

October 26th, 2015

Notice Of Meeting

You are invited to attend the Audit Committee Meeting to be held on **Thursday, 29th October 2015** at **2:00 pm** in the **Boardroom District Council Offices Monaghan Row Newry.**

Councillor P Brown

Councillor C Casey

Councillor C Enright

Councillor T Hearty

Councillor D Hyland

Councillor C McGrath

Councillor M Murnin

Councillor P O'Gribin

Councillor G Sharvin

Councillor Tinnelly

Agenda

NOTE: A pre-meeting has been arranged with the Members of the Audit Committee; Internal Auditor (i.e. ASM) and Mr J Campbell Independent Member of the Audit Committee at 1pm in the Boardroom District Council Offices Newry.

1) Mr Campbell is the newly appointed Independent Member of the Audit Committee, as per the Terms of Reference which were agreed at the Finance & Resources Committee Meeting held on 17 February 2015 and which was formally ratified at the Shadow Council meeting held on 3 March 2015.

2) Apologies and Chairmans remarks.

3) Declarations of Interest.

4) Action Sheet - Minutes of Audit Committee Meeting held on Thursday 21 June 2015. (Copy circulated).

[ACTION SHEET June 2015.pdf](#)

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5) Risks associated with EU funded projects. (Copy circulated).

[AC 11 Oct 2015 Report EU Funding Green Tourism.pdf](#)

Page 5

6) Ballyholland Community Centre - Corporate Governance issue. (Copy circulated).

[AC 12 Oct 2015 - Grant for DARD Ballyholland.pdf](#)

Page 7

7) Proposals for Annual Governance Statement 2015-16. (Copy circulated)

[AC 12 Report Annual Governance Statement 2015-16.pdf](#)

Page 8

- 8) **Plan to establish a Risk Management Framework for Newry Mourne & Down District Council. (Copy circulated)**

[AC 10 Report of Risk Management.pdf](#)

Page 20

- 9) **Consultation re: Draft Code of Audit Practice for Local Government Bodies 2016. (Copy circulated)**

[Consultation re Draft Code of Audit Practice for LG Bodies 2016.pdf](#)

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Internal Audit - ASM Limited

- 10) **Internal Audit Progress Report. (Report to follow).**

Item (10) is deemed to be restricted by virtue of Paragraph 3 of Part 1 of Schedule 6 of the Local Government Act (Northern Ireland) 2014 - Information relating to the financial or business affairs of any particular person (including the Council holding that information).

NIAO

- 11) **No agenda items for this meeting.**

Head of Finance

- 12) **Report from R Dowey, Head of Finance re: Finance and Risk. (Copy circulated).**

[Update on Audit issues.pdf](#)

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Training Events

- 13) **Training for Members on Effective Audit and Risk Committee. (Copy circulated).**

[Training for Members.pdf](#)

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Invitees

Cllr. Terry Andrews	terry.andrews@downdc.gov.uk
Cllr. Naomi Bailie	naomi.bailie@nmandd.org
Cllr. Patrick Brown	patrick.brown@nmandd.org
Cllr. Robert Burgess	robert.burgess@downdc.gov.uk
Cllr. Stephen Burns	stephen.burns@downdc.gov.uk
Cllr. Michael Carr	michael.carr@newryandmourne.gov.uk
Cllr. charlie casey	charlie.casey@newryandmourne.gov.uk
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Cllr. Garth Craig	garth.craig@downdc.gov.uk
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Cllr. Laura Devlin	laura.devlin@downdc.gov.uk
Ms. Louise Dillon	louise.dillon@newryandmourne.gov.uk
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Cllr. Sean Doran	sean.doran@newryandmourne.gov.uk
Mr. Robert Dowey	robert.dowey@newryandmourne.gov.uk
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Cllr. Harry Harvey	harry.harvey@newryandmourne.gov.uk
Cllr. Terry Hearty	terry.hearty@newryandmourne.gov.uk
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Cllr. Mickey Larkin	micky.larkin@nmandd.org
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Cllr. Barra O Muiri	barra.omuiri@nmandd.org
Cllr. Pol O'Gribin	pol.ogribin@nmandd.org
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Cllr. Henry Reilly	henry.reilly@newryandmourne.gov.uk
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Cllr. Gary Stokes	gary.stokes@nmandd.org
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Cllr. David Taylor	david.taylor@newryandmourne.gov.uk
Caroline Taylor	Caroline.Taylor@downdc.gov.uk
Cllr. Jarlath Tinnelly	jarlath.tinnelly@nmandd.org
Cllr. William Walker	william.walker@nmandd.org
Cllr. Clarke William	william.clarke@downdc.gov.uk

ACTION SHEET- AUDIT COMMITTEE – THURSDAY 25 JUNE 2015

1

AGENDA ITEM	SUBJECT	DECISION	FOR COMPLETION BY DIRECTOR – including actions taken/date completed or progress to date if not yet completed
AC/06/2015	Terms of Reference	A draft addendum to the Audit Committee Terms of Reference be prepared by Mr R Dowey Head of Finance, to reflect best practice procedures.	No action required as ToR (based on best practice) had been previously agreed by Council at Finance & Resources Committee Meeting on 17 February 2015 and formally ratified at Shadow Council Meeting on 3 March 2015.
AC/06/2015	Terms of Reference	Ms P Poots Capita Consulting, to forward a copy of the following guidance documents to the Council for information: -DFP (NI) Audit and Risk Assurance Committee Handbook - RoI Local Government (Audit Committee) Regulations	Completed – documents received and sent to Audit Committee Members via email (29 June 2015)
AC/09/2015	Internal Audit Annual Assurance Report (NMDC)	To include a progress report on addressing on-going ICT issues within Newry Mourne & Down DC, for consideration at the next meeting of the Audit Committee to be held on Thursday 29 October 2015.	Refer to Gavin Ringland IT.
AC/10/2015	Risk Management Report (NMDC)	A comparison exercise to be carried out to compare risk management reports for Down District Council and Newry & Mourne District Council for tabling at a future meeting of the Audit Committee.	See agenda item.

AGENDA ITEM	SUBJECT	DECISION	FOR COMPLETION BY DIRECTOR – including actions taken/date completed or progress to date if not yet completed
AC/11/2015	Annual Governance Statement (DDC)	<p>A report to be submitted back to the next meeting of the Audit Committee Meeting to be held on Thursday 29 October 2015 regarding grant income for the delivery of the Green Tourism Programme.</p> <p>Single Status: An update in respect of whether legacy Council Down has made settlement of all Single Status issues.</p>	<p>See agenda item.</p> <p>HR has confirmed all issues now completed.</p>
AC/12/2015	Annual Governance Statement (NMDC)	<p>To prepare a paper on how to bring together an Annual Governance Statement for the new Council.</p> <p>Telemetry System The matter regarding Telemetry for legacy Council Newry & Mourne, remains outstanding and is recorded here for record purposes.</p> <p>National Fraud Initiative NFI – 21 No. Payroll issues and 456 No. Accounts Payable issues were highlighted.</p> <p>Council Theft at Bowling Green It was reported a loss had been incurred for £19,000.</p>	<p>See agenda item.</p> <p>To be actioned – for future consideration</p> <p>Accounts Payable issues dealt with. Payroll issues pending review.</p> <p>An offer has been made by the Insurance Company for the loss in the sum of £11,765, less excess of £2,000.</p>

AGENDA ITEM	SUBJECT	DECISION	FOR COMPLETION BY DIRECTOR – including actions taken/date completed or progress to date if not yet completed
		<p>Grant for DARD - Ballyholland A report was being prepared on this.</p>	Mr Curtis to provide a report on this to a future meeting – see agenda item.
AC/13/2015	Year End Accounts (DDC)	To approve Year End Accounts for DDC and same to be signed by Chief Executive and Chairperson of Audit Committee.	Completed - signed Accounts forwarded to NIAO.
AC/14/2015	Year End Accounts (NMDC)	To approve Year End Accounts for NMDC and same to be signed by Chief Executive and Chairperson of Audit Committee.	Completed – signed Accounts forwarded to NIAO.
AC/15/2015	STC Accounts	To approve Accounts for the Statutory Transition Committee for period from 1 April 2014 to 18 June 2015 and same to be formally signed by the Chief Executive and Chairperson of the Audit Committee.	Completed – signed Accounts forwarded to NIAO.
AC/16/2015	Shadow Council Accounts	To approve Accounts for the Shadow Council for period from 19 June 2014 to 31 March 2015 and same to be formally signed by the Chief Executive and Chairperson of the Audit Committee.	Completed – signed Accounts forwarded to NIAO.
AC/17/2015	Draft Internal Audit Strategy 2015-19 (NM&DDC)	A closed session meeting be arranged between the Members of the Audit Committee and internal auditors, ASM Limited, in advance of the Audit Committee Meeting in October 2015.	Pre meeting with Audit Committee Members, ASM and J Campbell Independent Member arranged prior to Audit Committee Meeting – @ 1pm Thursday 29 October 2015.

Report to:	Audit Committee										
Subject:	<i>Risks associated with EU funded projects.</i>										
Date:	29 th Oct 2015										
Reporting Officer:	Steve Wright (in absence of an Audit Services Manager)										
Contact Officer:	Steve Wright (in absence of an Audit Services Manager)										
<u>Decisions Required</u>											
<ul style="list-style-type: none"> • To DISCUSS and NOTE the content of this report 											
1.0	<u>Purpose & Background</u>										
1.1	One of the actions arising from the last Audit Committee was “the submission of a report regarding the Green Tourism Programme” (<i>Item AC/11/2015 Annual Governance Statement 2014/15 – Down District Council</i>).										
1.2	<p><u>SPECIFIC ISSUE</u></p> <p>The issue was the potential application of a penalty for non-compliance (with regard to the tendering procedures set out in the relevant letter of offer). The range of possible non-compliance penalties is as set out in the table below:</p> <table border="1" data-bbox="300 1128 927 1429"> <tr> <td>Activity</td> <td>100% of expenditure on the activity</td> </tr> <tr> <td>Expenditure</td> <td>100% of the error value</td> </tr> <tr> <td>Audit trail</td> <td>Up to 100%</td> </tr> <tr> <td>Publicity</td> <td>Up to 10% of the total grant</td> </tr> <tr> <td>Tendering</td> <td>Dependent on the nature of non-compliance anything from 5% to 100% of contract value.</td> </tr> </table>	Activity	100% of expenditure on the activity	Expenditure	100% of the error value	Audit trail	Up to 100%	Publicity	Up to 10% of the total grant	Tendering	Dependent on the nature of non-compliance anything from 5% to 100% of contract value.
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Expenditure	100% of the error value										
Audit trail	Up to 100%										
Publicity	Up to 10% of the total grant										
Tendering	Dependent on the nature of non-compliance anything from 5% to 100% of contract value.										
1.3	The Council has submitted clarification to INI to justify its view that no breach occurred. The Director of ERT has advised that the matter should be concluded by mid-November. A detailed report will go to the next Audit Committee setting out the background, outcome and future changes/lessons.										
1.4	<p><u>GENERAL ISSUE</u></p> <p>EU programmes and instruments have been and will continue to be a key funding stream to develop the district of Newry, Mourne and Down. The risk may be seen as being made up of two parts.</p>										
1.5	<p><u>Risks associated with 2007-13 funding period (“Backward” Risk)</u></p> <p>The two predecessor Councils participated in a number of EU programmes in the 2007-13 funding period. They did so in various roles (such as project promoter, Lead Partner)</p>										

	<p>and through various arrangements (direct delivery and partnership arrangements such as SOAR and Peace III partnerships)</p> <p>The programmes in the 2007-13 funding period will be subject to a number of closure arrangements and requirements. These programmes are closing at a time of upheaval and significant change.</p> <p>There are a number of risks associated with fully completing the closure process.</p>
1.6	<p><u>Risks associated with 2014-20 funding period (“Forward” Risk)</u></p> <p>A key source of funds for the development of the new district over the 2014-2020 period will be through EU instruments and programmes.</p> <p>There are a number of risks associated with fully accessing and deploying this funding.</p>
2.0	<p><u>Key Issues</u></p>
2.1	<p>The Council should ensure that both types of risk have been effectively and efficiently managed.</p>
	<p><u>Possible Future Issues for Consideration</u></p>
2.2	<ul style="list-style-type: none"> • The Audit Committee may wish to consider what form of assurance it requires from Management as to how it will manage risks associated with EU funded projects.
3.0	<p><u>Resource Implications</u></p>
3.1	<p>N/A.</p>
4.0	<p><u>Appendices</u></p>
4.1	<p>None.</p>

Report to:	<i>Audit Committee Meeting</i>
Subject:	<i>Ballyholland Community Centre – Corporate Governance Issue</i>
Date:	<i>29 October 2015</i>
Reporting Officer:	<i>Eddy Curtis</i>
Contact Officer:	<i>Eddy Curtis</i>

<u>Decisions Required</u>	
For information only.	
1.0	<u>Purpose & Background</u>
1.1	<i>This matter arose out of the Corporate Governance Statement.</i>
2.0	<u>Key Issues</u>
2.1	<i>This is to inform Members that an investigation is taking place into this matter and a report will be brought at a later date when matters have been brought to a conclusion.</i>
3.0	<u>Resource Implications</u>
3.1	<i>None</i>
4.0	<u>Appendices</u>
	<ul style="list-style-type: none"> ▪ Appendix - None

Report to:	Audit Committee
Subject:	<i>Annual Governance Statement 2015-16</i>
Date:	29 October 2015
Reporting Officer:	Steve Wright (in absence of Audit Services Manager)
Contact Officer:	Steve Wright (in absence of Audit Services Manager)
<u>Decisions Required</u>	
<ul style="list-style-type: none"> • To NOTE the content of the report 	
1.0	<u>Purpose & Background</u>
1.1	One action arising out of the Audit Committee 25 June 2015 was “a paper be prepared on bringing together an Annual Governance Statement for the new Council.” (AC/12/2015)
1.2	An Annual Governance Statement (AGS) will be included within the Statement of Accounts 2015-16.
1.3	One of the core functions of the Audit Committee is to be satisfied that the Council’s Annual Governance Statement properly reflects the governance & risk environment and any actions required to improve it.
2.0	<u>Key Issues</u>
2.1	<ul style="list-style-type: none"> • A detailed timeline will need to be detailed but it is highly likely that a draft Annual Governance Statement (AGS) will be required for publication by 30th June 2016. • As a first step <i>Section 5 Significant Governance Issues</i> was extracted from the predecessor Council’s AGSs (extracted from the published 2013-14 and the draft 2014-15 Statement of Accounts). The various extracts are attached at Appendix 2. • The issues within these extracts was simplified into a single schedule attached at Appendix 1. • A number of issues will to varying degrees “carry over” from the two predecessor councils and may be included in the “new” Council’s AGS 2015-16.
<u>Possible Future Issues for Consideration</u>	
2.2	<ul style="list-style-type: none"> • The CMT and/or SMT will need to consider whether these “old” significant governance issues will be included within the preparation of AGS 2015-16. • A review by the Audit Committee of the approach and various roles in the production of the Annual Governance Statement 2015-16.
3.0	<u>Resource Implications</u>
3.1	N/A.

4.0	<u>Appendices</u>
4.1	Appendix 1 : Summary of Significant Governance Issues – Predecessor Councils Appendix 2 : Extracts of <i>Section 5 Significant Governance Issues</i> from AGS 2013-14 (Final) and 2014-15 (Draft).

Significant Governance Issues

The following significant governance issues are noted:

Standard wording

DOWN DISTRICT
COUNCIL
2013-14

Review 7/10/2015

REFORM OF LOCAL GOVERNMENT: From 1 April 2015, under the Reform of Local Government (RLG), the number of Councils in Northern Ireland will reduce from the 26 existing to 11 new Councils, established under the Local Government Act (Northern Ireland) 1972 as amended by the Local Government (Boundaries) Act (Northern Ireland) 2008. From that date the Northern Ireland Executive has agreed to transfer some functions currently carried out by NI Government Departments and give some new responsibilities to the 11 new Councils. The new councils will be stronger, more efficient and will deliver more effective services.

The new councils came into existence on 26th May 2014, operating in shadow form until they take over full responsibility for local government on 1st April 2015 when the 26 existing councils cease to exist. The final accounts for Down District Council will therefore be for the 2014/15 financial year. 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.

The Local Government Act (Northern Ireland) 2014 introduced the legislative frame work for Northern Ireland's 11 new councils and has made transitional provisions to provide for the transfer of staff, assets and liabilities from the current 26 councils to the 11 new councils, and from departments transferring functions to the new councils.

FINANCIAL PRESSURES: As in previous years the Local Government Sector will be subject to financial pressure over the coming year and on into the medium and longer term. In developing a financial plan out to 2020-21 the Council sought to ensure that it responded strategically to these pressures. The Council will need to ensure that it continues to balance this longer term view (post April 2015) with short term demands over the remaining 10 months.

TREASURY MANAGEMENT: The Council continues to recognise that the impact of both RPA and the extensive capital programme will require significant further development of its Treasury Management System. The key risks being interest rate, liquidity and refinancing. This development will need to take account of the merger with Newry and Mourne under RPA.

CAPITAL PROGRAMME: The Council's Capital Programme was updated in February 2014. This programme was approved by the Council and accepted by the STC but will now need to be accepted by the new 'Shadow' Council. A combined Capital Programme will be required to meet the full requirements of the Finance Act and the Prudential Code. Affordability remains a key concern. There is a need to significantly improve a number of capital planning and delivery processes and to work within the constraints and controls of the Shadow Period over the next year.

SINGLE STATUS: Substantial progress has been made in the year towards the full completion of the Single Status Implementation Agreement. The Single Status Provision has been reversed but with a Single Status Reserve being created (see note 25e). The level of the Single Status Reserve will be reviewed before December 2014.

APPENDIX 2

EXTRACT FROM

AGS 2013-14

AGS 2014-15 (Draft)

"Old Councils"

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Appendix 2 - Significant Risks and Governance Issues

In no particular order or prioritisation

Accountable Director	Process (other Unit)	Detail
RTS	Fleet Management	N&M: Introduce vehicle telemetry to reduce fraud risk.
Corporate Services / Various	Whistleblowing Incidents	N&M: Double jobbing in Leisure . Contracts for employment did not require Council approval for second jobs. N&M: Two incidents related to absence from work. Two employees dismissed.
Corporate Services / Various	Whistleblowing Policy	N&M: Weakness in Whistleblowing procedure.
Corporate Services	Fraud Management	N&M: National Fraud Initiative- completion.
RTS	Fraud Management	N&M: Theft of grounds maintenance equipment. New security measures in place.
Corporate Services / Various	Procurement	N&M: No evidence to support decision not to go to public tender and failure to route through procurement department.
Chief Executive	Procurement	N&M: Procurement of Legal Services.
All	Absenteeism	N&M: Continue to monitor. DDC: Continue to monitor.
All	Reform of Local Government.	N&M and DDC: Provide a context of impact of change on maintaining business as usual and effecting the change. Standard wording used. N&M: Transfer of Planning and Off Street Parking.
Corporate Services	Finance - Budget	N&M: Change in General Fund.
Corporate Services / Various	Grant Management	N&M: DARD Grant - may lead to clawback. DDC: Green Tourism Programme - potential clawback.
Various	Implementation of Internal Audit Recommendations.	N&M: Potential delay in implementing recommendations. DDC: Potential delay in implementing recommendations.
Corporate Services	Financial Planning	DDC: Recognition of both internal and external financial pressures. Need to put long term financial planning in place.
Corporate Services	Treasury Management	DDC: recognise pressures of reform and extensive capital programme on Treasury Management. Risks are interest rate, liquidity and refinancing.
Corporate Services / Various	Capital Programme	DDC: Extent of capital programme- affordability. DDC: Capital planning and delivery processes.
Corporate Services / Various	Single Status	DDC: Completion of Single Status.
RTS	Waste Management - Residual Waste	DDC: Residual Waste Project. DDC: Drumanakelly.
Various	Governance Issues	DDC: Committees - operation lead to impact on Officer Time. DDC: Local Code of Governance - number of components need updating. DDC: Procurement - review DDC: Safeguarding - appropriate action plan. DDC: CFO - statement of non-conformance.
RTS	Waste Management - Residual Waste	DDC: Residual Waste Project.
Corporate Services	Risk Management	DDC: Need to improve and update risk management and assurance reporting processes. DDC: Develop Business Continuity - Departmental Level DDC: Allocation of resources to risk management.
Corporate Services	IT	DDC: Significant investment in infrastructure completed DDC: Need to avoid nugatory IT spend.

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COUNCIL

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TREASURY MANAGEMENT: The Council continues to recognise that the impact of both RPA and the extensive capital programme will require significant further development of its Treasury Management System. The key risks being interest rate, liquidity and refinancing. This development will need to take account of the merger with Newry and Mourne under RPA.

CAPITAL PROGRAMME: The Council's Capital Programme was updated in February 2014. This programme was approved by the Council and accepted by the STC but will now need to be accepted by the new 'Shadow' Council. A combined Capital Programme will be required to meet the full requirements of the Finance Act and the Prudential Code. Affordability remains a key concern. There is a need to significantly improve a number of capital planning and delivery processes and to work within the constraints and controls of the Shadow Period over the next year.

SINGLE STATUS: Substantial progress has been made in the year towards the full completion of the Single Status Implementation Agreement. The Single Status Provision has been reversed but with a Single Status Reserve being created (see note 25e). The level of the Single Status Reserve will be reviewed before December 2014.

APPENDIX 2

EXTRACT FROM

AGS 2013-14

AGS 2014-15 (Draft)

"Old Comments"

Page (1) of (8)

RESIDUAL WASTE – One of the key risks facing the Council (and any future merged Council) is to ensure the selection of an affordable and VFM waste disposal solution. The Council recognises the importance of making an optimal decision with regard to its long term residual waste treatment needs and the need to ensure a robust decision making process is put in place. The Council will need to carry out a local level business case review, within the context of the new Newry and Mourne and Down Council, prior to adopting any long term residual waste management strategy. This will need to consider membership of either the arc21 or SWaMP sub-regional waste groups and the possible commitment to any contract emanating from either group. This strategy will of course need to ensure that Drumanakelly Landfill Site is satisfactorily filled, capped and maintained.

GOVERNANCE ISSUES: The Council will need to review its committee structures before the end of Sept 2014 to take account of RPA driven time pressures on both Members and Officers. In addition the outstanding review of organisational structure will be completed. A number of components within the Local Code of Governance will require investment of time during 2014-15. The current approach to procurement will need further review.

The Council will develop an appropriate action plan to ensure a higher level of compliance with guidance issued under section 12 of the Safeguarding Board (NI) Act 2011.

The Council's financial management arrangements do not conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010 as set out in the Application Note to Delivering Good Governance in Local Government: Framework. It is the view of the Chief Executive that for the financial year 2013-14 the current arrangements delivered the same impact.

Standard note ✓

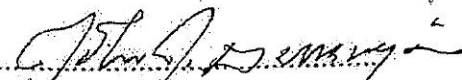
→ **RISK MANAGEMENT** – there still remains a need to improve and update the risk management and assurance reporting processes to assist the Council to manage its portfolio of work and any change to Departmental structures. There will be a need to further develop business continuity plans at a departmental level. The Council will need to further consider its approach and allocated resources to Risk Management in 2014-15.

→ **INTERNAL AUDIT FINDINGS:** Internal Audit provided 15 Assurance Reports to the Audit Committee for 2013-14. Five internal audit reports provided Limited/Unacceptable Assurance. The main issues in each of these five reports were 1.) Anti-Bribery Procedures - need to update a number of policies for the Bribery Act, 2.) Treasury Management (medium term onwards) - need to put in place a system to manage interest, refinancing and liquidity risk, 3.) Entertainment Licences - need to improve licence issue and enforcement controls 4.) Creditors - need to formalise controls around the update of critical standing data and 5.) Member and Officer Indemnity - need for Council to ratify a formal indemnity scheme. A number of immediate steps have been taken and accepted recommendations will be implemented.

→ **IT SYSTEMS:** As noted last year the Council made a significant investment to update its IT infrastructure. The need to upgrade a number of line of business systems remains but any investment will be within the context of RPA and the need to ensure Value for Money.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed  Date 30th October 2014

Signed  Date 30th October 2014

On behalf of the Strategic Policy and Resources Committee of Down District Council and by the Chief Executive.

significant Governance Issues

The following significant governance issues are noted:

REFORM OF LOCAL GOVERNMENT: From 1 April 2015, under the Reform of Local Government (RLG), the number of Councils in Northern Ireland reduced from the 26 to 11 new Councils, established under the Local Government Act (Northern Ireland) 1972 as amended by the Local Government (Boundaries) Act (Northern Ireland) 2008. From that date the Northern Ireland Executive agreed to transfer some functions currently carried out by NI Government Departments and gave some new responsibilities to the 11 new Councils. The aim was for the new councils to be stronger, more efficient and to deliver more effective services.

The new councils came into existence on 26th May 2014, operating in shadow form until they took over full responsibility for local government on 1st April 2015 when the 26 existing councils ceased to exist. The final accounts for Down District Council are therefore for the 2014/15 financial year. 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 the previous councils.

The Local Government Act (Northern Ireland) 2014 introduced the legislative framework for Northern Ireland's 11 new councils and made transitional provisions to provide for the transfer of staff, assets and liabilities from the current 26 councils to the 11 new councils, and from departments transferring functions to the new councils.

FINANCIAL PRESSURES: As in previous years the Local Government Sector will be subject to financial pressure over the coming year and on into the medium and longer term. In developing a financial plan out to 2020-21 the Council sought to ensure that it responded strategically to these pressures.

TREASURY MANAGEMENT: The Council continues to recognise that the impact of both Local Government Reform, an extensive capital programme and reduction in the near future of key funding streams will require significant further development of its Treasury Management System. The key risks being interest rate, liquidity and refinancing.

CAPITAL PROGRAMME: The Council's Capital Programme was updated in February 2014. This programme has now been consolidated into an overall capital programme for the new Council. A combined capital programme will be required to meet the full requirements of the Finance Act and the Prudential Code. There is a need to significantly improve a number of capital planning and delivery processes.

SINGLE STATUS: Substantial progress was made in the year towards the full completion of the Single Status Implementation Agreement. The Single Status Provision was reversed with a Single Status Reserve being created (see note 25e). The level of the Single Status Reserve was reviewed before December 2014.

RESIDUAL WASTE: One of the key risks facing the Council (and any future merged Council) is to ensure the selection of an affordable and VfM waste disposal solution. The New Council will have to recognise the importance of making an optimal decision with regard to its long term residual waste treatment needs in respect of the legacy Council of Down and the need to ensure a robust decision making process is put in place. This strategy will of course need to ensure that Drumanakelly Landfill Site is satisfactorily filled, capped and maintained.

DOWN DISTRICT
COUNCIL
2014-15 DRAFT

Revised 9/10/2015.

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others removed.
GOVERNANCE ISSUES: There is an issue that the Council may not receive the full grant income for the delivery of the Green Tourism Programme. *→ added w/ at request of Roberts.*

✓ The Council's financial management arrangements did not conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010 as set out in the Application Note to Delivering Good Governance in Local Government: Framework. It was the view of the Chief Executive that for the financial year 2014-15 the arrangements delivered the same impact. ✓

These factors will need to be considered in any forward plans for the next Council.

Signed Date 30th June 2015

Signed Date 30th June 2015

On behalf of Down District Council and by the Chief Executive.

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EXTRACT FROM FINANCIAL
STATEMENTS 2013-14
HENRY & MOURNE.

16

- **Other**
The minutes of the Audit Committee are presented to the Council at the monthly meeting which follows the Audit committee.

As part of the 2013/2014 Annual Audit Plan, an audit of Corporate Governance took place in late 2013 with the final report being produced in May 2014. The previous "final report" was in 2011/2012 and the 20 items recommended in this report were reviewed. The 2013/2014 review found that 17 recommendations had been implemented fully, 1 partly implemented and 2 were not implemented. The 2013/2014 report made 7 recommendations, all with a priority of 2 or 3. The report gave the Council a "substantial" assurance.

The Committee Chairman completed a self assessment questionnaire drawn up by Internal audit in respect of the effectiveness of the Audit Committee for 2013/2014. The completed questionnaire was tabled at the April 2014 Audit Committee and reviewed by the members of the committee. Members concluded the committee was working effectively.

Significant Governance Issues:-

Actions taken/proposed to deal with significant governance issues.

- Arising out of a fraud in respect of "waste" in 2011/2012 and previously reported as a governance issue in prior years there remains outstanding a robust solution to monitor vehicle movements. It is considered the only solution that will significantly reduce the risk is the introduction of a telemetry system on vehicles. Discussions to introduce such a system are ongoing with the unions.
- During the financial year 2013/2014 there have been three whistle blowing incidents one of which related to prior year activities. Investigation showed only one case had substance, and this resulted in the Council recovering a sum of money due to an employee "double jobbing". This issue was also highlighted by the National Fraud Initiative. One of the incidents also highlighted a weakness in Council reporting procedures of a potentially serious matter in respect of "whistleblowing and fraud issues". Reminders were sent to Senior Council Staff of the need to observe the reporting structures as laid out in these policies.
- The National Fraud Initiative (N.F.I.) [data matching exercise - issued January 2013] produced 505 matches. N.F.I. raised 29 payroll issues and an 100% investigation took place raising one issue previously referred to under "whistle blowing". N.F.I. highlighted 354 Creditors issues and 74% were investigated raising no items of concern. A weakness identified from the payroll N.F.I. is that current contracts of employment do not require Council approval for second jobs. This weakness is under review by Human Resources.
- During the year there were two serious incidents at Council facilities. Detailed investigation has taken place and continues to take place, leading to corrective action being taken at one site and continued review to try and reduce and manage risk at the second site.
- A recent internal audit report highlighted a number of breaches of procurement policy including absence of formal documentation/approval justifying why some services have not gone to public tender and also some services have not been routed through the Purchasing Department. These breaches of the purchasing procedures have been highlighted to those concerned and reported to the Audit Committee.
- A legal services procurement matter is being considered by the Ombudsman.

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(A) of (2)

- The audit reports produced by Internal Audit have highlighted areas where improvements need to be made. Actions required to address these control weaknesses have been prioritised giving due regard to the risk assessment and to proper and proportional allocations of resources.

During the year Internal Audit carried out 21 Internal Audits, which resulted in 6 substantial, 14 satisfactory and 1 with a satisfactory and limited assurance in one area of the service.

The annual audit report of Internal Audit for 2013/2014 received in June 2014 summarised the audits carried out during the year and gave an overall level of assurance of satisfactory. The Audit with satisfactory/limited assurance relates to cash floats within the trade waste cash float and involves a sum of £70. While this has been highlighted it is not seen as a major risk within the Council operations.

- Absenteeism for 2013/2014 (4.7%) has shown a decrease relative to 2012/2013 (5.1%). The Council continues to be proactive in seeking to manage absence.
- The Review of Public Administration (RPA) with an initial implementation date of 2009 then 2011 and now 2015 is now under way. Much management time has been spent on planning, organising and attending meetings with Down District Council (with whom we are to be merged) and Central government to bring the change into existence. In April 2014 the Chief Executive for the combined Council took up post and since that date a number of other appointments have been made and continue to be made.

In 2013 the Boundaries Order (N.I.) 2012 has been enshrined in law. The Northern Ireland Executive has agreed a funding package to assist with implementation of the R.P.A., while also agreeing the package of functions transferring from Central Government.

The Voluntary Transition Committees were re-established and since July 2013 they have been legislated for and become Statutory Transition Committees (STC) with 8 members on the Committee from Down District Council and 8 members from Newry and Mourne District Council. This STC will cease operating on 19th June 2014. A staff severance scheme has been agreed by the employers and unions and legislation has been passed in July 2013 for "Severance Payments to Councillors"

Six Councillors resigned in January 2014 with replacements from the same party co-opted. Four of the six Councillors who resigned benefited from the terms of the Councillors severance scheme.

On 22nd May 2014 an election was held and as a result 41 Councillors were elected for the new Council of Newry and Mourne and Down. These Councillors will function as a "Shadow Council" until 31st March 2015.

- The outcome of this year's financial results, a surplus of £1,050,000 after using £950,000 to finance capital spend. This has resulted in an increase in the balance in the General Fund of £1,050,000 resulting in a balance of £3,559,952. When the Council agreed a budget for 2014/2015 a deficit budget of £1,050,000 was agreed, so the surplus transferred from 2013/2014 will be required to finance the deficit budget. The General Fund balance in the event a deficit occurs in 2014/2015 will still provide sufficient reserves of a level suitable for a Council with the size of spend of Newry and Mourne. The 2014/2015 year will be the last year when the Council exists in its current form prior to combining with Down District Council.

~~(2)~~ 7 (2)
(6) 4 (8)

EXTRACT FROM
DRAFT FINANCIAL
STATEMENTS 2014-15 18
30th JUNE 2015
NEWRY & MOURNE

Significant Governance Issues:-

Actions taken/proposed to deal with significant governance issues.

- Arising out of a fraud in respect of "waste" in 2011/2012 and previously reported as a governance issue in prior years there remains outstanding a robust solution to monitor vehicle movements. It is considered the only solution that will significantly reduce the risk is the introduction of a telemetry system on vehicles. The new Council of Newry, Mourne and Down has been made aware of this
- During the financial year 2014/2015 there have been two whistle blowing incidents both of which related to absence from work. Investigation showed both reports had substance. This resulted in a number of disciplinary actions and two employees being dismissed.
- The National Fraud Initiative (N.F.I.) [data matching exercise - issued January 2015] produced 477 matches. N.F.I. raised 21 payroll issues and 456 accounts payable issues. These matches will be systematically investigated.
- In January 2015 a theft took place at a Council owned bowling facility. A number of high value items of grounds maintenance equipment (replacement cost £19,000) were stolen. Since this theft new security measures have been implemented to prevent re-occurrence.
- A legal services procurement matter continues to be considered by the Ombudsman.
- An item in respect of a grant from the Department of Agriculture and Regional Development has been investigated. At this stage it is too early to state the likely level of any loss to the Council as the final decision is outside of the Councils control.
- The audit reports produced by Internal Audit have highlighted areas where improvements need to be made. Actions required to address these control weaknesses have been prioritised giving due regard to the risk assessment and to proper and proportional allocations of resources.
- During the year Internal Audit issued 26 Internal Audit reports, with 12 of these reports remaining in draft due to a failure of reply from Council staff. These reports resulted in 5 substantial assurances, 17 satisfactory assurances and 4 with limited assurance.
- The four limited assurances apply to Information Technology, Fleet Management, Procurement and Cash handling at a town hall. In all cases the senior managers of the services have been sent the reports and the reports have also been passed onto the incoming "internal auditors". It should be noted some of the services have been adversely affected by the local government reorganisation with "key staff" off sick. In two of the situations outlined a new manager is in place due to reorganisation and/or severance. There has been no loss to the Council in any case although there is a danger if the situations were to persist of reputational damage.
- Absenteeism for 2014/2015 (4.9%) has shown a small increase relative to 2013/2014 (4.7%). The new Council will need to continue to be proactive in seeking to manage absence.
- From the 1st April 2015, under the Reform of Local Government (RLG), the number of Councils reduced from 26 to 11. These Councils are established under the Local Government Act (Northern Ireland) 1972 as amended by the Local Government (Boundaries) Act (Northern Ireland) 2008. From 01 April 2015 the Northern Ireland Executive has transferred some functions from Central

Government to Local Government. Main services transferred to date are "Planning and Off Street Car Parking".

The new Councils came into existence as of 26th May 2014, operating in shadow form until they took over responsibility for local government on 01 April 2015 when the 26 Councils ceased to exist. These are the final accounts for Newry and Mourne District Council. 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.

The Local Government Act (Northern Ireland) 2014 introduced the legislative framework for the 11 new Councils and has made transitional provisions to provide for the transfer of staff, assets and liabilities from the current 26 Councils to the 11 new Councils, and for central government departments transferring functions to the new Councils.

One Councillor resigned in March 2015 and was not replaced due to the imminent end of the current Council. The Councillor who resigned benefited from the terms of the Councillors severance scheme.

The 41 Councillors who were elected on 22nd May 2014 functioned as a "Shadow Council" until 31st March 2015.

- The outcome of this year's financial results, a deficit of £3,035 after using £520,000 to finance capital spend. This has resulted in a decrease in the balance in the General Fund of £3,035 resulting in a balance of £3,711,977. When the Council agreed a budget for 2014/2015 a surplus budget of £1,050,000 was agreed.

Newry and Mourne District Council has now been combined with Down District Council and Ballyward which is part of Banbridge District Council from 01 April 2015. Therefore matters raised in this Corporate Governance Statement will become the responsibility of the new Newry, Mourne and Down District Council.

Report to:	Audit Committee
Subject:	<i>Plan to establish a Risk Management Framework</i>
Date:	29 th Oct 2015
Reporting Officer:	Steve Wright (in absence of Audit Services Manager)
Contact Officer:	Steve Wright (in absence of Audit Services Manager)
<u>Decisions Required</u>	
<ul style="list-style-type: none"> To REVIEW and COMMENT on the proposed approach to the establishment of a fit for purpose Risk Management Framework. 	
1.0	<u>Purpose & Background</u>
1.1	The design and implementation of a <i>fit for purpose</i> risk management framework will be a major contributor to a well-managed Council.
1.2	The framework will support risk management across all of the Council's current and future activities.
1.3	This framework will include a firm foundation (policy, objectives, mandate, and commitment) with 'well designed' arrangements built on top (plans, clear relationships & accountabilities, resources, processes, and activities). A well designed framework should be integrated and consistent with other management and assurance processes.
1.4	One of the core functions of the Audit Committee is to consider the adequacy and effectiveness of the Council's risk management framework/arrangements.
2.0	<u>Key Issues</u>
2.1	<p>The Audit Committee should ensure that there is a "clear path" to put a fit for purpose risk management framework in place by the end of the first financial year (2015-16). It should note that:</p> <ul style="list-style-type: none"> A project plan for the development of a <i>fit for purpose</i> Risk Management Framework will need to be developed and agreed by both SMT and CMT. An initial plan is attached at Appendix A (Note: consultation with SMT/CMT on the content/resourcing of this plan will follow this Audit Committee).
2.2	The Audit Committee should note that some preliminary work has been carried out including:

	<ul style="list-style-type: none"> • Review of predecessor Councils approaches to risk management • Benchmarking and review of best practice • Comparison of predecessor Council’s Corporate Risk Registers (See Appendix B).
2.3	<p>Following on from this work some initial design proposals are set out at Appendix C and include:</p> <ul style="list-style-type: none"> • <i>Structure of Risk Management Framework and Strategy</i> • <i>RM 10 Risk Matrix</i> <p>A summary list of the predecessor Council’s roles and responsibilities is also attached at Appendix C. (At present only the roles for the Council and Audit Committee have been drafted at this point).</p> <ul style="list-style-type: none"> • <i>RM 12 List of Roles and Responsibilities</i>
3.0	<u>Future Issues for Consideration</u>
3.1	The Audit Committee should monitor the development and delivery of an agreed plan to establish a <u><i>fit for purpose risk management framework</i></u> by the end of the financial year 2015-16.
4.0	<u>Resource Implications</u>
4.1	To be addressed by CMT.
5.0	<u>Appendices</u>
5.1	<p>Appendix A: Establishment of Risk Management Framework – Plan</p> <p>Appendix B: Extract/Summary of Corporate Risk Registers (Predecessors Councils)</p> <p>Appendix C: Risk Management Framework (Extracts)</p>

"Item 9 is deemed restricted by virtue of Paragraph 3 of Part 1 of Schedule 6 of the Local Government Act (Northern Ireland) 2014 - Information relating to the financial or business affairs of any particular person (including the Council holding that information)."

AUDIT
COMMITTEE
29th OCTOBER
APPENDIX B.

23

Comhairle an Iúir & Mhúrn Newry and Mourne District Council

Chuig / To: Mr R Dowey – Head of Finance

Ó / From: Mr J Finnegan – Risk & Investigations Manager

Dáta / Date: 15 May 2015

Ábhar / Subject: Risk Management Report for Newry & Mourne District Council for the year-ended 31 March 2015.

Risk Management is the process by which risks are identified, evaluated and controlled. It is an integral element of corporate governance and internal control.

A Risk Management Strategy is in place within the Council, which has been approved by the Audit Committee and by the Council.

Within the Council risks are divided into Corporate and Departmental / Location level Risks.

1. Corporate Risks.

The Council currently has 14 Corporate Risks with a Total Risk Score of 9 or more. These are as follows:

Risk Ref	Risk Description	Impact	Like - lihood	Risk Score	Link to Corporate Plan / Objectives.
1	Review of Public Administration	4	4	16	O1- modernise & improve our services.
2	Breach of Impoundment at Camlough Lake	4	4	16	E2 – promote, protect & enhance a sustainable environment for the district
3	Absence of Telemetry system.	4	3	12	O1- modernise & improve our services.
4	Potential for challenge in the Procurement Process	4	3	12	O2 – Secure better value for money & make efficient use of our resources.
5	Industrial Action	3	4	12	O2 – Secure better value for money & make efficient use of our resources.
6	Fraud in respect of waste and waste products	3	3	9	E2 – promote, protect & enhance a sustainable environment.
7	Major Emergency Incident – External to the Council	3	3	9	CL1 – Enhance our role as the leader of and advocate catalyst for the districts interests.
9	Corporate Manslaughter	3	3	9	O1- modernise & improve our services.
10	Vandalism / Arson	3	3	9	O3 – support & develop our people.
11	Threat to Council Staff	3	3	9	O3 – support & develop our people.
12	Major Emergency Incident – Internal to the Council	3	3	9	O3 – support & develop our people.
13	Breakdown of Internal Controls	3	3	9	O1- modernise & improve our services.
14	Banking Crisis / Credit Crunch	3	3	9	O2 – Secure better value for money & make efficient use of our resources.

"Item 9 is deemed restricted by virtue of Paragraph 3 of Part 1 of Schedule 6 of the Local Government Act (Northern Ireland) 2014 - Information relating to the financial or business affairs of any particular person (including the Council holding that information)."

Scoring Criteria.

Likelihood

Very likely = 4
Likely (Probable) = 3
Unlikely (Possible) = 2
Very Unlikely = 1

Impact

Major = 4
Significant = 3
Moderate = 2
Low = 1

Total Risk Score = Impact x Likelihood

All Corporate Risks, together with mitigating controls and action plans are held on the Grace Risk Management system and are regularly reviewed by the Management Team and by the Audit Committee.

2. Departmental / Location Level Risks.

Within each directorate risks are further sub-divided into Departmental / Location risks. Monthly checklists are in place and these form the basis of the assurance chain which provide the evidence that adequate controls are in place for completion of the Annual Governance Statement which is signed by the Chief Executive and the Chairman of the Audit Committee and which is submitted along with the Annual Accounts to the Department of the Environment (Local Government Division) and to the Local Government Auditor.

Departmental checklists are an essential part of the assurance chain and their importance cannot be over-emphasised. It is essential that they are completed, kept up to date and signed off by those responsible as historically this has been the area where incidents of fraud and misappropriation has occurred within the Council.

A computerised Risk Management system, (Grace - Governance, Risk and Control Evaluation) has been implemented within the Council. This has recently been upgraded to a web-based version in preparation for roll out to the new Newry, Mourne & Down Council.

The system contains an automatic e-mail alert system to remind those users who have not completed their risk reviews on time.

3 Significant Governance issues which arose during the year.

The following matters relating to corporate governance have arisen during the year:

- **Theft of Council equipment from Newry Bowling Club.**

A break-in occurred at Newry Bowling Club sometime between 8th – 14th January 2015 and a number of high value items of grounds maintenance equipment were stolen. The estimated replacement value was £18,800. The PSNI and the Council's insurers (an excess of £2,500 on the insurance policy applies) were advised and an investigation report was prepared. An on-site meeting to review the security of the depot took place on the 19th January 2015 and new measures have been implemented to prevent a re-occurrence.

Objective	RESIDUAL RISK Previous Assessment			RESIDUAL RISK Revised			Risks - reason for change / key review note
	Cons.	Lik.	Risk	Cons.	Lik.	Risk	
To develop, deliver and resource the Council's Capital Programme.	5	3	15			15	<p>Review 12th June 2014 & 4th Sept 2014</p> <p>The risk was assessed in the context of the merger of the two Councils. The level of risk associated with this objective remained at 15. The factors considered as relevant were:</p> <ul style="list-style-type: none"> • Capital Programme – ‘DDC’ capital programme updated to Version 9.0 in Feb 2014. Shadow Council in process of developing ‘own’ capital programme. Potential of various projects on current list not progressing. • Delivery – assuming current project list was to progress there would be capacity and capability risks in delivering this ambitious programme. The potential of adding further capital projects within tight timescales may add further risk. • Affordability – the existing Council had determined that the proposed capital programme was affordable. This is now largely a matter for the new Council. The concerns around project cost overruns and whether operating costs have been fully reflected still remain • RPA Governance and Expenditure Controls – these arrangements and controls have now been largely defined but may still impact on the delivery of capital projects. • Major Project Risks – there a number of risks associated with site conditions. With regard to DLC an additional sum was set aside within optimism bias to mitigate these risks. • Prudence and Sustainability – the Business Case for DLC is being refreshed and will give a fuller picture of maintenance/operating costs and income.

Objective	RESIDUAL RISK Previous Assessment		RESIDUAL RISK Revised		Risks - reason for change / key review note	
	Cons.	Lik.	Risk			Cons.
To ensure that residual waste is efficiently and effectively handled.	5	3	15		<p>Review 12th June 2014 & 4th Sept 2014</p> <p>The level of risk associated with this objective remained at 15.</p> <p>One of the key risks facing the Council (and any future merged Council) is to ensure the selection of an affordable and VFM waste disposal solution. The Council recognises the importance of making an optimal decision with regard to its long term residual waste treatment needs and to ensure a robust decision making process is put in place. The Council will need to carry out a local level business case review, within the context of the new Newry and Mourne and Down Council, prior to adopting any long term residual waste management strategy. In addition the Council will need to consider membership of either the arc21 or SWaMP sub-regional groups and the possible commitment to any contract through either group. In the period 2014-15 the Council will continue to use Drumanakelly facility and any strategy will need to ensure that Drumanakelly is satisfactorily filled, capped and maintained.</p>	
To prepare and deliver RPA and to continue to deliver existing Council Objectives - maintain business as usual	5	4	20		<p>Review 12th June 2014 & 4th Sept 2014</p> <p>The level of this risk was reduced to 15. There is now greater certainty about how RPA will be delivered. There has been further identification of issues and allocation of resource to undertake convergence work. There will be further steps to free up resource to deliver reform. There will be a balancing act between RPA/convergence and business as usual.</p>	

Objective	RESIDUAL RISK Previous Assessment			RESIDUAL RISK Revised			Risks - reason for change / key review note
	Cons.	Lik.	Risk	Cons.	Lik.	Risk	
To complete harmonisation and single status	5	3	15	5	2	10	Review 12th June 2014 & 4th Sept 2014 The level of risk associated with this objective was reduced to 10. The Council expects to complete the appeals process by Oct 2014. There are 33 appeals to be completed. It is proposed that a sum will be released from the current reserve to reflect the reduction in this risk.
Treasury Management	5	4	20	5	3	15	Review 12th June 2014 & 4th Sept 2014 The Council continues to recognize that the impact of both RPA and the extensive capital programme will require significant further development of its Treasury Management System. The key risk being interest rate, liquidity and refinancing. This development will need to take account of the merger with Newry and Mourne.
Fraud	4	3	12	4	3	12	Review 4th Sept 2014 No change to residual risk. Further review by SMT. Weighbridges will be installed at all HRCs sites. IA intend to carry out a review as part of 2014-15 plan which will allow further review of the risk profile.
Health and Safety	4	3	12	4	3	12	Review 4th Sept 2014 No change to residual risk. Revised Health and Safety Policy introduced in Jan 2014. Organisational Procedure introduced in April 2014.

Objective	RESIDUAL RISK Previous Assessment		RESIDUAL RISK Revised		Risks - reason for change / key review note			
	Cons.	Lik.	Risk			Cons.	Lik.	Risk
Governance Arrangements	5	3	15		5	3	15	<p>Further action required to ensure all risk assessments have been reviewed or completed.</p> <p>Review 4th Sept 2014 Remains at 15. In the main only 'essential' change will be made to the existing Council's Governance Arrangements. Further training may be required on new Code of Conduct. Intention to develop and take forward a proposal to reduce number of Committee Meeting to free up resource to carry out convergence work. Restructuring to be completed.</p>

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Appendix C Risk Management Framework

Audit Committee 29th October 2015

(To be documented in Risk Management Framework and Strategy Document)

Contents

RM	1	Policy Statement
RM	2	Statement of Commitment
RM	3	Our Approach
RM	4	Risk Management Principles
RM	5	Risk Appetite Statement
RM	6	Risk Maturity
RM	7	Risk Management Levels
RM	8	Risk Escalation
RM	9	Risk Management Process
RM	10	Risk Matrix
RM	11	Guidance, Education and Training
RM	12	Risk Register System
RM	13	Roles & Responsibilities
RM	14	Risk Governance Framework
RM	15	Control Environment
RM	16	Quality Assurance and Review Procedures.

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Risk Type and Consequence

Risk Type (with associated impact)

Consequence	Score	Impact on individual(s) – staff or public.	Statutory Duty.	Business / Operational	Buildings/ Engineering/ Environmental	Quality of Service	Finance
Fundamental	5	<ul style="list-style-type: none"> Death 	<ul style="list-style-type: none"> Multiple breach of statutory legislation and prosecution. 	<ul style="list-style-type: none"> Litigation > £500k expected. National Media Interest Severe loss of confidence and reputation 	<ul style="list-style-type: none"> Critical Environmental Impact. Service closed for unacceptable period. 	<ul style="list-style-type: none"> Severe impact on customer satisfaction. Gross failure to meet professional / national standards 	<ul style="list-style-type: none"> Significant financial impact (over 5% of total directorate budget) Theft / loss >£250k
Major	4	<ul style="list-style-type: none"> Major injury/ill health (reportable) Major clinical intervention Permanent incapacity 	<ul style="list-style-type: none"> Multiple breach of statutory legislation and improvement notice issued. 	<ul style="list-style-type: none"> Litigation >£250k to <£500k expected. Adverse publicity Impact on reputation 	<ul style="list-style-type: none"> Major/significant environmental impact Severe disruption to service 	<ul style="list-style-type: none"> Major impact on customer satisfaction. Failure to meet professional / national standards 	<ul style="list-style-type: none"> Major financial impact (between 2% - 5% of total directorate budget. Theft / loss between £100k - £250k
Moderate	3	<ul style="list-style-type: none"> Temporary incapacity Short term monitoring Additional medical treatment up to 1 year Extended hospital stay. First Aid/ self treatment Minor injury to 1 month Near miss (small cluster) 	<ul style="list-style-type: none"> Single breach of statutory legislation and Improvement Notice issued. 	<ul style="list-style-type: none"> Litigation >£50k - <£250k possible. Potential for adverse publicity, avoidable with careful handling Potential to impact on reputation. Litigation <£50k Impact on reputation – internal awareness, 	<ul style="list-style-type: none"> Moderate environmental impact Moderate disruption to services Localised environmental impact Disruption to service perceived as inconvenient 	<ul style="list-style-type: none"> Formal complaint expected. Failure to meet internal standard 	<ul style="list-style-type: none"> Moderate financial impact (between 1% and 2% of total directorate budget) Theft / loss between £50k - £100k
Minor	2	<ul style="list-style-type: none"> Near miss (single) No adverse outcome No injury or ill health 	<ul style="list-style-type: none"> Breach of statutory legislation. 	<ul style="list-style-type: none"> Possible litigation due to settlement is <£5k. 	<ul style="list-style-type: none"> Minimal impact to environment. Minimal disruption. 	<ul style="list-style-type: none"> Possible complaint. Single failure to meet internal standard. 	<ul style="list-style-type: none"> Minor financial impact (up to 1% of total directorate budget) Theft / loss between £1 - £50k
Insignificant	1	<ul style="list-style-type: none"> Near miss (single) No adverse outcome No injury or ill health 	<ul style="list-style-type: none"> Near breach of statutory legislation. Minor breach of guidance or 	<ul style="list-style-type: none"> Possible litigation due to settlement is <£5k. 	<ul style="list-style-type: none"> Minimal impact to environment. Minimal disruption. 	<ul style="list-style-type: none"> Customer initially unhappy. Minor non-compliance with internal standard 	<ul style="list-style-type: none"> Customer initially unhappy. Minor non-compliance with internal standard

Likelihood of Event or Incident occurring	
Likelihood Descriptor	Score Probability / Likelihood (of event or incident occurring over lifetime of Corporate Plan).
Very Likely	5 <ul style="list-style-type: none"> The event is more likely than not to occur.
Likely	4 <ul style="list-style-type: none"> The event is likely to occur.
Possible	3 <ul style="list-style-type: none"> There is a reasonable chance of the event occurring.
Unlikely	2 <ul style="list-style-type: none"> There event is unlikely to occur.
Rare	1 <ul style="list-style-type: none"> The event will occur only in exceptional circumstances.

Risk Assessment Matrix						
CONSEQUENCES	Score	PROBABILITY				
		Rare	Unlikely	Possible	Likely	V Likely
		1	2	3	4	5
Fundamental	5	5	10	15	20	25
Major	4	4	8	12	16	20
Moderate	3	3	6	9	12	15
Minor	2	2	4	6	8	10
Insignificant	1	1	2	3	4	5

Priority Level – Guidance on timescales		
Colour	Timescale for action	Timescale for review
RED	Action immediately	Review within 1 month
AMBER	Action within 3 months	Review within 3 months
YELLOW	Action within 6 months	Review within 6 months
GREEN	Action within 12 months or accept risk	Review controls within period of corporate plan

Risk Management Framework

Audit Committee 29th October 2015

RM 13 Roles and Responsibilities

Group/Stakeholder	Role Description
Council	The key tasks of the Council are: 1.) Approve the Risk Management Framework & Strategy. 2.) Approve the "risk appetite" of the Council.
Audit Committee	The key tasks of the Council are: 1.) Endorse the Risk Management Framework & Strategy. 2.) Review effectiveness of risk management arrangements. 3.) Provide comment and challenge on risk management and progress
Chief Executive	
Senior Management Team	
Risk and Investigations Manager	
Risk Management Steering Group	
Corporate Management Team	
Directors / Heads of Section	
Heads of Service	
Departmental Management Teams	
Departmental Risk Controllers/ Administrators	
Internal Audit / External Audit	
Project Leaders and other staff	
Business Improvement Manager	

Agenda Item:**Report to:** Audit Committee**Subject:** Consultation of Draft Code of Audit Practice for LG Bodies 2016**Date:** 29th October 2016**Reporting Officer:** Robert Dowey, Head of Finance**Contact Officer:** Robert Dowey, Head of Finance**Decisions Required**

- To **NOTE** the content of the proposed Draft Code of Audit Practice for Local Government Bodies 2016 (attached at Appendix 1).
- To **DISCUSS** and **ENDORSE** the proposed response to this consultation.

1.0 Purpose & Background

1.1 The work of the Local Government Auditor is conducted within a framework set out within the relevant legislation, codes and standards.

1.2 One key component of this framework is the Code of Audit Practice for Local Government Bodies in Northern Ireland 2016.

1.3 The Local Government Auditor (LGA) is updating this code – the last code having been published in 2011.

1.4 The Council has been asked to comment on the content of the Code of Practice as part of this development and update process.

1.5 The main change within the revised code is at Chapter 4. This sets out the LGA's work on performance improvement.

2.0 Key Issues

- 2.1
- The 'new' work set out at Chapter 4 will be delivered based on the approach in Wales. The poor design and conduct of this work may result in unnecessary additional overheads (time and money) within an already 'stretched' environment.
 - APSE have developed and circulated a briefing on this issue – attached at Appendix 2.

Consultation Response

2.2 It is proposed to focus the Councils response on Chapter 4.

It is proposed to make the following points with regard to the conduct of the performance improvement work within Chapter 4:

- Need to ensure economic, efficient , effective and timely delivery of audits and assessments
- Working together of internal and external audit to achieve these objectives
- Importance of trust between external and internal audit functions
- Need to establish effective coordination arrangements
- Constructive and positive approach to work by LGA

3.0 **Resource Implications**

3.1 N/A.

4.0 **Appendices**

4.1 Appendix 1: Code of Practice
Appendix 2 : APSE Briefing 15/49



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Dear Consultee

2 September 2015

CONSULTATION ON THE DRAFT CODE OF AUDIT PRACTICE FOR LOCAL GOVERNMENT BODIES IN NORTHERN IRELAND 2016

The work of the Local Government Auditor and the NIAO as external auditors of local government bodies plays an important role in improving public services and helping people hold users of public money to account. To support this, people must be confident that we conduct our work within a framework that promotes high quality audit, carried out consistently. This confidence has its roots in clear, public communication of what the requirements of auditors are. The draft Code of Audit Practice aims to provide this clarity. It sets out the framework that auditors of local government bodies are required to operate within, in order for me to meet my statutory responsibilities as the Local Government Auditor. As such, it forms an important part of the framework of local government audit, set out in the Local Government (Northern Ireland) Order 2005 (the Order) and the Local Government Act (Northern Ireland) 2014 (the Act).

Article 5 of the 2005 Order requires me to prepare a draft Code of Audit Practice (the Code) for local government bodies in Northern Ireland and to have this approved by resolution of the Assembly at intervals of no more than five years. The first such Code was published in 2006, renewed in 2011 and a new Code is now required, which must be consulted on and published by 1st April 2016.

I am pleased to enclose a draft of the 2016 Code of Audit Practice for local government bodies in Northern Ireland (see **Annex A**). I also enclose additional background information to the draft Code and a series of consultation questions (see **Annex B**). A list of consultees is included at **Annex C**. When finalised, the Code will replace the existing 2011 Code of Audit Practice.

The draft 2016 Code is principles based and, for the first time, includes my additional statutory audit responsibilities in relation to the new local government bodies' performance improvement framework. It also introduces the approach to be adopted for smaller local government bodies. Being principles based, I believe that the draft 2016 Code is sufficiently flexible to adapt to any changes in audit practice over its five year lifespan.

The Code of Audit Practice must address the needs of a wide variety of stakeholders, including audited bodies, audit practitioners, the local electorate and wider community of service users, and the Northern Ireland Assembly. Your views will play an important part in helping me produce a code that meets this objective. I am pleased to issue the draft Code of Audit Practice for public consultation and look forward to receiving your comments.

You can also view the document on the Northern Ireland Audit Office's (NIAO) website. If you consider that this consultation should be copied to other interested parties, with whom I have not directly consulted, please contact me as soon as possible and I will consider their inclusion.

The NIAO tries to make its consultation procedure as thorough and open as possible. Following the end of the consultation we may publish details of the responses received. Information you provide in your response, including personal information, may be published or disclosed in accordance with access to information legislation: these are chiefly the Freedom of Information Act 2000 (FOIA); the Data protection Act 1998 (DPA) and the Environmental Information Regulations 2004 (EIR). If you want the information treated as confidential, please be aware that, under the FOIA, there is a statutory Code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the NIAO.

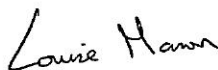
For further information about the confidentiality of responses please contact the Information Commissioner's Office or e-mail ni@ico.gsi.gov.uk or see web site at www.ico.gov.uk.

Copies of the public consultation document can be made available in Braille, on audiotape or in large print if so required.

Comments on the draft Code should be made in writing using the consultation response form provided and may be forwarded electronically via e-mail to kyle.bingham@niauditoffice.gov.uk or alternatively, via post to Mr Kyle Bingham, Northern Ireland Audit Office, 106 University Street, Belfast BT7 1EU.

The closing date for responses is 4.00pm on 1 December 2015.

Yours sincerely



LOUISE MASON
Local Government Auditor

Annex A

DRAFT Code of Audit Practice 2016

In relation to the functions of the Local Government Auditor in the audit of Local Government Bodies in Northern Ireland – March 2016

DRAFT Code to lie before the Northern Ireland Assembly under Article 5(7) of the Local Government (Northern Ireland) Order 2005 by the Department of the Environment

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Glossary

Preface

The role of external audit in the local government sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. It involves the Local Government Auditor giving an independent opinion on local government bodies'¹ financial statements (referred to in legislation as 'statement of accounts') and includes a review, and report on, aspects of the arrangements put in place by them to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the local government sector is characterised by three distinct features:

- the Local Government Auditor is appointed independently from the bodies being audited;
- the Local Government Auditor's work covers not only the audit of financial statements but also includes aspects of corporate governance, arrangements to secure the economic, efficient and effective use of resources, performance improvement, value for money studies and grant certification; and
- the Local Government Auditor may report aspects of his/her work to the public and other key stakeholders.

These features are consistent with the 'principles of public audit' as defined by the Public Audit Forum which comprises all the national audit agencies in the United Kingdom (UK).

¹ Local government bodies include councils, joint committees and the Local Government Staff Commission.

The roles of the department with regulatory responsibility and the Northern Ireland Audit Office

The department with regulatory responsibility (the Department)² is a central government Department with statutory responsibilities to regulate the external audit of local government bodies in Northern Ireland.

The Local Government (Northern Ireland) Order 2005 (the Order) provides that the Department may, with the consent of the Comptroller and Auditor General³, designate a member of staff of the NIAO as the Local Government Auditor and another as a Deputy Local Government Auditor.

While the designated Local Government Auditor has responsibility for the functions to which this Code relates, operationally much of the work carried out is delegated to others. The Local Government Auditor has made arrangements with the Comptroller and Auditor General for members of staff of the NIAO and with private audit firms to assist in conducting his/her functions.

Consequently, in this Code the use of the terms 'auditor' and 'auditors' apply collectively to:

- the Local Government Auditor;
- employees of the Northern Ireland Audit Office (NIAO); and
- any person who provides audit services to the NIAO.

Auditors carry out the statutory responsibilities, and exercise their professional judgement, independently of the Department and the Comptroller and Auditor General.

The NIAO has established arrangements for the training and development of audit staff, the provision of advice and support on technical matters and regulating the quality of audit work, which assist the Local Government Auditor in the discharge of his/her audit work.

² Currently the Department of the Environment.

³ The Comptroller and Auditor General is an Officer of the Northern Ireland Assembly and is the head of the Northern Ireland Audit Office. The Northern Ireland Audit Office scrutinises public spending on behalf of the Northern Ireland Assembly.

Statutory responsibilities and powers of the Local Government Auditor

The statutory responsibilities and powers of the designated Local Government Auditor relating to local government bodies are set out in the Order and the Local Government (Northern Ireland) Act 2014 (the Act). In discharging the Local Government Auditor's specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with a Code of Audit Practice.

The Code of Audit Practice

Article 5 of the Order requires the Local Government Auditor to prepare, and keep under review, a Code of Audit Practice (the Code) prescribing the way in which the functions under the Order are to be carried out, and which embodies "*what appears to the Local Government Auditor to be the best professional practice with respect to the standards, procedures and techniques to be adopted by the Local Government Auditor*".

The Code must be read in conjunction with any regulations made under Article 24 of the Order as regards the accounts and audit of local government bodies.

Article 102 of the Act provides that performance improvement audit and assessment functions be included in the Code.

The Local Government Auditor is committed to keeping the Code up to date to reflect changes, in the operating environment of audited bodies, statutory legislation, as well as auditing standards and practice. He/she may amend the Code where appropriate in the light of practical experience.

The Code must be approved by a resolution of the Northern Ireland Assembly at intervals of not more than five years. In the intervening period, the Code may be amended by the Local Government Auditor in consultation with councils and other appropriate bodies and persons.

The Local Government Auditor's approach

The Code covers the audit of all different types of local government body, as the core statutory responsibilities placed on the Local Government Auditor are essentially the same. In line with other UK regions, a principles-based, rather than a rules-based approach has been adopted. As with the extant codes, this has allowed the Local Government Auditor to:

- prepare a concise, high level code applicable to the audit of all local government bodies within the local government audit model established by legislation;
- provide a clear framework for auditors to meet the statutory duties;
- ensure that the Code does not quickly become out of date as the regulatory environment continues to evolve; and
- adopt a flexible approach that is responsive to sector developments and to the specific risks identified.

As has been the case, it follows that the amount of work required to perform a good quality audit may increase or decrease in response to the individual circumstances of each local government body. This is something on which the audited body is likely to have a view and auditors should discuss the audit approach with the audited body. Ultimately, though, this must be a matter for the auditors' independent, professional judgement.

Chapter One

Status of the Code, scope and general principles

- 1.1 This chapter covers the status of the Code, provides details on its application and sets out principles which will underpin the conduct and work of the Local Government Auditor in discharging his/her statutory duties.

Status of the Code

- 1.2 The Local Government Auditor is required to prepare the Code under Article 5(3) of the Order and to lay it before the Northern Ireland Assembly for approval. The Code was laid before the Northern Ireland Assembly on [XX] March 2016 and comes into effect from 1 April 2016. It replaces the Code that has been in effect from 1 April 2011.
- 1.3 The Code applies to the audit of all local government bodies in relation to their financial statements from the financial year 2015-16 onwards and until the Code is replaced; and
- 1.4 The Code also applies to the audit and assessment of councils' performance improvement duties. These duties were to be phased in over three years and began in the financial year 2015-16.

Scope of the Code

- 1.5 The Code prescribes the way in which the Local Government Auditor, as outlined in Article 4⁴ of the Order, should carry out his/her functions under the Order and the Act. As with any code that attempts to cover a wide variety of circumstances, the application of the Code in any particular case will depend on the specific circumstances, any relevant supplementary guidance and on the Local Government Auditor's assessment of what is reasonable and appropriate in those circumstances. All the provisions of the Code are to be read and applied with that necessary qualification.

⁴ As amended by the Local Government Act (Northern Ireland) 2014.

Principles

Wider Scope

- 1.6 Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the truth and fairness of the financial statements, but also:
- arrangements for securing economy, efficiency and effectiveness in the use of resources; and
 - arrangements to secure continuous performance improvement in the exercise of its functions.
- 1.7 The Local Government Auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

Integrity, objectivity and independence

- 1.8 Auditors should carry out their work with integrity, objectivity and independence. This should be done in accordance with the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the International Federation of Accountants, and the International Organisation of Supreme Audit Institutions. Auditors are also subject to the ethical codes of their professional institutes - such as the Chartered Institute of Public Finance and Accountancy and Chartered Accountants Ireland.
- 1.9 Auditors exercise their professional judgement and act independently of both the Department and the audited body. Auditors should be, and should be seen to be, impartial and independent. Accordingly, they should not carry out any other work for an audited body, if that work would impair their independence in carrying out any of the Local Government Auditor's statutory duties, or might reasonably be perceived as doing so.

Transparency and public reporting

- 1.10 The Local Government Auditor has a range of means at his/her disposal, set out in the relevant legislation, by which his/her findings may be reported publically. The Local Government Auditor should report on a timely basis without fear or favour, using his/her professional judgement on the most appropriate and effective means of reporting.

Professionalism and proportionality

- 1.11 Auditors should carry out their work in compliance with the requirements of the Code which itself requires compliance, where applicable, with relevant professional standards issued by the Financial Reporting Council and relevant quality control standards. The work should be risk-based and proportionate. It should be designed to meet the Local Government Auditor's statutory responsibilities, with auditors applying their professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise. Auditors should ensure that each audit is conducted economically, efficiently, effectively and in as timely a way as possible.
- 1.12 In carrying out their work, auditors should exercise professional scepticism. They should obtain and document such information and explanations as they consider necessary to provide sufficient, appropriate evidence in support of the Local Government Auditor's judgments. Auditors should meet the requirements of the legislation, the Code and, where applicable, professional standards.
- 1.13 There may be circumstances in which it appears to the auditor that aspects of the Code need to be applied in a certain way in order to meet the specific circumstances of certain bodies, for example smaller local government bodies because of the nature of their business or the relatively small amounts of public money that they control. In such circumstances auditors will apply their professional judgement.

Coordination and integration

- 1.14 Local government bodies can operate, commission and deliver services in a range of partnerships and other forms of joint working or contracts with other

public, private or third sector bodies. In meeting his/her statutory duties the Local Government Auditor should consider how best to obtain assurance over such arrangements.

- 1.15 Auditors should establish effective co-ordination arrangements with internal audit and seek to place reliance on the work of internal audit whenever possible.
- 1.16 Auditors should adopt an integrated approach, where the knowledge gathered and work carried out in support of each of the Local Government Auditor's statutory and reporting obligations informs his/her judgments and conclusions as a whole.

Constructive approach

- 1.17 Auditors should adopt a constructive and positive approach to their work. They should share and discuss the audit plan at an early stage with the audited body. Auditors in their support and encouragement of worthwhile change should consider carefully the practical and resource implications for the audited body when framing recommendations arising from the audit.

Data Security and Confidentiality

- 1.18 Auditors should familiarise themselves and comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of data, particularly personal data received or obtained during the course of their audit work.

Chapter Two

Audit of the financial statements

- 2.1 This chapter sets out how the Local Government Auditor's statutory duties in respect of the audit of the financial statements of local government bodies are addressed and are set out in Schedule 1 of this Code.
- 2.2 The auditor of a body that meets the qualifying conditions of a smaller body should apply modified procedures as set out in Chapter Seven of the Code.

Responsibilities of the audited body

- 2.3 The specific responsibilities of audited bodies regarding the production and reporting of financial statements and other information depend on relevant legislation, regulations and any other requirements that may be placed upon them. All audited bodies are expected to have effective corporate governance arrangements to deliver their objectives. To this end, the publication of the financial statements, are an essential means by which an audited body accounts for its stewardship and use of public money at its disposal.
- 2.4 The precise form and content of the audited body's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place for that particular type of audited body and any additional guidance issued in support of the accounting and reporting framework.
- 2.5 The audited body may also be required to prepare a return to facilitate the preparation of HM Treasury's Whole of Government Accounts.

Responsibilities of the Local Government Auditor

- 2.6 To meet the duties in respect of the audit of the financial statements, auditors should comply with auditing standards currently in place, as may be amended from time to time, having regard to any other relevant guidance and advice issued by the Financial Reporting Council, including Ethical Standards.

- 2.7 Auditors should undertake work to support the provision of the Local Government Auditor's audit report to the audited body. In respect of the audit of the financial statements the Local Government Auditor's report should include the following components:

Opinion on the audited body's financial statements

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Opinion on other matters

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Opinion which can be reported by exception

There is a wide range of matters, which can be reported by exception and these are outlined in Schedule 2 of the Code.

- 2.8 Other information published together with the audited financial statements covers material that the audited body chooses, or is required to provide, alongside its financial statements, for example the annual governance statement. In reading the information given with the financial statements, auditors should take into account the knowledge of the audited body, including that gained from carrying out audit work in relation to the body's proper arrangements for securing economy, efficiency and effectiveness in its use of resources and performance improvement.

Chapter Three

The Local Government Auditor's work on economy, efficiency and effectiveness

- 3.1 This chapter addresses the Local Government Auditor's statutory duties in respect of the audited body's proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. It also outlines the Local Government Auditor's statutory power in relation to the undertaking of comparative and other studies of local government bodies designed to lead to improvements in economy, efficiency and effectiveness in the provision of services. Details of these duties are set out in Schedule 1 of this Code.

Responsibilities of the audited body

- 3.2 Local government bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal. It is their responsibility to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
- 3.3 As part of the material published in the governance statement within its financial statements, the audited body is required to bring together commentary on its governance framework and how this has operated during the period.
- 3.4 In preparing its governance statement, the audited body will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This should include a description of the arrangements for ensuring that its functions and services are delivered in a manner which represents the best use of resources, having regard to a combination of economy, efficiency and effectiveness.

Responsibilities of the Local Government Auditor

- 3.5 The Local Government Auditor has a statutory responsibility to satisfy himself/herself that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 3.6 In meeting this responsibility auditors should ensure that sufficient work is undertaken to be able to satisfy themselves as to whether, in their view, the audited body has put proper arrangements in place that support the achievement of value for money. In carrying out this work, the auditors are not required to satisfy themselves that the audited body has achieved value for money during the reporting period. However, should evidence of poor value for money come to auditor's attention during the course of an audit, they should consider the implications of this for their work.
- 3.7 The auditors' work should be underpinned by consideration of what proper arrangements the audited body is expected to have in place. This should be based on any relevant requirements, guidance and good practice in the areas that they decide to review.
- 3.8 Auditors should take into account their knowledge of the local government sector as a whole, and the audited body specifically, to identify any risks that, in their judgement, have the potential to cause the Local Government Auditor to reach an inappropriate conclusion on the audited body's proper arrangements. An understanding of the sector includes the relevant regulatory framework, which may influence the auditors' assessment of the risk.
- 3.9 The auditors' work should be designed to enable the Local Government Auditor to form a view of the arrangements management has made and report his/her conclusion to those charged with governance that the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant financial year.

3.10 In addition, the Local Government Auditor may and, if required by the Department, undertake comparative and other studies designed to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

Chapter Four

The Local Government Auditor's work on performance improvement

- 4.1 This chapter describes how the Local Government Auditor will exercise his/her functions relating to the performance improvement duties of councils and are set out in Schedule 1 of this Code.

Responsibilities of the audited body

- 4.2 Councils have a general duty to make arrangements to secure continuous improvement in the exercise of their functions and to set improvement objectives for each financial year. Councils will be required to gather information to assess improvements in their services and to issue a report annually on their performance against indicators which they have either set themselves or that have been set by Departments. Councils' performance improvement plans and the arrangements made to deliver on those plans, will be audited by the Local Government Auditor.

Responsibilities of the Local Government Auditor

- 4.3 As directed by the Department, the Local Government Auditor has a statutory responsibility for each financial year to determine and report on whether:
- a council has discharged its duties in relation to improvement planning, published the required improvement information and the extent to which the council has acted in accordance with any guidance issued with the Department in relation to those duties; and
 - a council is likely to comply with its statutory requirements to make arrangements to secure continuous improvement in the exercise of their functions.

4.4 To discharge his/her functions the Local Government Auditor will:

- undertake improvement information and planning audits, to ascertain whether a council has discharged its duties for publishing improvement planning and performance information;
- carry out improvement assessments, to determine whether a council is likely to comply with its statutory requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
- report on improvement audit and assessment work.

4.5 The Local Government Auditor will exercise his/her improvement audit and assessment functions:

- consistently between councils;
- proportionately so as not to impose an unreasonable burden on councils; and
- with a view to assisting councils to comply with their duties in relation to securing continuous improvement.

4.6 In certain circumstances, the Local Government Auditor may decide, or be requested by the Department, to carry out special inspection of a council's compliance with its duties in relation to securing continuous improvement.

4.7 Each year when carrying out performance improvement assessments, auditors will assess whether councils have given due regard to sustainability and other aspects of improvement into account in their arrangements to secure continuous improvement.

4.8 If the Local Government Auditor thinks it appropriate in the light of a performance improvement audit, assessment or special inspection, he/she may make recommendations to the Department to provide assistance to a council or to give it a direction. The Local Government Auditor will clearly outline the rationale for making such recommendations, based on improvement audit, assessment or inspection findings.

Chapter Five

Reporting the results of the Local Government Auditor's work

- 5.1 This chapter addresses the Local Government Auditor's statutory duties for reporting the results of the audit as summarised within Schedule 1 of this Code.
- 5.2 The Local Government Auditor should report the results of his/her work using a range of outputs at the appropriate point in the audit process as set out below:

Planning the audit

- an audit planning document – sets out how the Local Government Auditor intends to carry out his/her duties in respect of the annual accounts in accordance with auditing standards. In addition to planned work on the audit of the annual accounts, the audit planning document should encompass the auditor's planned work to meet their duties in respect of:
 - the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources; and
 - to secure continuous improvement in the exercise of their functions and to set improvement objectives for each financial year.

Auditors should discuss their risk assessment and planned approach as set out in the audit planning report with management and those charged with governance.

Completion of audit fieldwork

- a report to those charged with governance– the report should communicate to the audited body more detailed matters arising from all audit work performed in the year. The report will include those additional points which the auditor views as offering the Chief Financial Officer the opportunity to improve the management of the audited body.

Conclusion of the audit

- an audit report – the audit report should cover the results of the auditor's work on the annual accounts as set out at paragraphs 2.5 to 2.9 of the Code. The audit report should also include, by exception, any report by the Local Government on a range of additional matters as appropriate.
- audit completion certificate – the Local Government Auditor should certify the completion of the audit. This usually forms part of the audit report. The effect of the certificate is to close the audit. This marks the point when the Local Government Auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged. There may be occasions when the Local Government Auditor is able to issue the audit report, but cannot certify completion of the audit as certain, non-material issues remain outstanding. In such circumstances, the Local Government Auditor should consider whether to issue his/her audit report ahead of certifying closure of the audit.
- an annual audit letter – the annual audit letter should provide a clear, readily understandable commentary on the results of both the financial statement audit and the work on proper arrangements. It should also highlight any issues that the Local Government Auditor wishes to draw to the attention of the public. The Local Government Auditor should issue the annual audit letter as soon as possible after he/she has certified that

the audit is complete.⁵ It is the responsibility of the council to publish the annual audit letter.

- audit and assessment report – will be issued to the Chief Executive of each council and the Department. The report will state whether the Local Government Auditor believes that the council is likely to comply with the statutory duty to make arrangements to secure continuous improvement during the current financial year, he/she may also comment on whether the authority is likely to comply in subsequent years.
- annual improvement reports - the Local Government Auditor will publish an annual improvement report on each council which summarises all of the work done in relation to the performance and improvement duties.

Any stage during the audit

5.3 Auditors may progress the actions and outputs identified below at any stage during their work:

- communication on specific elements of their work – auditors should maintain regular communication with the audited body to ensure that emerging findings are raised on a timely basis in the form, and at the level within the audited body, they judge appropriate.
- reports in the public interest – the Local Government Auditor should consider whether, in the public interest, he/she should report on any matter that comes to his/her notice so that it is brought to the attention of the audited body and the public:
 - when preparing and issuing reports in the public interest, the Local Government Auditor should tailor his/her approach to the urgency and significance of his/her concerns. The Local Government Auditor should make a report during the audit if he/she considers

⁵ Publication of the annual audit letter by a local government body is a statutory requirement under the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Part 5, section 17.

the matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency;

- if the Local Government Auditor issues a report in the public interest, this should be referred to in the audit report and the annual audit letter.
- written recommendations – the Local Government Auditor should consider whether to use the powers the Order provides to make written recommendations to the audited body which need to be considered by the body and responded to publicly. Where the Local Government Auditor considers it necessary to make such recommendations, these can be made during or at the end of the audit and can be included, where relevant, within other written outputs from the audit (including the audit report) or they may be the subject of a specific report to the audited body.
- special investigations - if the Local Government Auditor is of the opinion that a council may fail to comply with its performance improvement duties, or if the Department directs the Local Government Auditor to carry out an inspection, then the Local Government Auditor may carry out a special inspection of the council. Such inspections may relate to some or all of a council's functions. Before deciding whether to inspect, the Local Government Auditor must consult the Department.

Chapter Six

The Local Government Auditor's additional powers and duties

- 6.1 This chapter addresses the Local Government Auditor's use of certain additional powers and duties as summarised in Schedule 1.
- 6.2 In exercising any of the additional powers and duties the Local Government Auditor should tailor his/her approach to the particular circumstances of the matters under consideration.
- 6.3 Where any representations are made to the Local Government Auditor or relevant matters otherwise come to his/her attention, the Local Government Auditor should consider whether the matter needs investigation and action under these additional powers and duties or whether it can be considered more effectively within planned work programmes and reporting arrangements under the Local Government Auditor's other audit engagement responsibilities.
- 6.4 In considering whether to exercise any of his/her additional powers and duties, and in determining the time and resource to be spent on dealing with matters that come to their attention, the Local Government Auditor should consider the relevant requirements of the Order and:
- the significance of the subject matter;
 - whether there is wider public interest in the issues raised;
 - whether the substance of the matter has been considered previously by the Local Government Auditor;
 - the costs of dealing with the matter, bearing in mind that these are borne by the taxpayer; and

- in the case of objections, the rights of both those subject to objection and of the objector.

Chapter Seven

Smaller local government bodies

- 7.1 This Chapter sets out the approach to be adopted for the audit of smaller local government bodies. Smaller local government bodies are defined in the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (the Regulations) as:
- A committee of a council for which accounts are separately kept;
 - A joint committee of two or more councils; or
 - A local government body which-
 - Is an established body, which meets the qualifying condition for the year concerned and for either of the two preceding years;
 - Is a newly established body, which meets the qualifying condition for its first year.

Responsibilities of the smaller local government body

- 7.2 A smaller local government body should prepare a statement of accounts each year in accordance with proper accounting practices, the regulations and in the form directed by the Department. The form of the statement of accounts is determined by the Department.

Responsibilities of the local government auditor (smaller local government bodies)

- 7.3 The Local Government Auditor's approach for the audit of smaller government bodies will be confirmed when the Department issues its direction in accordance with the regulations. The approach to the audit will be determined taking due

consideration of the principles within this code and particularly consideration of proportionality.

Chapter Eight

The Local Government Auditor's rights of access to third parties

- 8.1 This section sets out how the Local Government Auditor fulfils the statutory function which relates to access to third parties, as summarised in Schedule 1.
- 8.2 The Code aims to ensure that the statutory access rights provided to the auditors, to documents which are held by third parties and relate to local government bodies, are exercised in the same professional manner as access rights provided to documents held by local government bodies. This is to ensure that sufficient information is obtained for the purposes of the examination being undertaken without placing unnecessary burden on those subject to access.
- 8.3 The Code concerns the relations between the auditors, third parties that are subject to their right of access, and local government bodies.

Notification

- 8.4 Auditors will normally consult local government bodies on their intention to exercise statutory access rights to documents held by third parties. The need for consultation may not apply in exceptional circumstances (see under Exceptional circumstances below).

Explanation of work

- 8.5 Auditors will explain the basis of the decision to exercise their right of access to documents held by third parties, set out the purpose and scope of the intended examination, and consider comments from the third party and the local government body. This will include cases where the Department or the Local Government Auditor has statutory powers to undertake comparative and other studies to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

Purpose of Access

8.6 This Code makes clear that:

- statutory access to third party documents is needed to enable the Local Government Auditor to carry out any of his/her statutory duties, including comparative and other studies when required by the Department or the Local Government Auditor to undertake this work;
- Auditors access will be limited to papers and records which relate to the local government body, not to the business of the third party; and
- the Local Government Auditor will not be seeking to conduct a study of the business of the third party.

Extent of work

8.7 Auditors apply professional auditing standards and professional judgement when determining the level of work necessary to complete an investigation. In doing so, the auditors seeks to use the most efficient techniques to obtain the evidence required and minimise the impact on the body concerned. Where possible, the auditor will place reliance on relevant work completed by other parties – for example, by working with or making use of the work of internal audit, or other auditors.

8.8 The Local Government Auditor anticipates no significant increase in the overall volume of existing local government audit work from the exercise of such rights.

Facilitation of access

8.9 Third parties will provide auditors, at all reasonable times, access to all such documents as they may reasonably require.

Reporting back

- 8.10 Auditors will inform the third party and the local government body of the results of his/her work within a reasonable period of completion and take into account comments on factual accuracy and fair presentation.

Resolution of issues

- 8.11 Local government bodies, that have issues with the exercise of the statutory access rights to documents held by third parties, should seek to resolve them with their auditor. Where a third party which has been subject to access has concerns about the approach taken it will similarly be able to discuss such concerns with the auditor.

Exceptional circumstances

- 8.12 There may be exceptional circumstances that will override the arrangements set out above, such as alleged fraud or impropriety.

Restrictions on disclosure of information by the Local Government Auditor

- 8.13 Article 27 of the Order places restrictions on the Local Government Auditor with regards the disclosure of information obtained relating to third parties during the course of his/her statutory work.

Schedule 1

The Local Government Auditor's statutory responsibilities in relation to local government bodies

Schedule 1 aims to provide an accessible view of the Local Government Auditor's responsibilities. To achieve this, the schedule summarises (rather than reproduces) relevant sections of both the Order and the Act. The schedule is not intended to be a substitute for consideration of the detailed requirements of either.

Schedule 1	
The Local Government Auditor's statutory responsibilities	
Local government bodies	Statute
Audit scope	
To be satisfied that the accounts comply with statutory requirements	Article 6(1)(a)(b) Local Government (Northern Ireland) Order 2005
To be satisfied that proper practices have been observed in compiling the accounts.	Article 6(1)(c) Local Government (Northern Ireland) Order 2005
To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.	Article 6(1)(d) Local Government (Northern Ireland) Order 2005
To be satisfied that a council has discharged its performance improvement duties and acted in accordance with any guidance.	Section 93 Local Government (Northern Ireland) Act 2014
To determine whether a council is likely to comply with its performance improvement duties in the financial year and in subsequent financial years.	Section 94 Local Government (Northern Ireland) Act 2014

Schedule 1	
The Local Government Auditor's statutory responsibilities	
Reporting	
To comply with the Code of Audit Practice prepared by the Local Government Auditor and approved by the Northern Ireland Assembly.	Article 6(2) Local Government (Northern Ireland) Order 2005
To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.	Article 9 Local Government (Northern Ireland) Order 2005
To certify the completion of the audit.	Article 10(1)(a) Local Government (Northern Ireland) Order 2005
To express an opinion on the accounts.	Article 10(1)(b) Local Government (Northern Ireland) Order 2005
To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	Article 12(2) Local Government (Northern Ireland) Order 2005
To issue an 'audit and assessment report' each financial year in respect of each council certifying whether a council has discharged its performance improvement duties and acted in accordance with any guidance. In addition, the report will include a statement from the Local Government Auditor stating whether or not he/she believes that the council is likely to comply with its performance duties.	Section 95 Local Government (Northern Ireland) 2015 Act
To publish an 'annual improvement report' in relation to each council which summarises or reproduces the Section 95 report and the results of any special inspection work	Section 97 Local Government (Northern Ireland) 2015 Act

Schedule 1	
The Local Government Auditor's statutory responsibilities	
<p>Additional powers and duties</p> <p>Each year, prepare a report as to the exercise of the Local Government Auditor's functions and send a copy of the report to each council and the Department.</p> <p>To give interested persons the opportunity to raise questions with the auditor about the accounts and for the Local Government Auditor to consider and decide upon objections received in relation to the accounts.</p> <p>To consider whether to apply to the court for a declaration that an item of account is contrary to law.</p> <p>To consider whether there has been a loss or deficiency caused by a failure to account or wilful misconduct.</p> <p>To consider whether to make an application for judicial review.</p> <p>To perform an extraordinary audit of the accounts of any local government body if, at any time, it is directed by the Department.</p> <p>To audit the accounts of a local government officer where that officer is in receipt of money or other property on behalf of a local government body or for which he/she ought to account to that body.</p> <p>To make arrangements, if so required by a local government body, for certifying claims, returns or accounts in respect of certain grants or subsidies.</p> <p>To undertake comparative and other studies designed to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies and to publish the results and recommendations.</p>	<p>Article 4 Local Government (Northern Ireland) Order 2005</p> <p>Articles 17 and 18 Local Government (Northern Ireland) Order 2005</p> <p>Article 19 Local Government (Northern Ireland) Order 2005</p> <p>Article 20 Local Government (Northern Ireland) Order 2005</p> <p>Article 21 Local Government (Northern Ireland) Order 2005</p> <p>Article 22 Local Government (Northern Ireland) Order 2005</p> <p>Article 23 Local Government (Northern Ireland) Order 2005</p> <p>Article 25 Local Government (Northern Ireland) Order 2005</p> <p>Article 26 Local Government (Northern Ireland) Order 2005</p>
<p>Access rights</p> <p>To have access at all reasonable times to every document relating to a local government body.</p> <p>To restrict disclosure by the Local Government Auditor of information obtained during the course of their work to third parties.</p>	<p>Article 7 Local Government (Northern Ireland) Order 2005</p> <p>Article 27 Local Government (Northern Ireland) Order 2005</p>

Schedule 2

Audit report: Inclusion of additional matters by exception

Schedule 2 aims to provide an accessible view of the Local Government Auditor's responsibilities in relation to a wide range of matters which can be reported by exception. To achieve this, the schedule summarises (rather than reproduces) relevant sections of the Act and Departmental guidance. The schedule is not intended to be a substitute for consideration of the detailed requirements of either.

Schedule 2

Audit report: Inclusion of additional matters by exception

If the Annual Governance Statement does not reflect compliance with proper practices, as required by the Department.

Matters reported in the public interest under Article 9 of the Local Government (Northern Ireland) Order 2005.

Any recommendations made to the audited body under Article 12 of the Local Government (Northern Ireland) Order 2005.

Application to the High Court for a declaration that an item of account is contrary to law under Article 19 of the Local Government (Northern Ireland) Order 2005.

Certification of a loss caused by a failure to account or willful misconduct under Article 20 of the Local Government (Northern Ireland) Order 2005.

Application for judicial review under Article 21 of the Local Government (Northern Ireland) Order 2005.

Glossary

Term	Definition
Accounting standards	Accounting standards are authoritative statements of how transactions and balances are to be recognised, measured, presented and disclosed in financial statements.
Act 'the'	The Local Government (Northern Ireland) Act 2014
Annual audit letter	Report issued by the Local Government Auditor to an audited body, which summarises the audit work carried out in the period, the Local Government Auditor's opinions or conclusions (where appropriate) and significant issues arising from his/her work.
Annual governance statement	The Order requires local government bodies to ensure that their financial management is adequate and effective and that it has a sound system of internal control. It provides that a local government body shall conduct a review each financial year on the effectiveness of its system of internal control and that a statement shall be prepared in accordance with proper practices. The Department of Environment in Circular LG/04/08 has defined proper practices for a statement of internal control as the Annual Governance Statement prepared in accordance with CIPFA's Delivering Good Governance in Local Government: Framework (2007) and Addendum (2012).
Annual report	The annual report describes the aims and achievements of an audited body during a particular year. While not required to do so, local government bodies may provide an annual report alongside their financial statements.
Audited body	A body to which the Department of the Environment is responsible for assigning the local government auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'members' and 'those charged with governance').
Auditor(s)	This term includes the terms 'auditor' and 'auditors' collectively to: <ul style="list-style-type: none"> - the Local Government Auditor; - employees of the Northern Ireland Audit Office; and - any person who provides audit services to the NIAO.
Auditing standards	Standards, issued by the Financial Reporting Council, which the Local Government Auditor is required to comply with when conducting an audit of the financial statements.

Term	Definition
Code (the)	The Code of Audit Practice issued by the Local Government Auditor and approved by the Northern Ireland Assembly.
Consolidated accounts	Financial statements of a group in which the assets, liabilities, reserves, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
Corporate governance	The system of structures, rights, duties and obligations by which organisations are directed and controlled.
The Department	The central government Department with statutory responsibilities to regulate the external audit of local government bodies in Northern Ireland and to promote improvement in the provision of services by local government bodies.
Ethical Standards	Standards issued by the Financial Reporting Council that contain basic principles that apply to the conduct of audits and with which external auditors are required to comply, except where otherwise stated in the standard concerned.
External audit	The audit of the accounts of an audited body, which comprises the audit of the financial statements and other work to meet the Local Government Audit's statutory responsibilities under the Local Government (Northern Ireland) Order 2005. In addition, it includes performance improvement audits and assessments under Part 12 of the Local Government (Northern Ireland) Act 2014.
Financial Reporting Council (FRC)	The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.
Financial statements (also see Statement of Accounts)	The financial statements or Statement of Accounts in the prescribed form.
Internal audit	Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. Local government bodies are required to have an internal audit function.

Term	Definition
Local government bodies	A council, a committee of a council for which accounts are separately kept, or a joint committee of two or more councils (as defined in Article 3(2) of the Order).
Members	The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'those charged with governance' and 'audited body').
NIAO	Northern Ireland Audit Office.
Order (the)	The Local Government (Northern Ireland) Order 2005
Private supply firms	Privately owned audit firms and companies who have been contracted to supply audit services and/or resources on behalf of the Local Government Auditor.
Professional standards	In the context of the Code, professional standards comprise auditing, standards, ethical standards and quality standards – these are defined in this glossary.
Quality control standards	International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board) IAASB or any other relevant standards with which the Local Government Auditor is required to comply.
Regulations	Secondary legislation made by the Department of the Environment using powers conferred by the Northern Ireland Assembly.
Report by exception	Reporting only when information or the results of the Local Government Auditor's work is materially inconsistent with his/her understanding of the body or the requirements placed on the body.
Should	The Code of Audit Practice has been approved by the Northern Ireland Assembly. It has the status of secondary legislation and the Local Government Auditor's compliance with the Code is mandatory. The use 'should' highlights a specific requirement placed on the Local Government Auditor within the Code.
Studies for improving economy, efficiency and effectiveness	Under Article 26 of the Order, the Local Government Auditor may and, if required by the Department, shall, carry out 'value for money' studies in local government, to enable his/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

Term	Definition
Statement of accounts (also see Financial Statements)	The annual statement of accounts or financial statements in the prescribed form.
Third Sector	The third sector includes voluntary and community organisations, social enterprises and cooperative and mutual organisations.
Those charged with governance	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
Value for money	<p>Making the best use of resources through:</p> <ul style="list-style-type: none"> • Economy – minimising the cost of resources used or required; • Efficiency – obtaining an optimal relationship between the resources used and the outputs/impacts achieved; and • Effectiveness – achieving alignment between intended and actual outcomes.
Whole of Government Accounts	The Whole of Government Accounts (WGA) are the consolidated financial statements for the whole of the United Kingdom public sector, showing what the United Kingdom government spends and receives and what it owns and owes.

Annex B

Background information and consultation questions

Background information

The Local Government (Northern Ireland) Order 2005 (the Order) included revised audit and accounts provisions for local government bodies in Northern Ireland. These brought the responsibilities of local government bodies in Northern Ireland, and the local government auditors (now referred to as the Local Government Auditor) designated to audit these bodies, broadly into line with arrangements that exist in England and Wales. Similar legislative provisions were introduced in England with the Audit Commission Act 1998, and in Wales with the Public Audit (Wales) Act 2004.

Since then the arrangements in England have been revised by the Local Audit and Accountability Act 2014 and in Wales by the Public Audit (Wales) Act 2013. In Northern Ireland the Order remains in place following some minor revisions introduced by the Local Government (Northern Ireland) Act 2014 (the Act). The Act also widened the statutory responsibilities of the Local Government Auditor to include performance improvement audits and assessments relating to the eleven new Councils. In addition, the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (the Regulations) introduced and defined smaller local government bodies.

Section 5 of the revised Order includes a requirement that *“the local government auditor shall prepare, and keep under review, a code of audit practice prescribing the way in which the functions of the local government auditor.....are to be carried out”* under this Order. The Code of Audit Practice (the Code) must embody *“what appears to the local government auditor to be best professional practice with respect to the standards, procedures and techniques to be adopted by the local government auditor”*. The Order outlines that the Code does not come into force until approved by the Northern Ireland Assembly and that the Assembly’s continued approval of the Code will be sought at

intervals of no more than five years. Under the Order, the first Code was prepared in 2006 and revised in 2011.

In addition the Order requires the Local Government Auditor, before preparing or altering the Code, to consult district councils and, as seems appropriate:

- i. associations or bodies representative of district councils
- ii. associations or bodies representative of officers of councils
- iii. bodies of accountants;
- iv. other bodies or persons

In accordance with the requirements set out in the Order the Local Government Auditor has prepared a draft Code on which she is consulting formally. The draft Code is at **Annex A** and a list of consultees is at **Annex C**.

Consultation questions

When answering the consultation questions it would be very helpful if you could also provide additional explanation and detail. This will help us to understand the basis for your answers and inform finalisation of the Code.

Please do not feel that you need to respond to all of the consultation questions set out in this document: we welcome brief or partial responses addressing only those issues where you wish to put forward a view.

Preface

The preface to the Code aims to provide a clear articulation of the Local Government Auditor's responsibilities, together with information about the Code's purpose and characteristics. The Code is principles-based, though tailored where necessary to reflect the differing auditing duties and reporting requirements placed upon auditors.

Question 1 – Is there any further information that you consider should be included within the preface to the Code?

Question 2 – Do you agree that the Code should be struck at a principles-based level?

Question 3 – Do you agree with the proposed structure and content of the Code?

Chapter One – Status of the Code, scope and general principles

Chapter One of the draft Code clarifies its status, provides details on its scope and sets out some general principles that auditors should apply when approaching their work.

The general principles are characteristics and behaviours that the Local Government Auditor consider are reasonable to expect from auditors of a local government body.

The Code of Audit Practice will take effect from 1 April 2016. The first audit engagements to be carried out under its requirements will be for the financial year 2016-17. 2015-16 audits will be carried out under the requirements of the existing Code.

Question 4 – Does Chapter One of the draft Code provide a clear description of the status and scope of the Code? If you think it could be improved, please provide details.

Question 5 – Does Chapter One of the draft Code identify the correct general principles? Please provide details if you think that additional principles are required or if you consider that any of the principles identified in Chapter One are inappropriate.

Chapter Two – Audit of the financial statements

Chapter Two of the draft Code addresses the Local Government Auditor's statutory duties in respect of the audit of the financial statements. It also sets out the respective responsibilities of the audited body and of the auditor. The chapter is brief, reflecting the fact that professional auditing standards covering the requirements of an audit of financial statements are already in place, and hence the need for additional material is limited.

Question 6 – Does Chapter Two of the draft Code address clearly the Local Government Auditor's statutory duties in respect of the audit of financial statements? If you think it could be improved, please provide details.

Chapter Three – The Local Government Auditor’s work on economy, efficiency and effectiveness

Chapter Three of the draft Code addresses the Local Government Auditor’s statutory duties in respect of the audited body’s proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. While there are no profession-wide standards setting out how this kind of work should be completed, the approach set out in the draft Code builds on the accumulated knowledge and experience from previous practice.

The legislative requirement placed on the Local Government Auditor by the Local Government (Northern Ireland) Order 2005 is to be satisfied that the audited body *“...has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”*.

The way in which the Local Government Auditor discharges these responsibilities has remained consistent over time. The draft Code sets out the respective responsibilities of the audited body and the auditors. It requires auditors to consider, in carrying out their work:

- the audited body’s disclosures around its own arrangements, in the annual governance statement and in any additional reporting;
- the evidence that arrangements have operated as expected;
- the evidence obtained from the auditor’s other work;
- the work of third parties; and
- any other evidence source the auditor considers appropriate.

The chapter also sets out that the Local Government Auditor may and, if required by the Department, undertake comparative and other studies designed to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

The content of the draft Code is struck at a high level. The precise approach that auditors take will have regard to the auditor's assessment of the risk of reaching an incorrect conclusion on the audited body's proper arrangements.

Question 7 – Does Chapter Three of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on proper arrangements? If you think it could be improved, please provide details.

Chapter Four - The Local Government Auditor's work on performance improvement

Chapter Four of the draft Code describes how the Local Government Auditor will exercise his/her new functions relating to the performance improvement duties of councils. These new responsibilities were introduced by Part 12 of the Local Government Act (Northern Ireland) and are supported by statutory guidance published by the Department. The content of this Chapter is aligned to the Department's guidance and sets out at a high level the respective responsibilities of the audited body and the auditors.

Question 8 – Does Chapter Four of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on the performance improvement duties of councils? If you think it could be improved, please provide details.

Chapter Five – Reporting the results of the Local Government Auditor's work

Chapter Five of the draft Code addresses the Local Government Auditor's statutory duties in respect of reporting the results of his/her work. The draft Code reflects the requirements of auditing standards and the legislative requirements applicable to the different types of audit covered by this Code. The proposed approach in relation to the audit of the financial statements is consistent with current practice, whilst the proposed approach to performance improvement reporting is aligned to the legislation.

Question 9– Does Chapter Four of the draft Code address clearly the Local Government Auditor’s statutory duties in respect of their reporting requirements for the different types of audit covered by this Code?

Chapter Six – The Local Government Auditor’s additional powers and duties

Chapter Five of the draft Code addresses the Local Government Auditor’s use of certain additional powers.

Question 10 – Does Chapter Six of the draft Code address clearly the Local Government Auditor’s use of the additional powers set out in this chapter?

Chapter Seven – Smaller local government bodies

Chapter Seven of the draft Code addresses the Local Government Auditor’s approach to be adopted for the audit of smaller local government bodies. Smaller local government bodies are defined in the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (the Regulations). The draft Code distinguishes between the auditor’s work in respect of smaller local government bodies and that required for a larger local government body as set out in Chapters Two and Three of the draft Code.

The Department has not yet issued its direction in accordance with the Regulations. It is anticipated that this will determine the form of a smaller local government body’s statement of accounts and ‘qualifying conditions’ If a direction is issued prior to the publication of the Code then the relevant information will be incorporated in the Code.

Question 11 – Does Chapter Six of the draft Code address clearly the Local Government Auditor’s statutory duties in respect of his/her work on smaller local government bodies?

Chapter Eight – The Local Government Auditor’s rights of access

Chapter Eight sets out how the Local Government Auditor fulfils the statutory function which relates to access to third parties. It was included following the consultation on the

draft Local Government (Northern Ireland) Order 2005 and has been carried over from the 2011 Code. This was adapted from the protocol that had been established covering auditors' access rights in respect of documents relating to central government.

Question 12 – Does Chapter Eight of the draft Code address clearly the Local Government Auditor's rights of access to third parties?

Schedules and Glossary

Schedule 1 to the draft Code summarises the key responsibilities of the Local Government Auditor. Schedule 2 sets out additional matters on which the Local Government Auditor needs to report by exception in the audit report. The Glossary aims to provide 'plain English' definitions of key terms used in the Code.

Question 13 – Do you have any comments on the material provided in the Schedules to the draft Code?

Question 14 – Do you have any observations on the completeness or accuracy of the Glossary?

Annex C

List of Consultees

All Northern Ireland Departments

All Northern Ireland Councils

All UK public audit bodies

ACCA Ireland

Association of Local Government Finance Officers

Association of Public Service Excellence

Chartered Institute of Management Accountants Northern Ireland

Chartered Institute of Public Finance and Accountancy

Equality Commission for Northern Ireland

Financial Reporting Council

Institute of Directors

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants in Ireland

Institute of Chartered Accountants of Scotland

Invest Northern Ireland

KPMG

Local Government Reform Joint Forum

Local Government Staff Commission

Local Government Management Services Board

National Association of Councillors Northern Ireland

Northern Ireland Assembly/Committee for the Environment

Northern Ireland Fire and Rescue Service

Northern Ireland Local Government Association

Northern Ireland Ombudsman

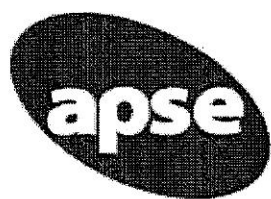
Police Service of Northern Ireland

Public Service Commission

RSM McClure Watters

Society of Local Authority Chief Executives

Tourism Northern Ireland



membership resources

Briefing 15/49

September 2015

Consultation on the Draft Code of Audit Practice for Local Government Bodies in Northern Ireland 2016.

To: All Northern Ireland Contacts

For information: All contacts in England, Scotland and Wales

Key issues

Opportunity for local authorities to comment on future role Local Government Auditor in Northern Ireland
Draft CoP details role for Local Government Auditor to determine council is complying with improvement duty
Links between continuous improvement duty and performance management arrangements within councils

1. Introduction

The Local Government Auditor from the Northern Ireland Audit Office is seeking views from the sector on the Draft Code of Audit Practice for Local Government Bodies in Northern Ireland 2016 issued on 2nd September 2015. It can be found [here](#).

Comments received from APSE members will be incorporated into our response to the paper.

2. Context

The consultation document begins by outlining the nature of the work of the Local Government Auditor and NIAO as external auditors of local government with an important role in improving public services and helping people hold users of public money to account. It goes on to state that the draft Code of Audit Practice aims to provide clarity for the public in the work of the auditor, sets a framework within which they will operate and forms an important part of local government audit, set out in the Local Government (NI) Order 2005 and the Local Government Act (NI) 2014. The Code must be reviewed every 5 years and will be published by 1st April 2016.

3. Response to questions

Q5. Does Chapter One of the draft Code identify the correct general principles?

1.11 Professionalism and proportionality

Point 1.11 states that "Auditors should ensure that each audit is concluded economically, efficiently, effectively and in as timely away as possible". Funding remains the most significant issue facing local government. Keeping the cost of audits to a minimum is to be welcomed and this links to the point made in the document about the relations between internal and external auditors and below in this briefing.

If trust exists between external and internal audit functions and in the sources of data used are accepted as robust and accurate then the time allocated to this element of the audit should be reduced which will have an impact on cost.

1.15 / 1.16 Coordination and integration

Point 1.15 notes that auditors should establish effective co-ordination arrangements with internal audit and seek to place reliance on the work of internal audit whenever possible. Clearly the audit process is more likely to function better if effective arrangements are in place. This needs to be developed to the point where relationships between internal and external auditors are such that they trust each other to add value at every opportunity. For example, it could be that internal auditors feel it appropriate to invite external auditors in to support the work they are doing on a specific issue, rather than awaiting an annual visit, knowing that they can add value by pointing to examples of good practice elsewhere.

The next point, 1.16, states that "Auditors should adopt an integrated approach, where the knowledge gathered and work carried out in support of each of the Local Government Auditor's statutory and reporting obligations inform his/her judgements and conclusions as a whole." This is of course an appropriate principle to put in place but it needs to be taken further so that such knowledge is passed on across the sector. The statement should clearly describe the approach which is that knowledge gathered should be viewed as a local government resource and so shared across the local government sector as widely as possible.

1.17 Constructive approach

The document states that "Auditors should adopt a constructive and positive approach to their work". It goes on to talk about discussions on the audit plan and recommendations arising from the audit.

A constructive approach should pervade all aspects of the audit process and be intrinsic to the Code of Practice. Those auditors who lead audits of local council should be experienced and knowledgeable. They perform an important service which is a vital element in the democratic process. Although their role is independent, it is not in opposition to that of the local authority and as such one of the principles guiding their work should be to share their experience and expertise with colleagues in local government at every opportunity.

External auditors will see good and bad practice at a range of other local authorities and public sector bodies as they carry out their work and will be made aware of further examples through the NIAO. It is important that this knowledge is shared across the local government sector. Such knowledge may for example include an approach taken to governance, how fraud or other investigations may be undertaken, methods for improving service delivery or good practice for contract management amongst many possible others.

There will be many opportunities for auditors to have an input in and make a positive and constructive contribution to the functions of local government and this is a chance to add extra value and provide support through the audit process. Equally they should be proactive in feeding back those issues raised by local authorities through the audit process to the NIAO and the Department.

The case studies included in the Local Government Auditor's Report 2015 are an example of a method which could be used to take this forward. Similar examples can be included in the formal element of the audit process such as the audit report or recommendations and informally through interaction between auditors and local authority officers and elected members.

Q7. Does Chapter Three of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on proper arrangements?

Point 3.6 of the document referring to the responsibilities of the auditor notes that if evidence of poor value for money comes to the auditor's attention they should consider the implications of it for their work. There may well be occasions when external auditors come across poor practice, just as they will come across good practice. The auditor's role is such that they are in a position to spread the lessons of these examples and they should be encouraged to do so – highlighting the lessons of poor practice rather than the details (without naming the local authorities concerned) and promoting the good practice and the council involved.

Q8. Does Chapter Four of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on the performance improvement duties of councils?

APSE welcomes the duties included in the Act regarding continuous improvement as a way of formalising the approach which had developed in some of the previous councils and has been carried through to some of the new ones. This is a topic which all of the new councils are focusing on and working jointly to address. It is the case that each council will have local circumstances which will be reflected in their objectives and priorities meaning that certain elements of their work cannot be directly compared between councils.

However, one of the duties introduced in the Act is for local authorities to compare with others exercising similar functions. There are many functions which are directly comparable and the duty highlights this. Having appropriate information about services is fundamental to good management and when it is compared with other local authorities it will focus managers' attention on particular elements of their service which are doing well or underperforming.

Point 4.5 in the document notes that auditors "will exercise their improvement audit and assessment functions consistently between councils; proportionately so as not to impose an unreasonable burden on councils; and with a view to assisting councils to comply with their duties in relation to securing continuous improvement".

Using an independent model, such as Performance Networks noted below, will enable auditors to achieve these aims accurately and quickly. Using performance management information effectively is a basic element of any large organisation and data benchmarking and process benchmarking will also help auditors to understand the context for and performance of a different functions within the council.

Q9. Does Chapter Five of the draft Code address clearly the Local Government Auditor's statutory duties in respect of their reporting requirements for the different types of audit covered by this Code?

Publicising the Local Government Auditors reports remains important. However the auditor's report is just one of a number of reports reflecting the performance of the council and its' services. Such publications should relate to each other rather than being completely separate. Referring to the same performance data in both reports which also includes summary data from other councils in Northern Ireland (and potentially elsewhere across the UK) would help to make the reports more user friendly, informative and accessible for the public.

The document refers to the power to make written recommendations to the audited body. This provides another tool for the auditor to share the knowledge and experience of what is happening elsewhere. Recommendations should not be limited to issues of poor practice but should also look to highlight how services can be improved, how promoting

4 General comments

4.1 Performance management, benchmarking and continuous improvement.

One method of tracking whether arrangements are in place to "secure continuous performance improvements in the exercise of its function" (Point 1.7), is to use a model which is independently managed yet used by many local authorities.

Performance Networks is the APSE performance management and benchmarking model which has been in place 16 years and is used by over 180 local authorities. It tracks the performance of a range of local authority services by using data submitted from authorities which is checked and analysed prior to a set of reports being produced. These reports compare performance across subjects such as cost, quality and productivity of services. Moreover there is a structure in place which enables the sharing of data and more importantly the operational arrangements which lead to better performance amongst users of the model. Local authority officers are brought together to discuss the policies and practices in place which lead to the performance levels achieved so that others can hear about them, debate them, identify if they are appropriate across the circumstances found in other councils and introduce them.

The model has developed through the input of service managers who are responsible for delivering services and so understand those elements of the service that need to be tracked to reflect the performance of the service. We strongly feel that this kind of model fits very well with local authorities in Northern Ireland in order for them to fulfil their legal responsibilities and undertake effective internal service and financial planning. Some local authorities in Northern Ireland are already using the model.

APSE believes that the Local Government Auditor should promote the use of models which are independent, robust and emerge from the sector as a tool to support local councils and reduce the work load of external and internal auditors. This would also help reduce the cost and duration of external audits as noted above.

14. Response details

If you wish your comments to be included in the APSE response to this consultation paper please send them to Phil Brennan at pbrennan@apse.org.uk. They should reach him by **17th November 2015**. Alternatively, you can submit your response directly to: kyle.bingham@niauditoffice.gov.uk. The closing date for responses is 1st December 2015.

Phil Brennan
Principal Advisor

Report to:	<i>Audit Committee Meeting</i>
Subject:	<i>Update on Audit issues</i>
Date:	<i>29 October 2015</i>
Reporting Officer:	<i>Robert Dowey</i>
Contact Officer:	<i>Robert Dowey</i>

<u>Decisions Required</u>	
This report is for noting and keeping Members abreast of the issues which have arisen and are likely to arise.	
1.0	<u>Purpose & Background</u>
1.1	To advise Members on the financial position of the Council.
1.2	To advise Members on the reporting of risk with particular emphasis on financial matters within the Council.
1.3	To advise Members of the progress of internal audits and any issues arising outside of that which will be operated by the Internal Auditors.
1.4	To report the results of any investigations in respect of possible breaches of Policy etc.
2.0	<u>Key Issues</u>
2.1	<p><u>Financial issues</u></p> <p>Accounts have been produced to 30 June 2015 and it is hoped next week to have figures for the 5 months to 31 August 2015. It would be inappropriate to comment on the financial situation until the 5 months figures are available.</p> <p>A loan has been applied for of £1.2 m to finance redundancy costs incurred to date. This loan will be repayable over 3 years.</p> <p>No loans have been drawn down as yet to finance capital spend but this will change in the next number of months.</p> <p>There continues to be issues in respect of staff needs within the Department and these have the effect of delaying certain tasks which should be carried out.</p> <p><u>Risk Reporting</u></p> <p>The role of Audit Services Manager has been vacant from the beginning of July with a temporary situation put in place in late August. While this has been a help the risk registers</p>

	<p>which are an integral part of reporting the risk within the legacy Newry and Mourne Council have not been maintained and policed, irrespective of additional systems being rolled out across the Council.</p> <p><u>Internal Audit Comments</u> The Internal Auditors (ASM) have been appointed and their first role will be to pick up on high risk areas which have been inherited from the legacy Councils. ASM will be attending each Audit Meeting and will present their own reports. It would be the opinion of the Head of Finance that risk is running at a high level for reasons as outlined above.</p> <p><u>Investigations</u> There are two investigations which are a carry over from the legacy Councils where there is the potential for the Council to lose out on grant monies. These investigations are on-going and no further comments will be made until their completion.</p>
3.0	<p><u>Resource Implications</u> It is important in order to minimise risk that the right skills are in the right place, in a timely manner and that the motivation and attitude of all involved is pro-active and enthusiastic.</p>
4.0	<p><u>Appendices</u></p>
	<ul style="list-style-type: none"> ▪ Appendix - None

Report to:	<i>Audit Committee Meeting</i>
Subject:	<i>Training for Members on Effective Audit and Risk Committee</i>
Date:	<i>29 October 2015</i>
Reporting Officer:	<i>Robert Dowey</i>
Contact Officer:	<i>Louise Dillon</i>

<u>Decisions Required</u>	
Members are asked to agree what type of training they would like from the information provided and are also asked to agree the cost of the training.	
1.0	<u>Purpose & Background</u>
1.1	<i>At the commencement of the new Council it is a recommendation that Members who sit on the Audit Committee are provided with appropriate training.</i>
2.0	<u>Key Issues</u>
2.1	<ul style="list-style-type: none"> • <i>Members can attend a training course at a cost of £225 plus VAT per person – Wednesday 4 November 2015 – The Mount Conference Centre, Belfast</i> or • <i>Have an in-house course provided for a period of 3-4 hours where all Members can attend for a fixed price fee of £750 plus VAT</i>
3.0	<u>Resource Implications</u>
3.1	<ul style="list-style-type: none"> • <i>Cost for a course per person off site is £225 per person plus VAT</i> • <i>Fixed cost for course held on site which is not person specific is £750 plus VAT</i>
4.0	<u>Appendices</u>
	<ul style="list-style-type: none"> ▪ Appendix 1 – Proposed agenda for the Effective Audit and Risk Committee course

THE EFFECTIVE AUDIT AND RISK COMMITTEE

- 0915 Welcome and workshop overview**
- 0930 Getting the basics right**
- Fundamental roles and responsibilities of the audit and risk committee
 - Approving the internal audit plan
 - Following up audit recommendations
 - Mechanics of committee business and the role of the secretary
 - Information requirements of the audit and risk committee
 - Financial reporting and internal control
- 1130 Relationships between the audit and risk committee and...**
- The board
 - The chief executive and director of finance
 - Internal and external auditors
 - Other committees
- 1200 Learning from governance failure**
- Fundamental causes of governance failure
 - Purposeful challenge and effective scrutiny
- 1215 The audit & risk committee and risk management**
- Responsibilities of the audit and risk committee
 - Why do risk management?
 - Risk management framework and function
 - Risk management process
- 1300 The effectiveness of the audit and risk committee**
- Sources of best practice
 - How the audit and risk committee adds value (including constructive challenge)
 - Reviewing the effectiveness of the audit & risk committee
- 1330 Close and lunch**