



Annual Audit Letter

Issued by the Local Government Auditor



Derry City Council

2014-15

To the Members of

Derry and Strabane District
Council

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Contents

1.	Introduction	3
	Local Government Reform	3
2.	Financial Statements	5
	Summary of Audit Findings	5
	Financial Performance.....	6
3.	Governance.....	8
	Annual Governance Statement	8
	Internal Audit.....	9
	Audit Committee	10
4.	Proper arrangements.....	11
5.	Other Audit Work	12
	Absenteeism	12
	Joint Committees.....	12
6.	Closing Remarks.....	13

1. Introduction

I have been designated the Local Government Auditor for Derry City Council by the Department of the Environment with the consent of the Comptroller and Auditor General for Northern Ireland.

As an auditor independent of the audited body, I seek to examine that the body has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for.

This report provides a summary of the findings from my 2014-15 audit. The audited body no longer exists due to the implementation of Local Government Reform from 1 April 2015 so the report is issued to the Members of Derry and Strabane District Council which is the relevant successor council.

Local Government Reform

Under the Local Government Act (Northern Ireland) 2014 (The Act) the number of local councils in Northern Ireland reduced from twenty six to eleven on 1 April 2015. Derry City Council was amalgamated together with Strabane District Council into Derry and Strabane District Council.

The Act now forms the legislative framework for Northern Ireland's eleven councils. This includes how decisions are made, how positions of responsibility are shared across political parties, how improvements in the delivery of council functions can be achieved to reflect the needs of local communities, and how effectively and efficiently council services are delivered to people. It provides for statutory governance in councils and introduces a new ethical standards framework which includes a mandatory code of conduct for councillors.

Every aspect of the governance, management and provision of local government services has been impacted. The new councils have now taken the lead in community planning and are expected to deliver high quality services in an effective and efficient manner under a new performance improvement framework. Powers such as planning have transferred from central government to the new councils. The Act also sets out arrangements for the transfer of staff, assets and liabilities to the new councils.

The Local Government (Transitional, Supplementary, Incidental Provisions and Modifications) Regulations (Northern Ireland) 2014 made transitional provision with respect to local government reorganisation including positions of responsibility within the new council for the winding up and final accounts of existing councils.

Derry and Strabane District Council struck the 2015-16 rates and approved business and financial plans in advance of 1 April 2015. As Derry and Strabane District Council was operational to a limited extent during the 'shadow' period, I am required to audit the accounts of this body for the 2014-15 period. This is the subject of a separate letter to the Audit Committee.

As well as additional audit work required in relation to the new councils operating in shadow form and the audit of statutory transition committees in the transitional year of 2014-15, the Act provides that I will undertake improvement audits and assessments each year for each of the new councils. These will specifically entail:

- undertaking improvement audits, to review whether councils have discharged their duties for publishing improvement planning and performance information;
- carrying out improvement assessments, to determine whether councils are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
- reporting on improvement audit and assessment work.

In preparation for this extra work I have been engaging with relevant external stakeholders. I have established a team to manage and develop a best practice audit approach and methodology which will enable my staff to carry out their work with independence, integrity and objectivity, in accordance with the key principles set out in my 'Code of Audit Practice'.

2. Financial Statements

Summary of Audit Findings

Derry City Council

The accounts of Derry City Council must be prepared in accordance with International Financial Accounting Standards as interpreted for Local Government in the 'The Code of Practice on Local Authority Accounting in the United Kingdom'. This code sets out the accounting treatment and disclosures for all normal transactions of local authorities.

The financial statements were signed by the Chief Financial Officer of Derry and Strabane District Council on 29th June 2015. This is within the statutory timeframe of 30th June. Following the audit, the accounts were re-signed on 26th October and published on the website of Derry and Strabane District Council on 30th October 2015 in accordance with the regulations.

For the year ended 31 March 2015 I gave the following unqualified opinion on the financial statements.

In my opinion

- the financial statements give a true and fair view, in accordance with relevant legal and statutory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15, of the financial position of Derry City Council as at 31 March 2015 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 and the Department of the Environment directions issued thereunder.

At the end of the audit I issued a Report to those charged with Governance, addressed to the Chief Executive of Derry and Strabane District Council, on the results of the audit, noting the most significant issues, making recommendations and seeking comments. That report is presented separately to your Audit Committee.

The Derry and Strabane District Statutory Transition Committee

The Derry and Strabane District Statutory Transition Committee (STC), consisting of 8 members from each of Derry City and Strabane District Councils, was formed through regulation¹ to ensure that Derry and Strabane District Council was able to adopt its full range of powers and functions from 1 April 2015. The STC was set up to gather information, consider and advise on matters relevant to moving to the new Council, to prepare a draft budget and to prepare a draft corporate and business plan. The other regulatory role of the STC was to appoint a clerk of the new Council, as well as any other staff it deemed appropriate. Under regulation the STC ceased to exist on 19 June 2014, following the election held in May 2014 to determine the Members of the new Council.

The STC was a statutory local government body and I therefore had responsibility to audit its financial statements, in accordance with the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice. I gave an unqualified opinion on the 2014-15 financial statements of the Derry and Strabane District STC.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Derry City Council shows that during the year ended 31 March 2015 the Council spent £55.61m on the provision of services. It also received income of £52.66m

Further the major areas of expenditure by service cost were:

- | | |
|------------------------|-----------------------------------|
| • Recreation and Sport | £12,693,508 (2013-14 £10,241,389) |
| • Culture and Heritage | £5,202,685 (2013-14 £16,060,248) |
| • Waste Disposal | £4,965,947 (2013-14 £4,403,032) |
| • Waste Collection | £4,297,238 (2013-14 £4,331,216) |

The major areas of income were:

- £36,452,554 or 69.22 per cent was received in respect of district rates with a further £5,266,256 or 10.00 per cent in respect of capital grants and contributions and £2,958,739 or 5.61 per cent from revenue grants.

At 31 March 2015 Derry City Council had net non-current assets of £139,533,346 (Group £140,664,457). The majority of these non-current assets are in the Land and Buildings category. Total loans outstanding were £46,516,555.

¹ The Local Government (Statutory Transition Committees) Regulations (Northern Ireland) 2013

At 31 March 2015 Derry City Council had usable reserves of £17,607,475 (Group £17,638,723) as set out in the table below.

Usable Reserve	Council £	Group £
General Fund	2,581,152	2,612,399
Capital Receipts	396,887	396,887
Capital Fund	4,660,401	4,660,401
Capital Grants Unapplied	6,429,545	6,429,545
Renewal and Repairs Fund	2,038,222	2,038,222
Other balances and reserves	1,501,269	1,501,269
Total	17,607,475	17,638,723

Legislation² placed a duty on the Chief Financial Officer to make arrangements for the proper administration of Derry City Council's financial affairs, including the submission to the Council of a report on the adequacy of any proposed financial reserves. The Chartered Institute of Public Finance and Accountancy (CIPFA) and its Local Authority Accounting Panel (LAAP), which includes representatives from UK local authorities and audit institutions, provide guidance on finance and accounting issues relevant to councils. Specific guidance on financing capital expenditure and the establishment and maintenance of local authority reserves and balances is included in both the CIPFA Prudential Code³ and a recent LAAP Bulletin⁴.

² The Local Government Finance Act (Northern Ireland) 2011

³ The Prudential Code for Capital Finance in Local Authorities (2011 Edition)

⁴ LAAP Bulletin 99 *Local Authority Reserves and Balances*, July 2014

3. Governance

The Good Governance Standard for Public Services⁵ sets out the following key principles of good governance. Good governance means

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

Annual Governance Statement

The Derry City Council is required to conduct a review at least once in a financial year of the effectiveness of its governance framework (including its system of internal control) and to then approve an Annual Governance Statement⁶.

I am required to report if the Annual Governance Statement

- does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15;
- does not comply with proper practices specified by the Department of the Environment; or
- is misleading or inconsistent with other information I am aware of from my audit.

I have no inconsistencies to report as a result of my review.

⁵ The Good Governance Standard for Public Services, OPM and CIPFA, 2004

⁶ Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08

The Council noted the following significant governance issues in its Governance Statement.

Governance Issue	Proposed action
<p>Local Government Reform –</p> <ol style="list-style-type: none"> 1. Adequacy of the transferring functions grant. 2. Transfer of data. 	<ol style="list-style-type: none"> 1. In relation to the adequacy of the transferring functions grant this has not had an impact on Derry and Strabane District Council for the year 2014/2015; however is a significant financial risk for Derry and Strabane District Council. The risk has been quantified and Council has made a number of representations and will continue to do so to Central Government in relation to addressing this issue. 2. In relation to the transfer of data a significant amount of work was carried out during 2014/2015 to ensure a seamless transition at 1st April 2015. From a financial perspective new banking arrangements are in place, financial systems have been agreed with appropriate back up arrangements in place. Work is currently ongoing in all areas to ensure that all data is transferred correctly.
<p>Clipper Project.</p> <p>The original budget anticipated securing of sponsorship and regional government support however this did not materialise to the expected levels. As a result this has caused a shortfall in the budget.</p>	<p>Senior Management has identified other potential sources of funding to bridge the gap and underwrite the forecasted shortfall. This has been presented and approved by Council in June 2015.</p>
<p>The Internal Audit Section was involved in two significant investigations during 2014/2015:</p> <ol style="list-style-type: none"> 1. Attempted fraud on Council. 2. Allegations made re procurement activities. 	<ol style="list-style-type: none"> 1. In February 2015 there was an attempt to defraud the Council of a significant sum of money through false representation by amendment of supplier's bank details. Council recovered this money but has subsequently strengthened the internal controls in place to mitigate against this risk in future. 2. During the year Derry City Council received a complaint from a contractor in respect of procurement matters. Subsequently another contractor also made a number of procurement allegations. An investigation team set up by the Chief Executive has carried out an investigation into these issues, has kept the Audit Office informed and the process is ongoing. <p>In addition to this Internal Audit has completed a systems report and made a number of recommendations to address weaknesses identified. Action plans are in place to ensure that all the recommendations are implemented in a timely manner.</p>

There were a number of high scoring strategic risks facing Council at the end of March 2015.	All risks identified during the risk management process are subject to continuous monitoring and review. Action plans are in place for all high scoring risks and these are reviewed and monitored continuously to ensure that they are being implemented. Risk Management is reported quarterly to Management Team and to the Audit Committee. In addition to this, Internal Audit have a system in place of Risk Based Auditing – essentially meaning that all risk registers are subject to audit as the Strategic & Operational audit plans are being delivered.
The NWRWMG Residual Waste Project was abandoned during 2013/2014. In common with other Councils in Northern Ireland, there is a continuing risk that the Council would incur fines for non-achievement of Waste Management targets.	Derry City Council are continuing to take all appropriate measures to address this risk and to demonstrate that the Council is making ‘Best Endeavours’ both individually and in collaboration with the NWRWMG to secure adequate waste treatment infrastructure facilities.
Internal Audit Report – Limited Assurance: • Property Management – the main recommendations related to systems, procedures, management of 3rd party service providers and work orders.	Internal audit recommendations, agreed with Management, to be implemented within agreed timeframes. Follow up audit to be completed during 2015/2016.
Implementation of the remaining aspects of the Single Status Agreement.	Management are working closely with Trade Unions to ensure successful implementation of a number of ongoing Single Status matters.

Internal Audit

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires councils to maintain an adequate and effective system of internal audit and to conduct a review at least once in a financial year of the effectiveness of its system of internal audit. Derry City Council Council had an in-house Internal Audit Department. A review of the effectiveness of the system of internal audit was carried out during 2014-15 by the Council and the findings of the review were considered by the Audit Committee.

Audit Committee

It is essential that Members exercise effective scrutiny of the internal control processes and procedures in place within the Council. One way that Members carry out this function is through the Audit Committee. The Audit Committee of Derry City Council met 5 times in the year and the agenda items included

- NIAO audit reports;
- internal audit reports;
- risk register review; and
- other relevant business.

4. Proper arrangements

Legislation requires me to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources⁷.

My review of Derry City Council's arrangements for securing value for money can cover the following ten areas which are referred to in my Code of Audit Practice.

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

For 2014-15, I examined the areas of Financial Planning, Procurement and Asset Management based on my risk assessment of the Council.

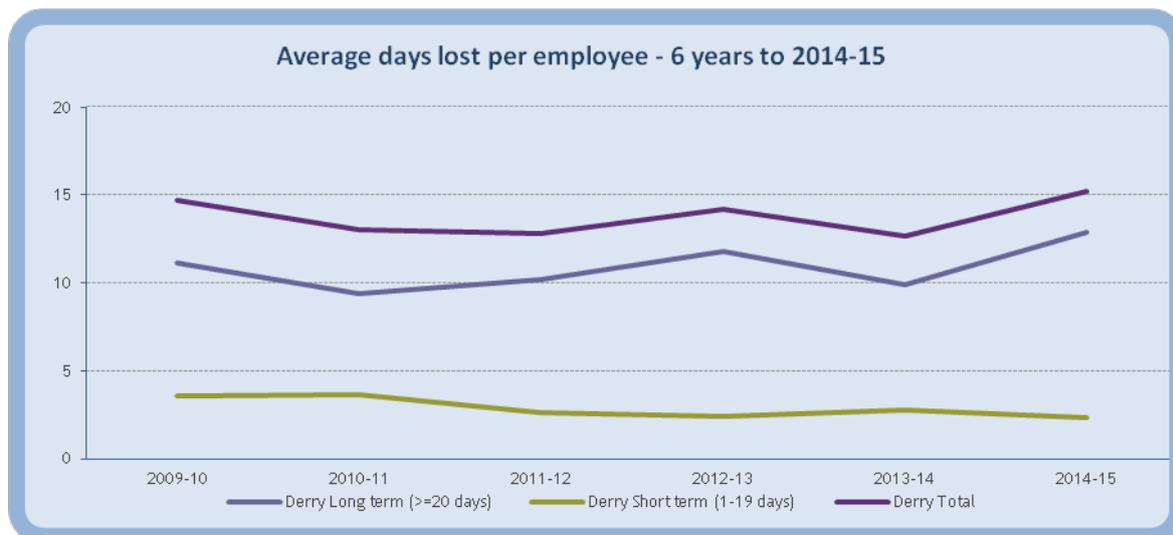
On the basis of my work I am satisfied that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.

⁷ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The 2014-15 absenteeism figure for Derry City Council is 15.21 days. This represents an increase of 2.57 days on the previous year. The Council has told me that this is due to increased levels of absence which could be expected and attributed to the significant period of change Council was going through at the time. The trend over the years 2009-10 to 2014-15 is shown below.



Joint Committees

Derry City Council was a member of:

- North West Region Waste Management Group Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £70,154 towards funding the expenditure of the Joint Committee; and
- ARC North West Rural Development Joint Committee which is the delivery mechanism for the Northern Ireland Rural Development Programme 2007-13; and
- North West Peace III Joint Committee under which Peace III and INTERREG IVA funding is available from the Special EU Programmes Body.

Separate accounts have been prepared by the Joint Committees and are audited by me. Separate annual audit letters are issued to each Joint Committee.

6. Closing Remarks

This letter concerning the 2014-15 audit of Derry City Council is addressed to the Members of Derry and Strabane Council and prepared for the sole use of the latter. No responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

The factual accuracy of this Audit Letter has been agreed with the Chief Executive of Derry and Strabane District Council.

Both Derry City Council and subsequently Derry and Strabane District Council facilitated the audit in a positive and constructive way. I would like to take this opportunity to express our appreciation for the assistance and co-operation provided.

This letter will be presented to the Derry and Strabane District Council Audit Committee by my staff. I have also asked the Chief Executive to provide a copy to all Members of the Council.

Louise Mason

Local Government Auditor

22nd December 2015