11.6
Causeway Coast and Glens Borough Council	69.0	72.8	-3.8
Derry City and Strabane District Council	52.3	52.7	-0.4
Fermanagh and Omagh District Council	11.7	12.8	-1.1
Lisburn and Castlereagh City Council	31.6	37.3	-5.7
Mid and East Antrim Borough Council	64.9	67.3	-2.4
Mid Ulster District Council	10.8	5.2	5.6
Newry, Mourne and Down District Council	58.2	56.9	1.3
Northern Ireland	493.7	498.7	-5.0

Source: Councils' audited financial statements

Capital expenditure

- 2.8 Capital expenditure relates to assets of a long-term nature which are purchased, constructed or improved by the councils. The main sources of capital funding are:

Borrowing and government grants

A large proportion of council's capital expenditure is financed from borrowing. While most of the borrowing is external, there may also be some internal borrowing. Following the implementation of the Prudential Code, while borrowing levels should be prudent and affordable, it no longer has to be matched to specific assets. The capital cost of borrowing is charged to expenditure by way of the minimum revenue provision.

Capital grants and contributions

Capital grants represent funding which has been secured for specific schemes. The funding source may be either from central government departments or other external bodies, such as the Heritage Lottery Fund.

Capital receipts

When councils sell assets, they can use the capital proceeds from the sale to fund in-year or future capital expenditure, or they can repay existing debt if they choose.

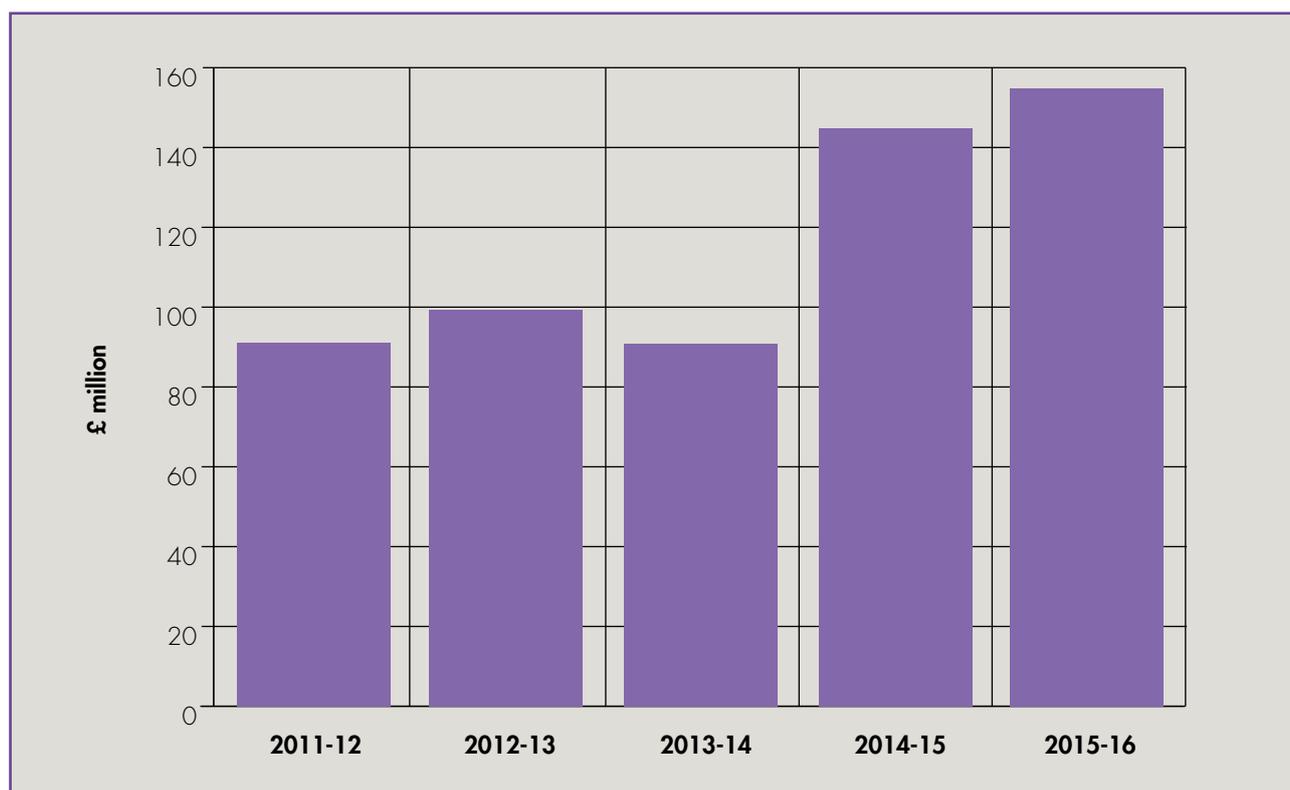
Revenue

Although capital resources cannot be used to fund revenue expenditure, direct revenue financing of capital expenditure is permitted.

- 2.9 **Figure 5** shows that total capital expenditure in 2015 -16 amounted to £155 million (£145 million in 2014-15). This represents an increase of 7 per cent from the final year of the legacy councils. Examples of capital projects, either on-going or completed in year included, Newry leisure centre and the office accommodation upgrade at Belfast City Council.

Part Two: Managing Resources

Figure 5: Councils' capital expenditure from 2011-12 to 2015-16

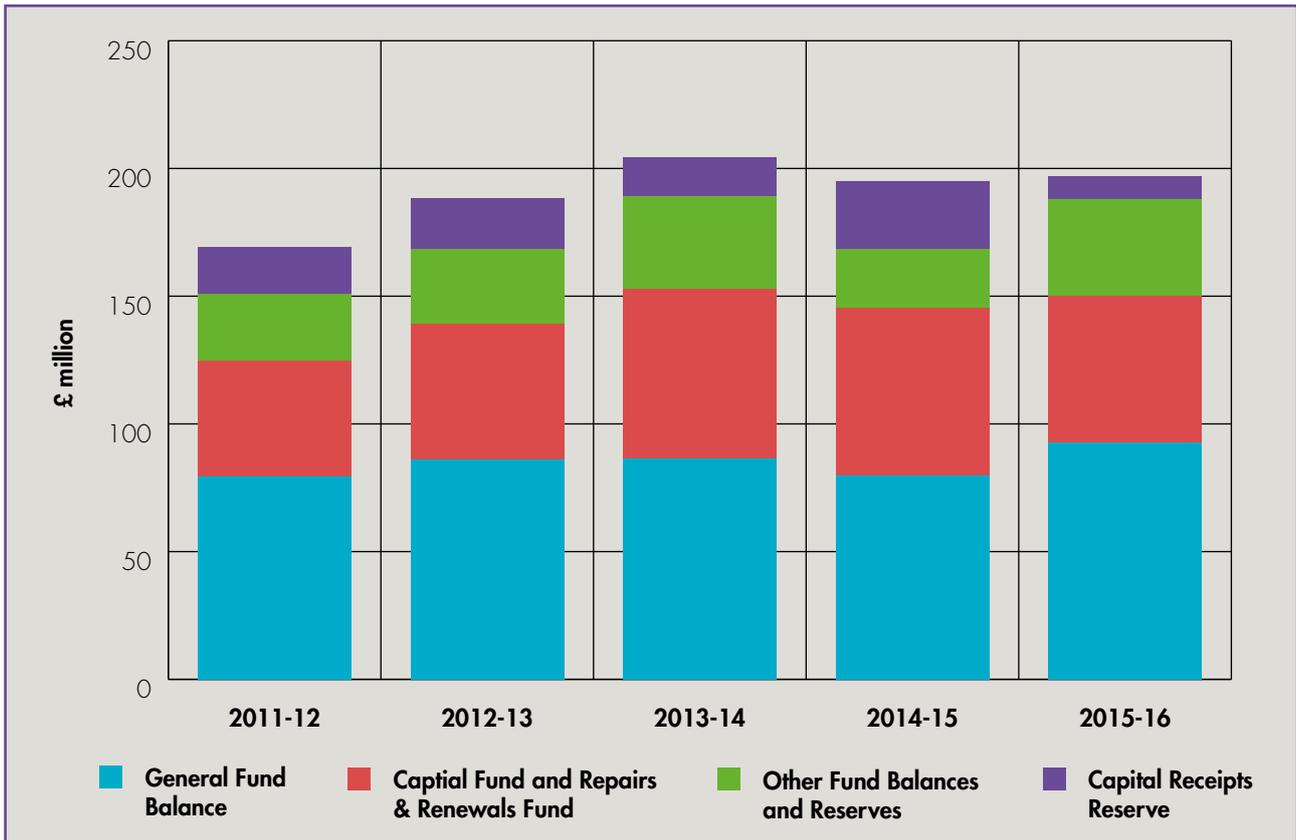


Source: Councils' audited financial statements

Reserves

- 2.10 Councils' financial statements disclose both the level of usable and unusable reserves. Unusable reserves consist of unrealised gains, for example the revaluation reserve, or those relating to timing differences such as pension reserve and capital adjustment account.
- 2.11 **Figure 6** shows the overall level of usable reserves across the councils increased by approximately £1.9 million, a one per cent increase from the legacy councils' usable reserves, in the year to 31 March 2016. Overall usable reserves are now £197 million compared to £195 million in the prior year. **Figure 7** highlights usable reserves for each council at 31st March 2016.

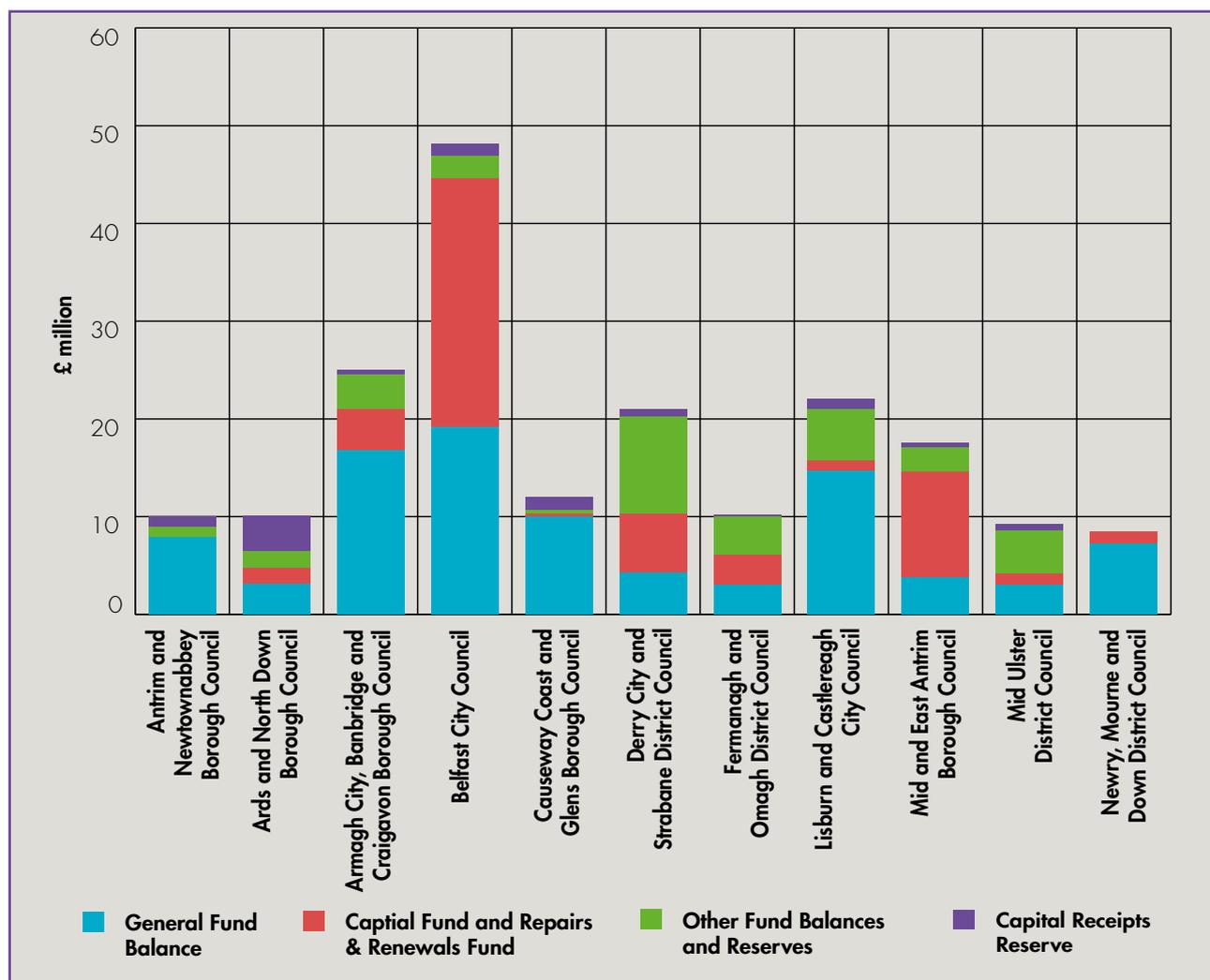
Figure 6: Councils' total usable reserves and balances 2011-16



Source: Councils' audited financial statements

Part Two: Managing Resources

Figure 7: Total usable reserves and balances by individual council 2015-16



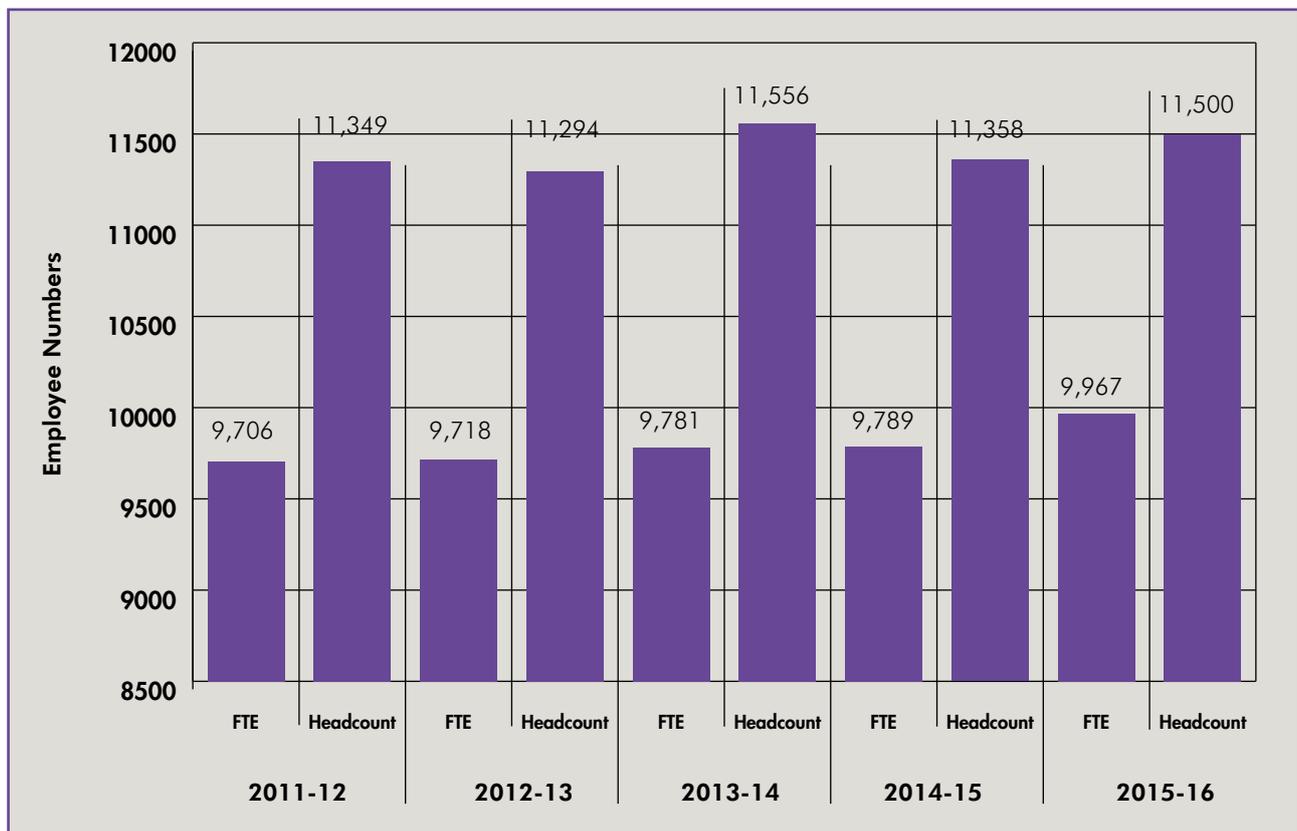
Source: Councils' audited financial statements

- 2.12 The General Fund is the main usable reserve. Overall, the total General Fund balance held by all councils has increased by £13.1 million (16 per cent) compared to the previous year and now totals £92.8 million.
- 2.13 The average balance held by councils in their General Fund is around £8 million, with the level varying considerably across councils from £2.97 million (Fermanagh and Omagh District Council and Mid Ulster District Council) to £19.20 million (Belfast City Council). Councils should continue to monitor/build up as needed the levels of their general fund balance to ensure that they are adequately funded to meet the risk of future liabilities; some of which may be unpredictable at this time.

Workforce

2.14 On 1 April 2015, all staff from the 26 legacy councils plus over 400 staff from the Planning Service transferred to the new councils. Despite the impact of the Planning staff transfers from the Northern Ireland Civil Service, for 2015-16 the overall net increase in Full Time Equivalents (FTE) from 2014-15, was only 178 (see **Figure 8**), largely due to the impact of staff leaving under exit packages.

Figure 8: Staff numbers in councils



Source: Councils' audited financial statements

2.15 Staff costs represent approximately 41 per cent of gross revenue expenditure in councils, amounting to over £349 million in 2015-16, an increase of 6.4 per cent from 2014-15.

Part Two: Managing Resources

- 2.16 The average cost of staff increased from £33,490 in 2014-15 to £35,029 – an increase of 4.6 per cent. Across councils, changes in average staff costs ranged from an increase of 18 per cent to a decrease of 8 per cent. There are also considerable variations in average staff costs across councils, with the lowest being in Fermanagh and Omagh (£32,478) and the highest being in Causeway Coast and Glens (£41,160). Differences can be influenced by various factors such as the timing of single status settlements, salaries for planning staff and exit packages. Excluding staff severance costs, the average staff cost of Fermanagh and Omagh reduces to £30,113 and Causeway Coast and Glens reduces to £35,282.
- 2.17 Once the new councils become fully established, there should be fewer one-off factors impacting salaries; which should then facilitate more meaningful direct comparison of the average staff salary costs between councils.

Agency staff

- 2.18 Significant expenditure continues to be incurred on the engagement of agency staff, reflecting an ongoing trend over the past number of years. Total expenditure increased by approximately 18 per cent to £20.3 million (2014-15, £17.2 million). Agency costs represent 5.6 per cent of staff costs overall, however, in two councils, these costs amounted to more than 10 per cent of total annual staff costs, with the highest at 14 per cent. Councils must be satisfied that they are receiving value for money from such significant expenditure and that this is the best means of providing the relevant services. I would expect to see the amounts spent on agency staff decrease, particularly as a percentage of total staff costs, as new councils stabilize.

Exit packages

- 2.19 Following the merger of 26 Councils into 11 new councils, the Local Government sector in Northern Ireland is going through a period of significant change and restructuring.
- 2.20 Councils are required to disclose the number and costs of staff exit packages. These costs include compulsory and voluntary redundancy costs, pension contributions and other departure costs. Over the five financial years from 2011-12 to 2015-16 councils have paid a total of £32.1 million in exit packages to staff (see **Figure 9**).

Figure 9: Staff exit packages paid between 2011-12 and 2015-16

	Number of exit packages	Total cost of exit packages £m	Average cost of each exit package £'000	Number of exit packages greater than £100,000
2011-12	71	2.5	35	5
2012-13	55	1.5	27	2
2013-14	49	1.9	39	5
2014-15	172	9.4	54	25
2015-16	208	16.8	81	64
Total	555	32.1	58	101

Source: Councils' audited financial statements

- 2.21 Due to the on-going restructuring process, all 11 councils offered exit packages during 2015-16. There was a total of 208 departures at a cost of £16.8 million. This represents an increase (36) in the number of exit packages from the legacy councils in 2014-15.
- 2.22 We note that 31 per cent of the exit packages agreed in 2015-16 for councils were for amounts greater than £100,000 with the overall average being approximately £80,750. This is significantly more than the NI average of £38,950 across the public sector as a whole⁸.
- 2.23 Further severance costs will be incurred by the councils in the coming years. As councils restructure, the severance schemes have been predominantly targeting more senior staff hence the greater cost per head.

Efficiency savings from reduction in councils from 26 to 11

- 2.24 In 2009 the Department of the Environment published a document "Local Government Service Delivery – economic appraisal of options for local government service delivery in its entirety". Option 5 of this economic appraisal had the highest forecast financial savings. Based on a Transformation with Regional Collaboration model, and after taking account of one off costs of £127million⁹, £439million of net present cost savings were predicted to be achieved over 25 years. A Business Services Organisation (BSO) and a single Waste Disposal Authority (WDA) were key features of this option. It was anticipated that on the formation of the new councils, a BSO would immediately deliver a number of regional services including procurement, large

8 Source: Part 3 - NIAO report on Northern Ireland Public Sector Voluntary Exit Schemes published October 2016. https://www.niauditoffice.gov.uk/sites/niao/files/media-files/VES%20Report_WEB%20PDF.pdf

9 Predicted one off costs consisted of transition costs £36m, additional ICT costs £42m and transformation costs £49m.

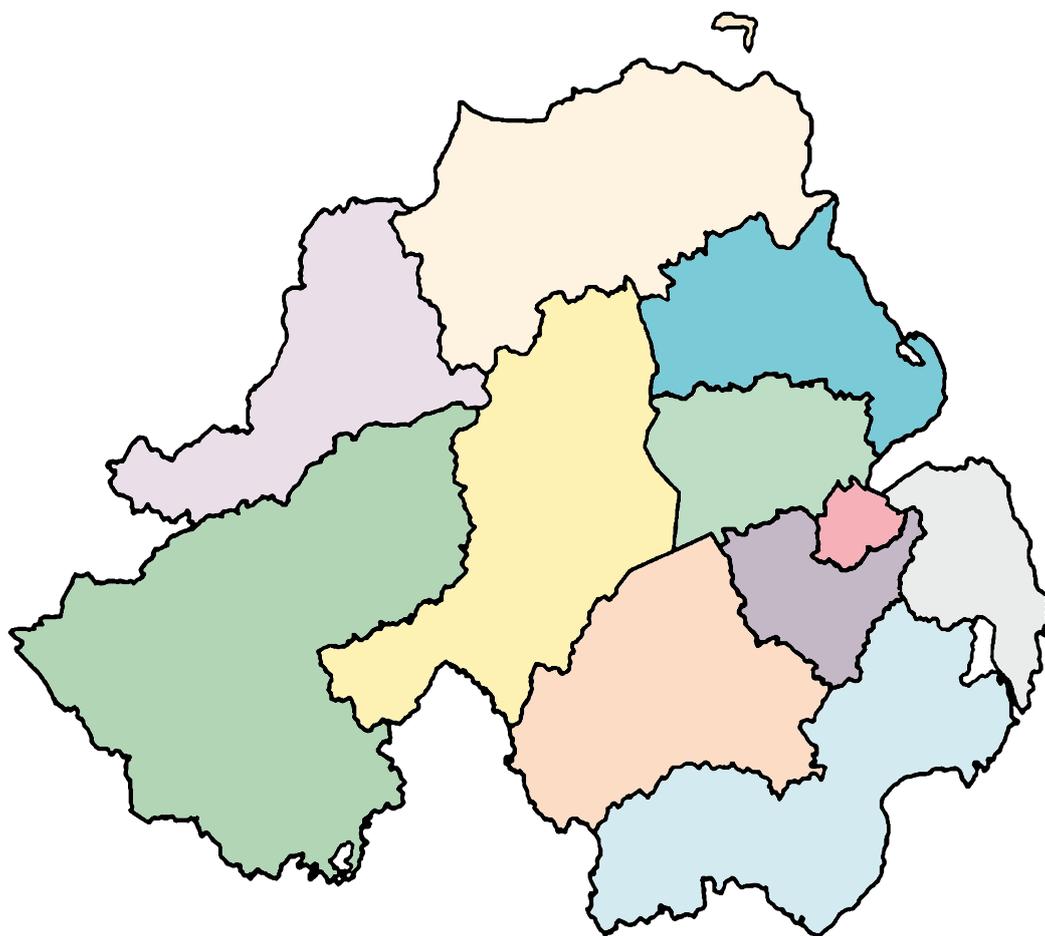
Part Two: Managing Resources

capital projects and ICT infrastructure, development and support. Further future regional services that could be progressed included human resources, payroll, finance, property and legal services.

- 2.25 Potential non-financial benefits of the reduction in the number of councils included strong local government focused on adding value to the citizen through the efficient and effective delivery of services and by the comprehensive and coordinated building of strong communities and better places within our society.
- 2.26 While it seems that the intention in 2012 was for the 2009 business case and economic appraisal to be updated, this does not appear to have taken place.
- 2.27 Councils had a number of reservations about this model, including the potential for the predicted level of savings to be achieved. Recognizing the need to ensure that there were sufficient resources to implement RPA and also the importance of collaboration, councils sought to put into effect the Innovation for Competitive Enterprises programme (ICE), effectively through improvement, collaboration and efficiency.
- 2.28 Ultimately the Option 5 model was not implemented. Instead, to date, the new councils appear to have only implemented limited regional collaboration.
- 2.29 In the legacy council period, the impact of the future council mergers e.g. rationalization of management accounts, new staff structures, staff location and IT issues, placed an additional burden on council staff already delivering existing council functions. This strain was further increased by the embargo on recruiting new employees. Hence for most legacy councils, while a number of collaboration initiatives took place between merging councils, the issue of identifying meaningful efficiency savings appears to have been largely left until the actual councils merged. However, I am aware of several councils that did have an on-going efficiency programme for a number of years e.g. Belfast City Council.
- 2.30 Following the council mergers, to date there have been some savings, the most notable of which will be annual savings in staff costs in respect of those staff leaving under voluntary exit schemes. That said, these savings may be difficult to identify from the annual accounts due to:
- additional staff costs, arising post merger e.g. due to councils taking on additional functions such as planning; and
 - an increase in employer national insurance costs from 2016-17 due to cessation of the contracted out rebate of 3.4 per cent for employers.

- 2.31 Councils would also identify that there have been savings arising from some joint working between councils e.g. in the areas of procurement, legal services and job advertising. During 2015-16 I noted a number of councils established efficiency working groups.
- 2.32 As councils develop, I recommend that the Department monitors and reports on efficiency savings gained. I will report again on this.

Part Three: Good Governance



Part Three: Good Governance

- 3.1 Before commenting on specific governance matters, it is pleasing to note that in April 2017 Belfast City Council won the Good Governance category at the inaugural Public Finance Innovation Awards, hosted by the Chartered Institute of Public Finance and Accountancy for the Council's "leadership in spearheading the city's digital reboot programme, Super connected". The Super connected programme has been designed to make the internet as accessible as possible to as many people as possible, whether they live or work in the city or are visitors. This has included assisting businesses and community organisations to get connected, the installation of free wi-fi in all of the Council's public buildings and the development of free wi-fi hotspots across the city.

Review of governance statements within the financial statements

- 3.2 The annual governance statement explains a council's governance arrangements and controls for managing the risk of failure to achieve strategic objectives. It is a key statement by which a council demonstrates to its ratepayers, elected members and other external stakeholders that it is complying with the basic tenets of good governance. The statement should explain the key elements in a council's governance arrangements, the process for reviewing the effectiveness of these arrangements, and outline actions taken to deal with any significant governance issues.
- 3.3 Councils are required to detail significant issues about their governance arrangements. A significant governance issue for one council may not be significant for another. This will depend on an individual council's governance framework, how effectively it is operating and the extent to which the issue has the potential to prevent a council from achieving its strategic objectives.
- 3.4 For the most part, the governance statements were comprehensive and of good quality; however, several statements neither fully explained the implications of the significant risks identified, nor the action plans needed to address them or prevent their re-occurrence. The following examples and my subsequent comments, help demonstrate these incomplete disclosures:

Comment within governance statement	Local Government Auditor's comment – highlighting incompleteness of disclosures
Waste disposal – due to the significant volatility in waste markets which has resulted in a significant increase in current costs, there is a significant ongoing risk to the Council.	This comment does not detail the possible actions being taken by the Council to address this significant risk.
Information technology – ensuring our IT systems and IT security are sufficiently robust and meet the needs of the organisation.	This comment neither details what the significant IT risks are nor what the Council is going to do to address them.

- 3.5 In my view the governance example below is a good demonstration of how to succinctly outline the issue and detail the council-wide actions being taken to address the matter:

Comment within governance statement

Internal Audit report – Limited assurance

Leisure centre – the main recommendations related to income collection systems and documenting procedures

Internal audit recommendations, agreed with Management, are to be implemented within agreed time-frames. A follow up audit is to be completed during 2016-17. Internal audit are working closely with Management to ensure that all of the system improvements made as a result of this audit are replicated across all of Council's leisure facilities.

Significant issues highlighted by councils in governance statements

- 3.6 The common governance themes and their frequency are summarised in **Figure 10** below.

Figure 10: Governance issue themes

Theme	Number of Councils
Waste management	6
Legal Issues	5
Local government reform	5
Contract management	4
Procurement	3
Asset management	4
Community planning	3
Absenteeism	2
Risk management	2
Local development plan delivery	2

Source: Council Annual Audit Letters

- 3.7 Mid and East Antrim Council highlighted a significant issue in respect of time off in lieu payments to certain senior staff during the last year of the legacy Larne Borough Council. This matter was on-going at the time of finalising the accounts in September 2016, but has now been concluded post year-end. I enclose an extract from the annual audit letter issued in May 2017 (**Figure 11**), which summarises the issues, including my concerns that the time off in lieu payments were made without proper consideration of all the facts prior to the closure of the former Larne Borough

Part Three: Good Governance

Council.

Figure 11: Significant Governance Issue at the Legacy Larne Borough Council

Payments to senior staff at the Legacy Larne Borough Council

In my 2014-15 audit of the legacy Larne Borough Council accounts, I included a comment in my Annual Audit Letter relating to payments made to senior staff in the Council, immediately before it ceased to exist. The payments included amounts to the former Larne Borough Council Chief Executive and another senior member of staff in the Council, both of whom would not normally have a contractual entitlement to payments in respect of time off in lieu (TOIL). The new Mid and East Antrim Borough Council arranged to have an investigation carried out by an external consultant and a report was produced.

This investigation considered a number of sources of information and invited the views of the parties most closely involved.

The investigation reported that in March 2015, in the last days of its existence, Larne Borough Council made payments to three members of staff in respect of compensation for accumulated TOIL for additional hours worked beyond the standard working week. Two of the three beneficiaries of these payments were the former Larne Borough Council Chief Executive (£15,317 in respect of 345.5 additional hours) and another former senior member of staff (£12,623 for 393 additional hours). The third beneficiary was a manager who received £2,943 but whose grade meant that it was appropriate to receive a payment in respect of accumulated TOIL.

The contract of the former Chief Executive included a provision on working hours, stating that the 'postholder will be required as and when necessary to attend evening meetings and work in excess of the normal hours in performance of the duties and responsibilities of the post – the remuneration reflects this aspect of the post'. There was a similar clause in the contract of the other senior member of staff stating 'You will be required to attend meetings, both public and private outside normal working hours. This will result in some unsocial working hours and the salary for the post recognises this'. In addition, the former Chief Executive was already in receipt of an honorarium which was intended to compensate for additional work arising from the Review of Public Administration (RPA). The other senior member of staff also received an honorarium payment in respect of work associated with RPA in March 2015.

I asked the former Chief Executive and the former senior member of staff for their comments and they both told me that, in their opinion, the working hours they had to undertake in Larne Borough Council were excessive, involving huge amounts of additional work in evenings, particularly around attendance at evening meetings. They both felt that the hours they claimed in March 2015 were only a fraction of the additional hours worked over several years and were additional to the extra time requirements of RPA. In particular, the former senior member of staff pointed out that her contract only stated a requirement to work 'some unsocial working hours' whereas in her opinion she had been working excessive unsocial hours for several years. She had been seeking entitlement to TOIL for a number of years and had kept detailed records of all additional hours worked which she claimed were well in excess of the actual amount claimed.

The Chief Executive has, however, now told me that she had been unaware of her specific conditions relating to the hours of the post and eligibility for TOIL and that she had felt that this eligibility had been included in an earlier contract she had with the Council. As such she has offered in principle to repay the amount she received to Mid and East Antrim Council. She also pointed out that in March 2015 she had much reduced staff numbers in the former Larne council, no Human Resources support to help her in dealing with this issue and stated that if she had been made aware at any stage of the precise issue regarding her terms and conditions she would not have accepted the payment.

The issue of a payment for TOIL hours was first raised at a Larne Borough Council Policy and Resources Committee meeting on 9 March 2015. Members were told that legal advice had confirmed that it was within Larne Borough Council's remit to make payments for the current financial year. The request was then further discussed and approved at Larne Borough Council's meeting on 16 March 2015. However Mid and East Antrim Council's investigation found that Larne Borough Council's meeting was not provided with sufficient information in relation to several highly relevant and material considerations when it reached a decision on this matter.

Key omissions identified by the Mid and East Antrim Borough Council investigation included:

- No information relating to the numbers of staff or the grades of post(s) involved;
- No information on the terms of the contracts of employment for those who were being paid for additional hours;
- No potential costs of the options being discussed were provided. Given that the decision was to "authorise payments to all officers", this amounted to a blanket approval of unknown costs;
- Although legal opinion was referred to, council members were not provided with any legal advice in writing. Indeed, the solicitors of the former Larne Borough Council have since confirmed that no written advice was issued on this particular matter, although they did provide a handwritten note of a telephone conversation on this issue on 9 March 2015; and
- While the Chief Executive did refer to a potential personal interest, the degree of self-interest was not explicitly made known to members.

Part Three: Good Governance

The Chief Executive of the new Mid and East Antrim Borough Council contacted Larne Borough Council before its final meeting on 23 March 2015 asking members not to proceed with a decision on these payments. At this meeting, in response to a specific question, an Officer of the council incorrectly said that there were no stipulations regarding TOIL in the contracts of employment of the individuals to be paid. At the meeting Larne Borough Council decided to defer all new decisions on TOIL payments but to honour the decision already made by the Council on 16th March 2015 in respect of those staff members who had already made applications. This decision triggered the final processing of three such payments; two of which were to the Chief Executive and the other senior member of staff.

The Mid and East Antrim Borough Council's investigation into this issue was completed in February 2016 and concluded that, in its opinion based on all the evidence provided, "the decision reached on this matter was not based on a proper consideration of facts and consequently the payments were inappropriate, irregular and improper".

I am concerned that these payments were made without proper consideration of all the facts prior to the closure of the former Larne Borough Council. I understand that the new Mid and East Antrim Borough Council has already received legal advice on this matter. The former Chief Executive has stated that in principle she intends to repay the payments received and I recommend that this is pursued by the Council. I will follow up on the progress of this matter in due course.

Source – Mid and East Antrim 2015-16 annual audit letter

Proper arrangements to ensure economy, efficiency and effectiveness

- 3.8 The Local Government (Northern Ireland) Order 2005 requires me to be satisfied each year that proper arrangements have been made for securing economy, efficiency and effectiveness (value for money) in the use of resources. Details of the nature of my work in this area are outlined in Chapter 3 of my Code of Audit Practice 2016¹⁰.
- 3.9 In order to assess whether proper arrangements are in place, my staff developed an annual questionnaire (**Figure 12**) to be completed by the councils and returned with supporting relevant documents. This information is then reviewed with further queries raised as needed.

¹⁰ <https://www.niauditoffice.gov.uk/publication/code-audit-practice-2016>

Figure 12: The proper arrangements questionnaire has 17 query headings

Details of the nature of questions raised under each of the 17 headings	
1.	Annual Corporate Plan (published) – practical communication to operational staff/ monitoring and reporting of progress against objectives
2.	Medium Term Financial Strategy – Prudential Code including borrowing levels/Treasury Management/Robustness of rates estimation process and monitoring against outturn/ business continuity plan
3.	Financial Reporting – reporting of relevant, reliable and sufficient financial information to members to inform decision making/formal reporting mechanisms and sound financial systems/ guidance for budget holders/procedures manuals for staff
4.	Procurement – policies and procedures/existence of a contracts register/compliance with legislation
5.	Information Technology – IT security including accreditation
6.	Internal Audit Service – reporting lines/external review/implementation of recommendations/Public Sector Internal Audit Standards
7.	Statutory provisions/Standing Orders – compliance/are legal issues considered as part of decision making/use of general power of competence
8.	Risk Management policy – corporate and operational risk registers/adherence to good practice in Risk Management
9.	Governance Code – Council's approach to Governance/governance arrangements of key partners
10.	Complaints procedure – register of complaints/review for common issues
11.	Anti-fraud and corruption policy – up to date and accessible policy/the arrangements for whistleblowing/registers maintained of all communications/response to National Fraud Initiative
12.	Community Planning LG 28/2015 – governance and management structures/ publication of Community Plan
13.	Constitution of Council (LG 08/2015) and Senior Management Structure – committee and organisation structure

Part Three: Good Governance

14. **Asset Management Strategy and Policies** – Asset Management Plan and effective use of resources
15. **Conditions of Employment** – manual for staff setting out terms and conditions of employment
16. **Code of Conduct: Staff and Councillors** – operation of Code of Conduct/Register of Interests/any significant breaches/Gifts and Hospitality Register
17. **Resource Planning** – HR policies including absenteeism, grievance procedures etc/systems for time recording, travel and subsistence etc

3.10 I was satisfied that all 11 councils had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources for the 2015-16 financial year.

Audit and Risk Committees

3.11 The main purpose of an audit committee is to give independent assurance to elected members and the public about the governance, financial reporting and performance of a council. It also scrutinises the council's financial management and reporting arrangements and provides an independent challenge to the council.

Strengthening the role of an Audit and Risk Committee

3.12 In recent years, I have highlighted on a number of occasions that the appointment of independent members to an Audit and Risk Committee was a way of strengthening its independence and widening the range of specialist skills. Ten of the new eleven councils have at least one independent member on their Audit and Risk Committee. NIAO published a Good Practice guide on Board Effectiveness in November 2016¹¹ which provides useful guidance on the roles of the board and examples of best practice. Councils may find this useful when considering the composition, roles and responsibilities of their Audit and Risk Committee, where members represent Council on boards or where councils work in partnership with organisations with a board.

11 <https://www.niauditoffice.gov.uk/publication/board-effectiveness-good-practice-guide>

Conflicts of interest

- 3.13 Councils should have in place arrangements to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders, and should ensure that these arrangements operate effectively.
- 3.14 It is important that members and council staff are aware of their responsibility for managing the risk of a conflict of interest (real or perceived) or, where this is not possible, for ensuring that it is declared and managed properly. Regular induction training and awareness is essential to ensure that the conflicts of interest policy is understood and applied by all staff.
- 3.15 No conflicts of interest issues were reported within any council governance statements in the 2015-16 financial year.

Code of Conduct/Ni Local Government Commissioner for Standards

- 3.16 Under Section 53 of the Local Government Act (Northern Ireland) 2014, the Department issued the mandatory Northern Ireland Local Government Code of Conduct for Councillors (the Code), which came into effect in May 2014 (see **Part Seven** – the Code is likely to be updated within the next year).
- 3.17 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 13**.

Figure 13: Principles of Conduct

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

Part Three: Good Governance

- 3.18 Under the Code, each Council has to establish and maintain a register of members' interests and a register for gifts and hospitality, along with procedures for dealing with declarations of interests. Further requirements, specifically addressing council members' obligations relating to planning matters, came into force on 1 April 2015.
- 3.19 The Northern Ireland Public Services Ombudsman (NIPSO) has a statutory role as the Northern Ireland Local Government Commissioner for Standards. This includes enforcing mechanisms of the Code, including the investigation of, and adjudication on, alleged failure to comply with it. Where there are any financial implications arising from non-compliance with the Code, I may decide to report this information. In October 2015, I signed a formal protocol with the Northern Ireland Public Services Ombudsman, which sets out arrangements for co-operating and working together in order to fulfil our statutory responsibilities as fully, effectively and efficiently as possible. The protocol will be updated in 2017-18 to take into account the provisions of Section 51 of the Public Services Ombudsman Act (NI) 2016, which came into effect on 1 April 2016. This includes details on the Ombudsman's role in consulting/co-operating with me in respect of investigations.
- 3.20 Since June 2014, the NIPSO in her role as Northern Ireland Local Government Commissioner for Standards, has been responsible for investigating and adjudicating on written complaints that councillors have breached the Code. There have been 81 complaints up to 31 March 2017. There are a wide variety of allegations, including disclosure of interests, lobbying and planning matters. Some complaints contend that some individual councillors have brought their position as councillor of the council into disrepute.
- 3.21 In September 2016, the first hearing and issued adjudication regarding the conduct of councillors was held. To date one councillor has been suspended for 3 months and another disqualified for 3 years. A further two complaints have been resolved by the implementation of the Commissioner's Alternative Action Policy. Further details are available on the NIPSO website, www.nipso.org.uk.
- 3.22 At present the Local Government circulars "Consolidated Guidance on Councillors' allowances" have been silent as to whether councillors should still continue to be paid their allowances in the event of being suspended. This is being considered by the Department in consultation with councils and others.

Reporting suspected and actual fraud

- 3.23 From 1 April 2016, local councils agreed to report any fraud, proven or suspected, using the circulated pro-forma 'Initial Notification of Frauds to the Local Government Auditor'. Two examples which have been reported to us were:
- fraudulent email requests for funding, purportedly from the Chief Executive; and
 - approaches to councils seeking changes to supplier bank details.

Whistleblowing

- 3.24 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.
- 3.25 All councils may receive whistleblowing concerns 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. Councils should also ensure that whistleblowers are supported and protected from any form of victimisation.
- 3.26 As the Local Government Auditor within the NIAO, 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 whistleblowing concerns relating to local government bodies (see **Figure 14**).
- 3.27 The NIAO website¹² provides guidance on how to raise a concern with the Local Government Auditor. Any concerns raised will be evaluated as audit evidence taking into account a range of factors including:
- professional judgment;
 - audit experience;
 - whether there is a "public interest" element to the issue; and
 - whether the concerns indicate serious impropriety, irregularity or value for money issues.

12 <https://www.niauditoffice.gov.uk/whistleblowing>

Part Three: Good Governance

3.28 In dealing with concerns, I consider a range of possible actions, from discussing the issues with the audited body to carrying out a full audit investigation and including relevant comments in our audit reports. I am not required to undertake investigations on behalf of individuals.

Figure 14: Whistleblowing concerns reported directly to the Local Government Auditor

	2013-2014	2014-15	2015-2016
Number of concerns reported directly to the Local Government Auditor	21	21	12

Source: Northern Ireland Audit Office

3.29 In 2014, the four supreme audit agencies of the UK, including the NIAO, jointly issued a good practice guide on whistleblowing in the public sector¹³. I once again commend this guide to all councils and recommend that it be made available to all council workers via councils' intranets.

National Fraud Initiative (NFI)

3.30 The National Fraud Initiative (NFI) is a major two-yearly data matching exercise in which all local councils participate. It helps public bodies identify potentially fraudulent and duplicate transactions using sophisticated computer based data matching techniques. The NFI provides participating organisations with valuable management information which they would not otherwise be able to access. Powers to data match were inserted into the Audit and Accountability (Northern Ireland) Order 2003 by the Serious Crime Act 2007.

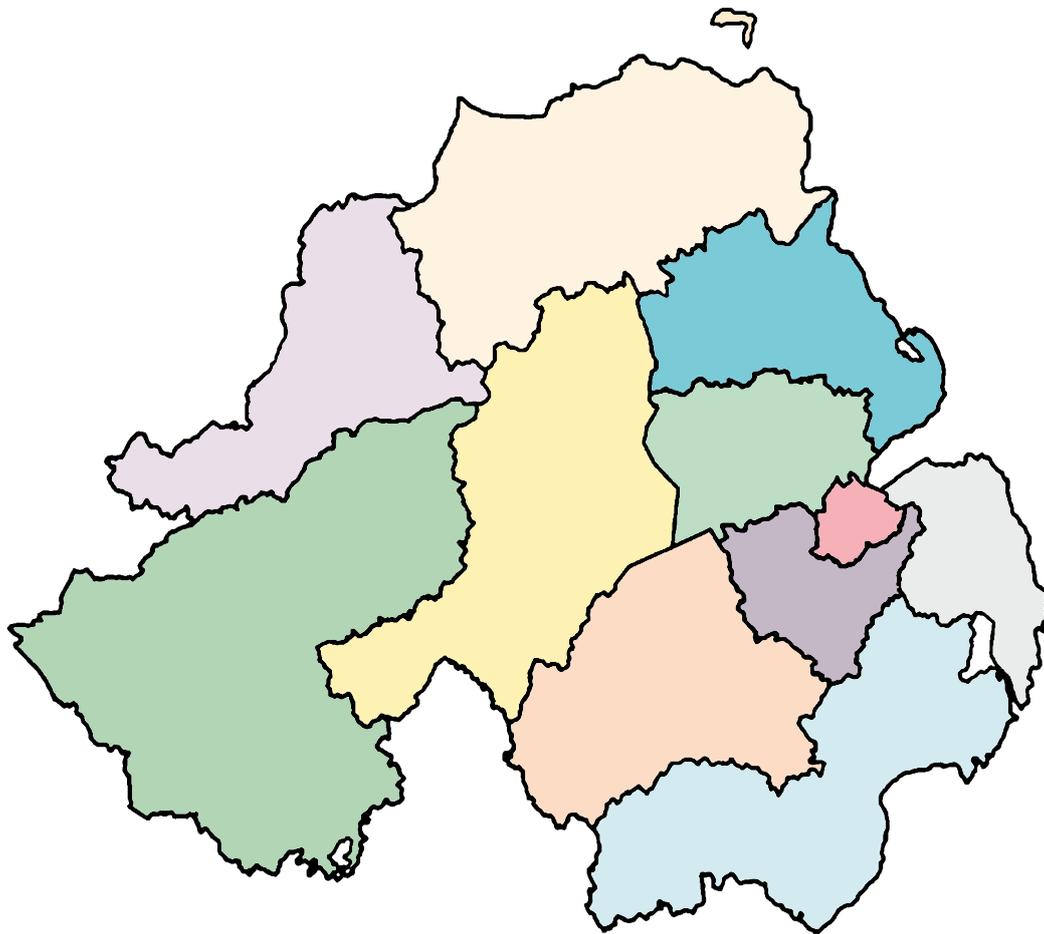
3.31 Councils continue to participate in the Initiative with the fifth round of the exercise now underway. In January 2017 just over 8,500 matches were released to the 11 councils, around 600 of which were recommended matches to be prioritised for investigation.

3.32 There is no requirement to investigate all matches. Councils should adopt a risk based approach, focus on high risk matches and should not continue investigations when no fraud or error is being found. Councils have until early 2018 to complete any planned investigation work.

3.33 The Comptroller and Auditor General for Northern Ireland is due to publish the report on the current NFI exercise in mid 2018.

¹³ 'Whistleblowing in the Public Sector: A good practice guide for workers and employers', November 2014.

Part Four:
Significant themes arising from Reports to those
Charged with Governance



Part Four:

Significant themes arising from Reports to those Charged with Governance

- 4.1 The Report to those Charged with Governance (RTTCWG) details key issues arising from the audit process including weaknesses in internal controls and the actions agreed by management to address these control deficiencies.
- 4.2 I note below a number of common themes in control weaknesses. Some of these themes have been disclosed by councils within their annual governance statement (see **paragraph 3.6**).

Figure 15: Common themes in RTTCWG

Theme	Number of Councils
Prompt payment performance (see para 4.3)	9
Property, plant and equipment (see para 4.4)	7
Procurement/contract management (see para 4.5)	8
IT issues (see para 4.6)	5
Bank and cash (see para 4.7)	4
Incomplete declarations of interest (see para 4.8)	4
Income (see para 4.9)	4
Management accounts (see para 4.10)	2

- 4.3 As a result of UK and EU legislation, all public bodies are required to pay suppliers for goods or services received within 30 days of receiving an undisputed invoice. Paying within this timeframe is regarded as 'prompt payment'. Poor prompt payment performance has been raised as an issue in 9 of the 11 councils with the worst performance for payment within 30 days of receiving invoice being 63% at Ards and North Down Borough Council.
- 4.4 Property, plant and equipment included incidences of the following key custodial control matters:
- inventories of title deeds being incomplete/insufficiently detailed;
 - multiple fixed asset registers still in operation from the legacy councils instead of one consolidated fixed asset register. Due to the sheer size and complicated nature of some of these spreadsheets, on occasions it could be difficult to easily understand individual asset movements; and
 - no physical existence tests for assets performed in year.

4.5 Key points raised in respect of procurement/contract management included:

- council's own procurement procedures not being adhered to e.g. incidences of purchase orders being raised after receipt of invoice/goods, an individual authorising a payment despite not having the delegated authority required and also no contracts in place despite significant spend in the year;
- a contracts database being incomplete; and
- contracts extended beyond expiry date without being re-tendered.

Financial implications arising from weak procurement processes and contract management include the potential of overpaying e.g. due to not tendering to obtain the best price or non delivery.

In addition the following issues were identified as a result of a review undertaken by separate councils following contact by individual whistleblowers:

- There was an incorrect award of tender; the successful tender was £53k, which was £26k higher than the firm that should have been appointed. Our recommendations included that this council should review its procurement procedures and consider an independent investigation into this issue and a validation audit of other procurement exercises.
- Council did not check the information provided by the supplier to corroborate whether this supplier owed Council any commission. Further it was only after five years that Council discovered that it had not been collecting its annual franchise fee.

4.6 IT issues included:

- lack of documentation of formal IT Strategy/IT Policy, including procedures for:
 - administration of IT security;
 - review of audit logs which record system changes; and
 - allocation of appropriate access rights to each user account.
- non documentation of system configuration changes/updates including testing of these;
- no up to date IT risk register; and
- a significant number of staff with system administration rights.

Part Four: Significant themes arising from Reports to those Charged with Governance

4.7 Issues in respect of bank and cash, included:

- un-reconciled differences;
- a number of councils did not always complete bank reconciliations on a monthly basis nor ensure that these were independently reviewed; and
- a number of legacy bank accounts remained open despite not being used.

A review of bank account reconciliations is important to ensure that the systematic payment/receipt of transactions appears satisfactory and also that any unexplained differences are appropriately investigated and corrected.

4.8 For a number of councils, declarations of interest may be incomplete as there was no formal process to ensure that all annual declarations of interest are received from both Councillors and senior officers.

4.9 Income issues included:

- absence of high level monitoring controls over the completeness of income at outstations – we recommended that monthly/annual reasonableness checks for completeness of income could be performed by reference to say users/occupancy for a number of income areas e.g. leisure/caravan parks/markets/community centres;
- neither stock-takes nor gross profit margin reports being prepared for several external sites e.g. shops; and
- non documentation of income procedures.

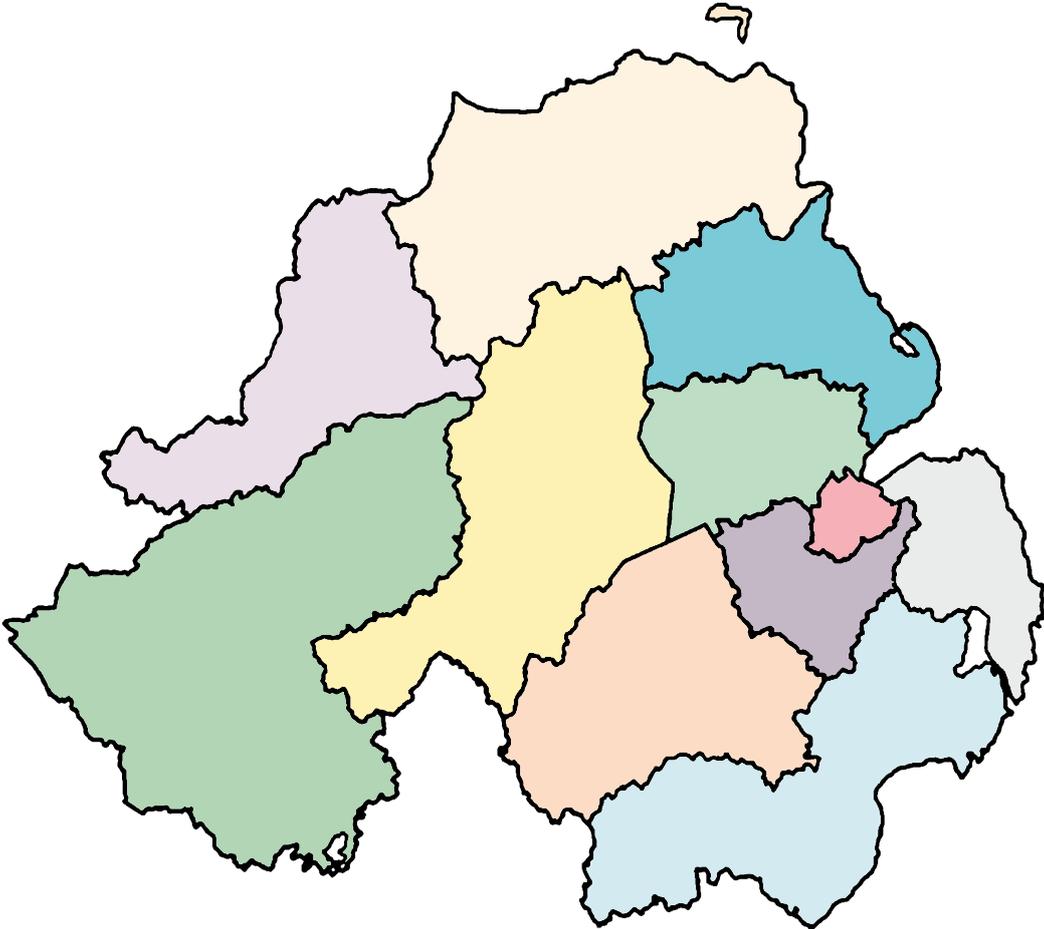
4.10 Monthly management accounts are an important high level financial control to assist in monitoring actual spend/income as against budgets and also identify spend/income anomalies. I noted incidences of:

- management accounts not being prepared on a monthly basis; and
- no formal report accompanying the management accounts to provide detailed explanations of variances.

4.11 Other important control issues raised for specific councils, which have not been covered above or elsewhere within my report, include:

- the financial closure provision for a landfill site may not be reliable as the final closure plan has not yet been received from the consultants; and
- a lack of work on risk management including maintaining and updating the risk registers and Director assurance statements. Indeed the risk management policy for one council was only approved just before the year-end, that is on 7 March 2016.

Part Five:
General Matters



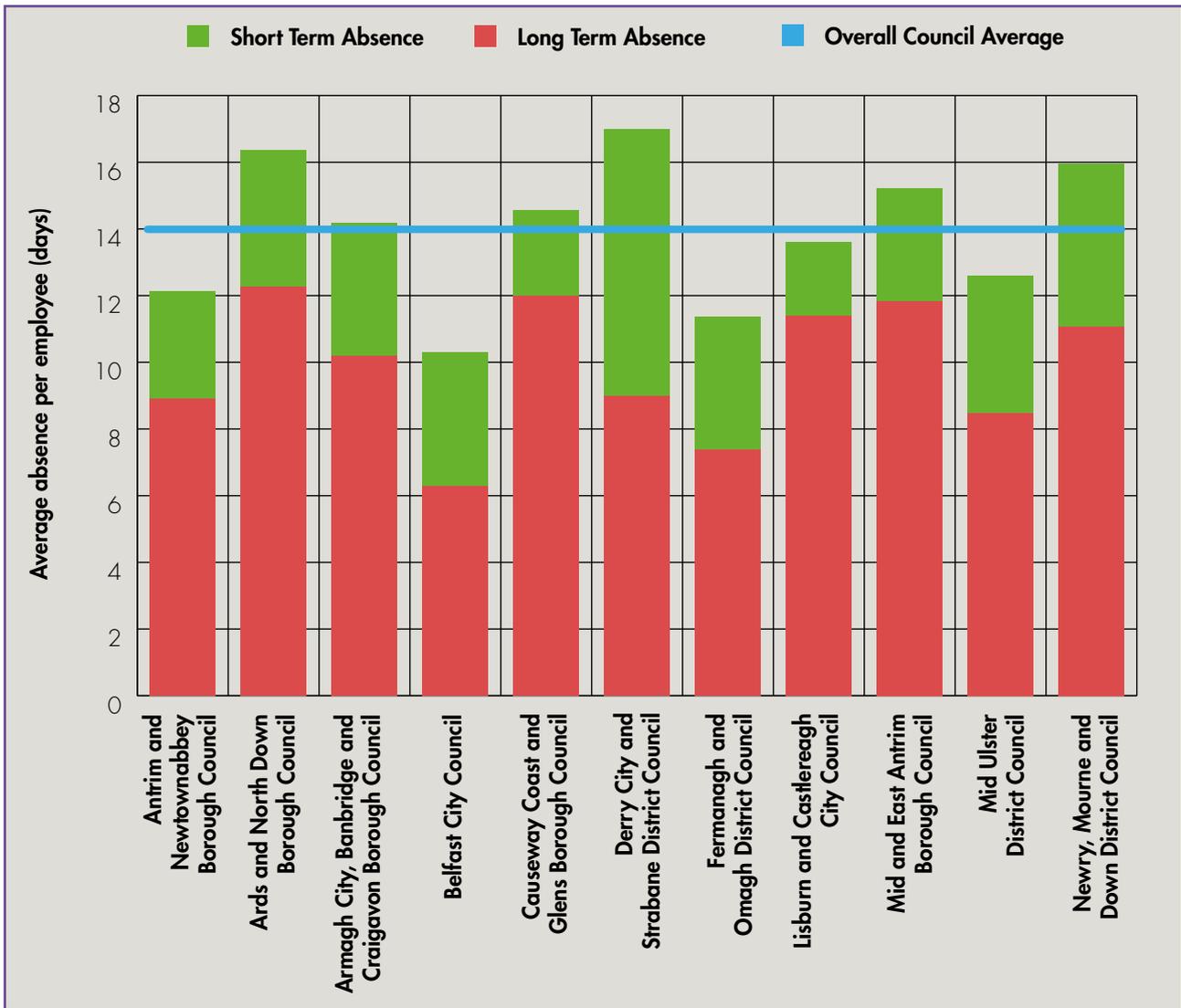
Part Five: General Matters

- 5.1 Following the conclusion of the audit of council accounts, I provide a report to those charged with governance (see **Part Four**) and an annual audit letter. These detail the results of my audit and the actions agreed by management to address the issues raised.
- 5.2 A council is required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 to publish the annual audit letter "as soon as reasonably practicable after receipt of the 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. In my new local government Code of Audit Practice 2016 which applies from the 2015-16 financial year, I have set out that I may publish council annual audit letters on the NIAO website to enhance the transparency of public reporting.
- 5.3 In my previous reports, I have identified several common themes brought to my attention during the audits of councils, for example procurement and contract management. Some of these themes have been disclosed by councils within the annual governance statement (see **paragraph 3.6**) and are also commented upon in my reports to those charged with governance (see **Part Four**).
- 5.4 There are several on-going matters that, once finalised, I plan to comment upon in my 2018 report. This year the only matter I will briefly mention is absenteeism.

Absenteeism

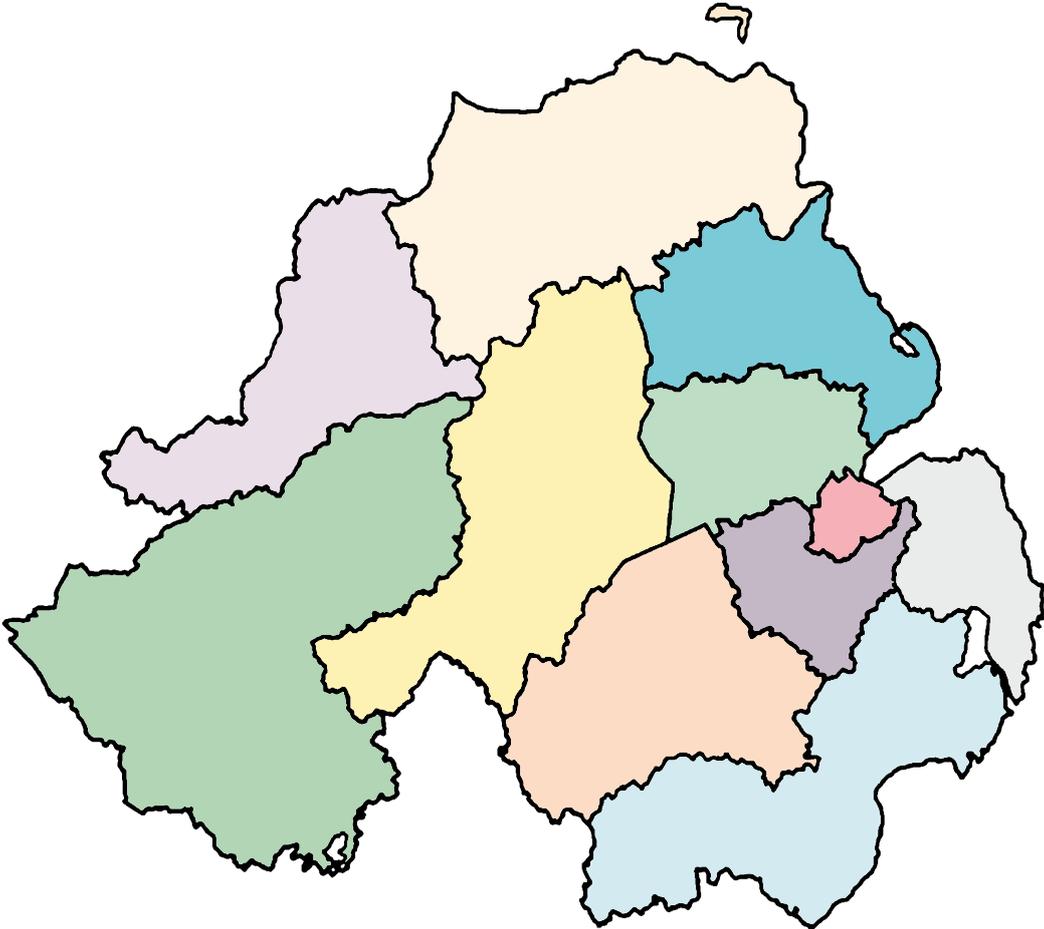
- 5.5 This year will be a baseline year for the 11 councils going forward; which will enable more meaningful comparison of absenteeism levels between individual councils in my 2018 report.
- 5.6 In 2015-16 the average sickness absence rate for the 11 new councils was 13.93 days a year. This has increased from 12.32 days in 2014-15 for the previous 26 councils.
- 5.7 This year there is a significant range in the number of days lost per employee across the different councils. Belfast City Council recorded the lowest number of days lost, at 10.3 days per employee, while Derry City and Strabane District Council recorded the highest, at 17 days per employee.
- 5.8 It is important that the new councils rigorously manage absence to ensure that staff welfare is protected and that the delivery of front line services is not adversely affected. I will keep under review the benefits of and potential for a further more detailed study on this subject.

Figure 16: Councils' average sickness absence rate 2015-16



Source: Northern Ireland council data (unaudited)

Part Six:
Performance Improvement



Part Six: Performance Improvement

Background

- 6.1 The performance improvement framework places a statutory responsibility on councils to make arrangements for, and report on, continuous improvement in their functions or services. Improvement, in the context of the legislation, means more than just quantifiable gains in service output or efficiency, or the internal effectiveness of an organisation. Improvement for councils should mean activity that enhances the sustainable quality of life and environment for ratepayers and communities.
- 6.2 The framework also places a statutory responsibility on me to conduct an 'improvement audit and assessment' each year and report my findings. The councils and I are required to comply with the relevant legislation, as well as the supporting statutory guidance issued by the Department for Communities.
- 6.3 2016-17 was the second year of the three-year phased implementation of the performance improvement framework at the 11 councils. Improvement audits and assessments are performed in-year, whilst financial audits are performed retrospectively. The 2016-17 improvement audit and assessment built on the reduced number of arrangements which councils were required to put in place to deliver continuous improvement in the 2015-16 'introductory' year.
- 6.4 In the introductory year (2015-16) councils were required to consult, select and publish at least one performance improvement objective. I audited these requirements and considered whether councils had plans and timetables in place to develop and progress their performance improvement objective(s). I was content that, with the exception of one council which did not have a satisfactory plan and timetable in place, all councils had met these requirements in 2015-16.

Key observations and messages in 2016-17

- 6.5 In 2016-17 councils were required to select improvement objectives and publish annual performance improvement plans. These set out, for each council, its improvement objectives and how they plan to achieve them. Underlying this, councils were required to put arrangements in place to deliver each objective, as well as collect data and information which would enable them to report on improvements made, as well as identify further opportunities for improvement. Councils were also required to look back to the 2015-16 year and report whether they had met each of the performance standards and indicators set by central government. These related to planning, waste management and economic development.

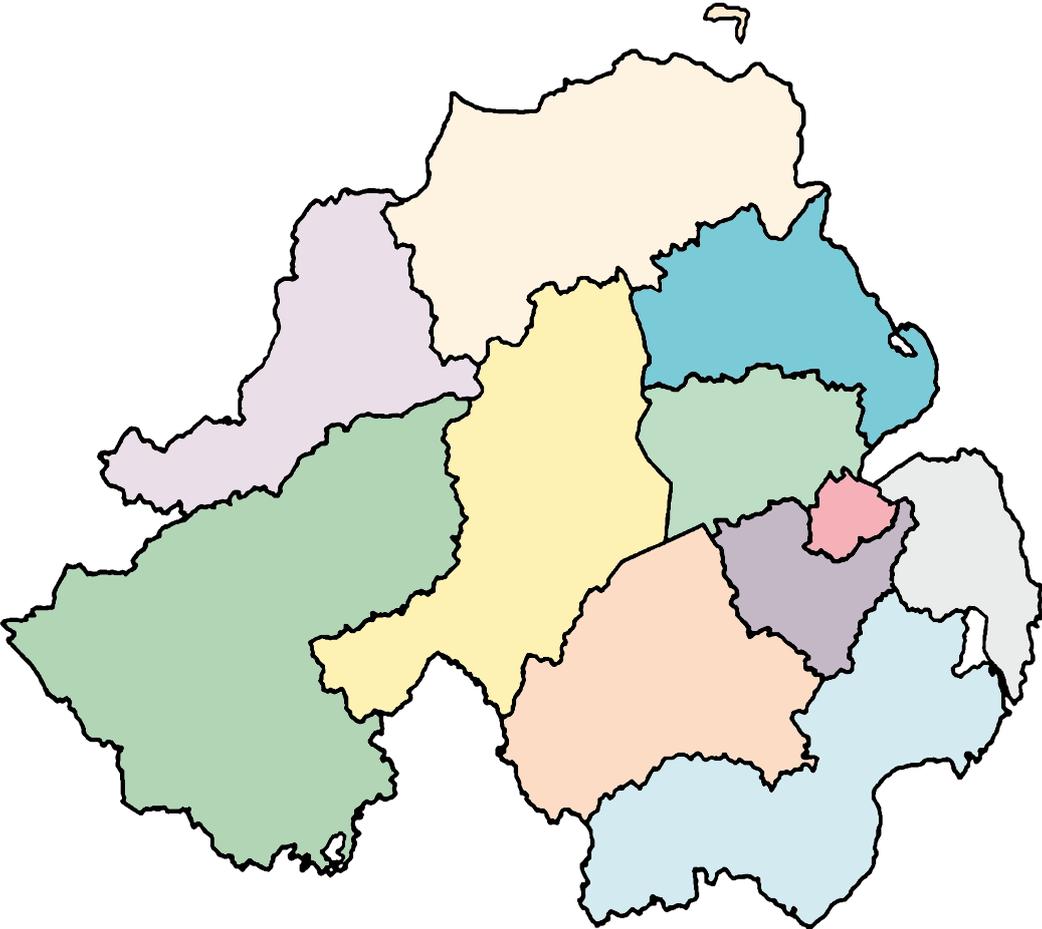
- 6.6 I was required to assess and report on whether each council:
- had discharged its duties in relation to improvement planning;
 - published the required improvement information;
 - had acted in accordance with the Department's Guidance in relation to those duties; and,
 - was likely to comply with the requirement to make arrangements to secure continuous improvement in the exercise of its duties.
- 6.7 Detailed findings were reported to each council as well as the Department in November 2016. Summaries of findings for each council were later published on the NIAO website on 31 March 2017. All of the councils met their responsibilities in relation to their improvement planning, and publication of improvement information. As 2016-17 was the first year in which councils were required to implement the performance improvement framework, their arrangements to deliver their improvement objectives were at an early stage of development and implementation. This was to be expected at this stage of the overall process. Whilst each council had begun to establish arrangements to secure continuous improvement for 2016-17, it was too early for them to demonstrate, or for me to determine, the extent to which improvements were being made for 2016-17.
- 6.8 Each of the councils reported on the outturn of their performance indicators and standards. All achieved the single economic development standard, whilst eight achieved all three waste management standards. Only one council achieved the three planning standards. Those councils which did not meet all of the waste management and planning standards achieved either one or two of them.
- 6.9 Whilst all councils received the same overall assessment, they were each at different stages of preparedness, with a small number of councils at a more advanced stage than the rest. I anticipate that, with sufficient resources, arrangements to deliver improvement at all councils should begin to mature over time. I did not undertake any special inspections or recommend formal intervention by the Department.
- 6.10 Councils have a wide degree of discretion on their performance improvement arrangements within the overall statutory framework and consequently audit work was focused primarily on compliance with the legislation and guidance, and on identifying and sharing emerging good practice. I have provided feedback to each council on how their arrangements could be improved.

Part Six: Performance Improvement

Looking forward

- 6.11 2017-18 will be the third and final year of the phased implementation of the performance improvement framework. A requirement this year is that councils report publicly on any improvements made and, where relevant, compare themselves against previous years' performance. I will assess and report on this additional requirement. Councils will need to be able to demonstrate that they have arrangements to collect the relevant information, and data to support any claims of improvement. I anticipate that some councils may find this challenging in the first few years.
- 6.12 Some councils may also have difficulty demonstrating improvements later this year, either because their 2016-17 improvement objectives were very strategic and foundational in nature and/or they did not clearly set out in their plans how improvements will be demonstrated and/or measured. I will keep all of these potential issues under review in my future improvement assessments and report on developments next year.
- 6.13 A further additional requirement from this year is that, so far as is practicable, councils must report their performance against other councils in the exercise of the same or similar functions. Due to the absence of an agreed framework, councils will only be in a position to compare their statutory performance indicators and standards. I consider that until an agreed framework is in place to support non-statutory indicators and standards, this requirement will be very difficult to achieve. However, I am encouraged that councils will be working together and with the Department, with a view to developing such a framework to facilitate such comparisons. This should assist them in reporting the results to citizens and other stakeholders in the future.

Part Seven:
Looking Forward



Part Seven: Looking Forward

- 7.1 **New Executive:** Following the election in March 2017, there are now 90 MLAs rather than 108. As at the date of publication, there was no Executive in place with the consequence that no central government budget for 2017-18 year had been agreed. This could have an impact on local government funding from central government. Further any uncertainty of funding may result in delays in launching schemes/incurred expenditure and is likely to have an implication on service users within councils.
- 7.2 **New Programme for Government:** The Minister for Communities announced on 22 November 2016 that urban regeneration and community development will no longer transfer to local government as originally planned. Instead the draft Programme for Government 2016-2020 sets out a vision of both central government and local government working together within their respective legislative frameworks to create more vibrant places with more employment opportunities and better housing, addressing poverty and improving the quality of people's lives.
- 7.3 **Impact from Local Government Reform:** The expectation is that councils:
- will begin to achieve some further cost efficiency savings as the Review of Public Administration beds in and voluntary exit schemes are completed. (This is further discussed in **Part Two**);
 - may experience some further changes to staff structures;
 - will find it challenging to optimise estate planning and disposal/utilisation of buildings which are currently either vacant or not fully occupied;
 - will continue to review whether there should be more centralisation of functions to one council site e.g. if we consider finance, for some councils various aspects of finance e.g. payroll/payables and receivables are still dispersed over various legacy council sites; and
 - will have to consider when they can take steps to address the impacts of legacy council staff transferring to the new council under TUPE. As staff transferred under their legacy council terms and conditions of employment then council is faced with the challenge of some staff who all perform similar work, being subject to slightly different pay and employment terms.
- 7.4 **Community Planning:** Community planning is a new responsibility for councils and is designed via a long term plan, to improve the lives and wellbeing of residents throughout the council area. It involves working with a wide range of partners including community and voluntary sector, education, health, Police Service of Northern Ireland and Tourism Northern Ireland. At the time of publication of this report, a number of councils had published their community plans. The Local Government Act (NI) 2014 requires that within two years of the plan being published, the council must publish a statement on outcomes achieved and actions taken;

further, the council and its community planning partners must carry out a review of the plan before its fourth anniversary. Whilst I have no statutory duty in relation to a council's community planning responsibility, as part of my performance improvement duties (**Part Six**), I am required to assess and report on whether a council's improvement objectives have links to its community plan. It is therefore important that all councils have their community plans published as soon as possible.

7.5 **Brexit:** There is uncertainty for local government following the referendum to leave the European Union. This may have significant impacts for local councils in Northern Ireland, particularly those close to the border with Republic of Ireland, both in terms of legislation changes and possible loss of EU funding streams. I note that the border councils have begun discussions with cross-border bodies to consider the impact of Brexit.

7.6 **Consultation on Revised Northern Ireland Local Code of Conduct for Councillors**
One of the representations is that the Code's principles should be revised to be aligned with those applying to MLAs. The deadline for comments on the consultation document was 28 February 2017. The Department for Communities is currently evaluating the feedback received.

7.7 **Financial Statements**

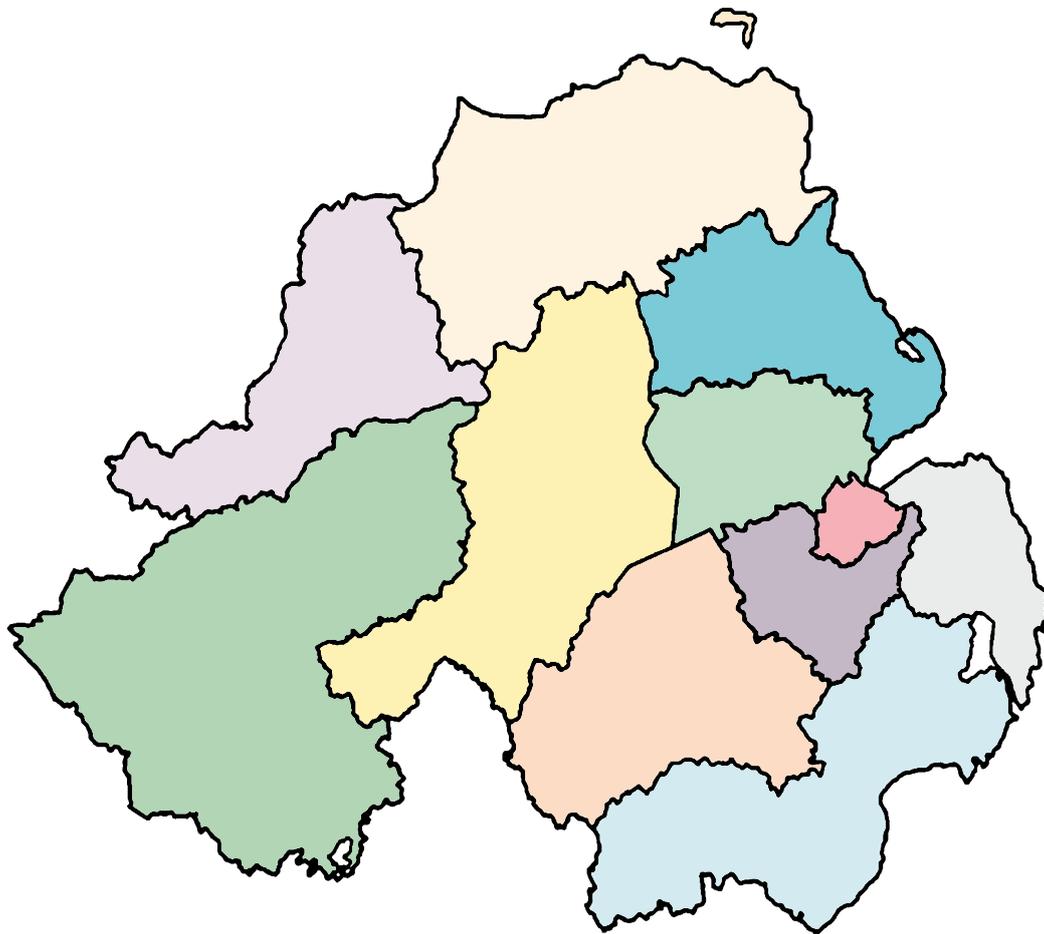
7.7.1 **Telling the Story** – While councils will not have to prepare their 2016-17 financial statements to be in line with a new proposed "Telling the Story" format for the accounts, they will be required to prepare for the implementation of the new reporting requirement in the 2017-18 financial statements.

One of the key aspects of this new proposed format is to record income and expenditure in line with cost centre headings in the management accounts e.g. by directorate/head of service headings. A perceived benefit of this new format is that by stream-lining presentation, key financial messages should not be obscured by too much detail. In turn, this should assist users' understanding of the accounts and potentially facilitate better decision making.

Councils will have to ensure that they have the necessary procedures in place to ensure that the 2016-17 figures can be re-analysed into this new format for comparative purposes in the 2017-18 financial statements and also that the internal reporting results can be reconciled to the statutory accounts.

7.7.2 **Revaluation of Land and Buildings** – due to new accounting rules, 2016-17 is likely to be the last year of proportionate restatement of land and building values by way of the application of indices. Due to the time needed to undertake valuations, this year councils should ensure that they have appropriate procedures in place to ensure that the required level of valuations can be performed for the 2017-18 accounts. Considerations will include a full revaluation/rolling revaluations.

Appendix 1:
Potential Lessons from central government
Value for Money reports 2016-17



Appendix 1: Potential Lessons from central government Value for Money reports 2016-17

When considering the adequacy of existing governance arrangements, it is also important for councils to consider governance findings from other published sources and evaluate whether their existing internal controls are sufficient to address any key issues arising from these sources, or alternatively whether current controls/risk registers should be enhanced. Such report findings may also be useful when considering the statutory performance improvement responsibilities and also when considering whether proper arrangements have been made for securing economy, efficiency and effectiveness.

A useful source is the value for money reports published by the Comptroller and Auditor General, who is the head of the Northern Ireland Audit Office. He has the statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which departments and public bodies use their resources. During 2016-17 there were a number of findings in his reports which either do, or may, apply to the councils. I have tailored findings to local government circumstances, and would encourage councils to consider these issues.

National Fraud Initiative: Northern Ireland

The National Fraud Initiative (NFI) is a major two-yearly data matching exercise in which all local councils participate. It helps public bodies identify potentially fraudulent and duplicate transactions using sophisticated computer based data matching techniques. The NFI provides participating organisations with valuable management information which they would not otherwise be able to access. Powers to data match were inserted into the Audit and Accountability (Northern Ireland) Order 2003 by the Serious Crime Act 2007. Given that councils received their fifth round of matches from this exercise in January 2017, then the findings from this report should be considered:

- There is no requirement to investigate all matches. Over-investigation of matches is an issue on which resources and time can be wasted; the levels of investigation should be guided by fraud risk assessments and key local fraud risk knowledge.
- There is evidence that many organisations are not reading and responding to shared comments; effective communication would add value to the project.
- The NFI investigation plan should be approved by the Audit Committee before work commences.
- NFI results should be used to inform Internal Audit Plans.

Northern Ireland Public Sector Voluntary Exit Scheme

The findings of this report will have particular interest for local government in light of the reorganisation and restructuring of councils, where similar projects have recently been completed or are on-going. Key messages included:

- The potential impact on staff skills and morale needs to be closely monitored.
- Early departure schemes should be driven by long term organisational needs rather than immediate budgetary concerns.
- The government body responsible should continue to monitor and review the value of savings generated to offset the initial costs of compensation. Bodies should continue to monitor the sustainability of savings, for example as regards payroll savings, councils should review whether paybill costs have been displaced into other categories of spend such as consultancy or agency costs.

Contracted Training Programmes

This report contains guidance on effective programme management which is relevant to councils interaction to, for example rural development programmes, economic development programmes or Active Aging programmes. The key finding from this report was that the programme had no mechanism for adequately reporting overall performance against key targets and this lack of performance reporting makes it difficult to judge if programme objectives and value for money were achieved.

Managing Legal Aid

Two recommendations from this report which should be useful to councils as they complete their restructuring are:

- Benchmarking can play an important role in improving efficiencies. In this report it was noted that, when contrasted with England and Wales, there are significantly more cases requiring two legal counsels in Northern Ireland. While local councils are likely to benchmark against each other, we recommend that, as in this report, wider benchmarking outside Northern Ireland should also be considered e.g. against relevant spend/income categories in other UK councils/other bodies, including those in the Republic of Ireland.

Appendix 1: Potential Lessons from central government Value for Money reports 2016-17

- The arrangements for the appointment of expert witnesses need strengthened and consideration should be given to whether expenditure should be approved in advance. We suggest that councils should satisfy themselves that their current arrangements for the appointment of external professionals and consultants in respect of both revenue and capital spend are satisfactory and in line with their procurement policy.

The Rivers Agency: Flood Prevention and Management

Due to their local nature, councils are very much aware of preventing and managing flood risk in Northern Ireland and have powers for emergency planning under the Local Government (NI) Order 2005. This report was broadly positive on the measures that are being taken by the Rivers Agency. Recommendations that councils should be aware of included:

- The use of online technology should be reviewed to assess its best use to meet public need.
- The number of multi-agency groups involved in flood and water management may be too large for a co-ordinated approach and streamlining where possible is advised.
- There should be a routine review of programme management information to ensure it meets needs, provides detail and considers potential improvements.
- Local councils should be aware of the need to consider the risk of flooding when deciding on planning applications.

In the last five years the Rivers Agency has invested nearly £33 million in the construction of new flood defence assets. However, the majority of projects finished either late, over budget or both. The Rivers Agency has made recommendations on how to improve their delivery and value for money. The Rivers Agency recommendations are important considerations for councils as they seek to optimise value for money and exercise robust project management of their capital projects, including delivery on time and within budget.



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