

## 4 Accountability for central funding of local authorities

- 4.1** Local authorities receive a significant level of Exchequer funding annually from a number of central government departments and agencies. An overview of the funding flowing from and through central government sources to local authorities, and of the purposes for which those funds have been provided, is presented in Chapter 3.
- 4.2** The statement on internal control presented with the 2021 appropriation account for Vote 42 Rural and Community Development included a disclosure about a case where a local authority drew down grant funding on a basis that was not compliant with the terms and conditions of a vote-funded grant scheme. The matter was discovered as a result of inspection work carried out by the Department for Rural and Community Development, and resulted in the local authority being obliged to return significant grant funding.
- 4.3** Central government providers of funding to local authorities are required to ensure that an effective grant-funding supervision regime is in place that accords with the provisions of Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) Circular 13/2014 *Management of and Accountability for Grants from Exchequer Funds* (Circular 13/2014).<sup>1</sup>
- 4.4** Local authorities, as independent corporate entities, have full legal responsibility for the performance of their functions and for ensuring that Exchequer funding is correctly accounted for and managed.
- 4.5** The Department of Housing, Local Government and Heritage (DHLGH) has responsibility for policy, legislation, Oireachtas accountability and, at a broad level, oversight, in respect of the local government system. Local authorities are required to comply with any accounting code of practice issued by the Minister for Housing, Local Government and Heritage under the provisions of the Local Government Act 2001.<sup>2</sup>
- 4.6** The DHLGH is also responsible for communicating DPENDPDR-issued circulars and guidance on public sector spending to local authorities.
- 4.7** This examination was undertaken to review the application of certain circulars in relation to Exchequer funding provided to local authorities. In particular, it reviews a sample of programmes funded by the Exchequer and managed by local authorities in respect of their compliance with Circular 13/2014, and the disclosure requirements for local authorities' annual financial statements.

<sup>1</sup> The circular was published in September 2014.

<sup>2</sup> Section 107 Keeping of accounts of the 2001 Act specifies that local authorities are required to comply with any accounting code of practice issued by the Minister, or amendments to it, that the Minister may issue from time to time.

<sup>3</sup> The Report on the Accounts of the Public Services 2014 included a chapter on the *Management of Government Grants* which examined the revised arrangements for the control and accountability of grants arising from Circular 13/2014.

### Circular 13/2014

- 4.8** Circular 13/2014 sets out the public financial management principles, procedures, and reporting requirements to be followed by grantors and grantees for Exchequer grant funding.<sup>3</sup> Section 3 of the circular sets out certain requirements for the grantors of Exchequer funding, while section 5 sets out obligations that recipients of Exchequer funding are required to comply with.

4.9 The examination team reviewed the following three programmes for compliance with the main provisions of Circular 13/2014 (see Figure 4.1).

- **Creative Ireland** — an all-of-government culture and wellbeing programme, of which some of the programme's activities and initiatives are delivered through local authorities.<sup>1</sup> The programme is administered by the Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media (DTCAGSM) and is part-funded by the Local Government Fund. Local authorities received around €8.3 million in 2022 of which €1 million originated from the Local Government Fund. Payments of around €550,000 to seven local authorities were reviewed for this examination.
- **Energy efficiency retrofitting** — a programme run by the DHLGH to upgrade the energy efficiency of local authority housing stock. Local authorities received €54.2 million under the programme in 2022. Payments to eight local authorities were reviewed for this examination. This involved the review of funding for the retrofitting of eight dwellings that formed part of a batch of payments totalling just over €4 million.
- **Active travel** — a programme funded by the National Transport Authority (NTA) for local authorities to build bicycle and footpath infrastructure. Local authorities received around €300 million under the programme in 2022. Payments of €41.4 million to ten local authorities were reviewed for this examination.

Figure 4.1 Compliance with the main provisions of Circular 13/2014<sup>a,b</sup>

Circular provision	Creative Ireland	Energy efficiency retrofitting	Active travel
<i>Required of grantors</i>			
Objectives of funding			
Terms and conditions			
Service level agreement		N/A	N/A
Monitoring and reporting			
Inspection			
Vouched expenditure			
Advance payment	N/A	N/A	
Administrative and control requirements			
Multiple funding sources	N/A	N/A	N/A
<i>Required of grantees</i>			
Disclosure in financial statements			
	In compliance	Partial compliance	Not in compliance

<sup>1</sup> The programme's ambition is to inspire and transform people, places and communities through creativity. Culture-based activities include art exhibitions, workshops, panel discussions by artists and authors, film screenings and other public events, for example, open air plays.

Source: Analysis by the Office of the Comptroller and Auditor General

Notes: a The provisions in the figure relate to the general conditions for grantors' management of grant funding (section 3) and grantee responsibilities (section 5) of the circular.

b Each programme was deemed to be in compliance where the relevant circular provision was substantively or fully met.

### ***Objectives, and terms and conditions, of grant funding***

- 4.10** Funding bodies are required to clearly set out the purpose of the grants being provided, and to notify grantees of the terms and conditions of the funding so that they are fully aware of their responsibilities.
- 4.11** The purpose of the grants and their terms and conditions were communicated for all three programmes. However, the grant agreement issued by the DHLGH to local authorities for the energy efficiency retrofitting programme did not reference the need to comply with Circular 13/2014. The agreements in the case of the other schemes did refer to the need to comply with the circular.
- 4.12** The DHLGH stated that for 2023, local authorities are required to confirm that claims submitted are in accordance with Circular 13/2014 and that the requirement will be included in the 2024 departmental circular underpinning the energy efficiency retrofitting programme.

### ***Service level agreements (SLAs)***

- 4.13** Only the Creative Ireland programme had service level agreements (SLAs) in place between the DTCAGSM as grantor and the recipient local authorities.
- 4.14** In situations where the terms of service, standards expected and responsibilities can be clearly set out in the grant agreement, a separate full SLA may not be necessary. For the active travel and the energy efficiency retrofitting programmes, local authorities receive funding for specific projects (e.g. a particular cycle route, or an individual home) that must be completed to a clearly defined standard or design, so a SLA setting out service levels and performance indicators is not necessary.

### ***Monitoring and reporting***

- 4.15** Grantors are required to put appropriate financial and performance reporting arrangements in place. Reports should be accompanied by a certificate of assurance signed by two officials at senior management level, certifying that the public money granted was used in accordance with the terms and conditions of the grant.
- 4.16** While all three grantors received information on the outturn of the programmes they had funded, it was not evident in the case of the energy efficiency retrofitting programme that a certificate of assurance signed by two persons at the appropriate level was provided by the grantee. The examination team noted that the template used by the programme does not include a field for a second sign-off.
- 4.17** The DHLGH stated that the certificate of assurance is signed by the local authority's Director of Services and that separately the administration staff tasked with compiling the information and ensuring its accuracy are considered a second signatory. It stated that this level of signing is considered appropriate with regard to receiving grant funding.
- 4.18** The DHLGH requires pre-work and post-work building energy rating (BER) certificates to be provided to confirm that each home was upgraded to the required standard, and also for post-completion of work photographs to be available. While pre-work and post-work BER certificates were obtained and were on file, post-completion of work photographs were not on the files provided to the examination team.

- 4.19** The DHLGH stated that it does not retain post-completion photographs on file but that photographic evidence must be retained by the local authorities and provided to the Department, on request.

### ***Inspection***

- 4.20** Grantors are required to inform grantees, *inter alia*, of the grantors' right of inspection of grantees' records. This requirement was not set out in the DHLGH terms and conditions for the local authority energy efficiency retrofitting programme. The DHLGH has stated that this will be addressed in the next iteration of the programme.

### ***Vouching of expenditure***

- 4.21** In general, grant funding is provided to grantees on a reimbursement basis. Prior to reimbursement, grantors should obtain
- supporting invoices
  - evidence that the invoices have been paid, and
  - confirmation that the same invoices will not be used to seek reimbursements from other funders.
- 4.22** Payments under the energy efficiency retrofitting and Creative Ireland programmes are based on vouched expenditure and relevant supporting evidence received. However, the DTCAGSM did not obtain original invoices in all instances prior to reimbursing local authorities for Creative Ireland projects. The grant claim form requires proof of payment by the local authority by way of a financial management system print out or similar. The form notes that invoices and receipts are not required to be uploaded unless requested. In effect, the DTCAGSM is relying on the local authorities' own invoice retention policies for evidence to support grant payments.
- 4.23** The DTCAGSM stated that the SLA in place for the Creative Ireland programme sets out the default position regarding vouched expenditure i.e. that grant funding will only be paid on the basis of vouched expenditure. It stated that a recoupment form certified correct by appropriate local authority officers accompanies every drawdown request to the Department. The DTCAGSM also stated that, to address the need to verify expenditure, it undertakes annual spot checks of local authority payments, randomly selecting one full event or initiative per local authority for audit on a vouched expenditure basis.

### ***Advance payment***

- 4.24** In instances where a department wishes to prefund a programme, it must obtain prior approval from DPENDPDR, setting out the rationale and monitoring arrangements.
- 4.25** The NTA provides active travel programme funding to a local authority on completion of the contracted work to the local authority's satisfaction and after the payment falls due to be paid to the contractor i.e. the liability has matured. This funding is provided prior to the local authority's submission of the relevant vouched documentation to the NTA. The NTA stated that as the grant payment is made after the liability has matured, it does not consider it prefunding.

**4.26** DPENDPDR's prior approval to pay on the basis of a matured liability rather than on the receipt of vouched documentation was not obtained. In December 2022, the NTA wrote to the Department of Transport setting out, *inter alia*, that the requirement for claims to be made on the basis of vouched expenditure was impractical and would cause significant difficulties in the delivery of the NTA's capital programme; and that the NTA operates on the basis of providing funding for local authority liabilities that have matured. The NTA asked the Department to clarify the application of Circular 13/2014 with DPENDPDR.<sup>1</sup> In April 2023, DPENDPDR acknowledged that the NTA's arrangement was in compliance with the circular and that it could provide funding on this basis.

### ***Administrative and control requirements***

**4.27** Grantors should be satisfied that grantees have adequate accounting and organisational arrangements to ensure proper administration of the grant funding.

**4.28** The three funding bodies had undertaken recent internal audit (IA) reviews of the respective programmes they fund.

**4.29** No significant issues were identified by the IA reviews carried out by the respective Departments of either the Creative Ireland programme or the energy efficiency retrofitting programme.

**4.30** However, the NTA's IA reviews of the active travel programme identified a number of instances of poor administrative procedures and controls.<sup>2</sup> In 2022, IA reviewed capital grants paid to ten local authorities under the programme.<sup>3</sup>

- For two local authorities, IA audit only gave limited assurance on the adequacy of the overall procedures and controls in place for the active travel programme funding. The IA reports identified some fundamental control weaknesses in the authorities' procurement processes that needed to be addressed as soon as possible.
- In five other local authorities, IA identified poor procurement practices that were categorised as important, requiring rectification within three months.

**4.31** The procurement issues identified by the IA reviews included a lack of evidence that competitive procurement took place; contracts not on file; incorrect procurement processes undertaken; conflict of interest forms not evident on file; instances where e-tenders were not used; and unsuccessful tenderers not being informed of the outcome of the procurement process.

**4.32** The NTA stated that it will work with local authorities to ensure the implementation of relevant findings identified through its internal audit programme. This will include additional scrutiny on various aspects of procurement and follow-up monitoring to ensure that appropriate actions have been taken.

### ***Confirmation of no duplication of funding***

**4.33** For multiple co-funding arrangements, grantees are required to make an annual declaration to each grantor on the source, amount and purpose of all other funding including that there is no duplication of funding for the same activity. The declaration should also state if the Exchequer funding from all sources exceeds 50% of the total income.

<sup>1</sup> The onus is on the NTA's parent department as original grantor to engage with DPENDPDR on the NTA's behalf.

<sup>2</sup> The IA function is undertaken by a third party audit firm.

<sup>3</sup> The reviews were undertaken to assess the adequacy and effectiveness of the internal controls in place, in each of the ten authorities, for capital grants paid in 2021 under the programme.

- 4.34** For the three programmes examined, the grantees confirmed that no other funding parties were involved.

### ***Disclosure in financial statements***

- 4.35** As set out in section five (grantee responsibilities) of the circular, grantees are required to disclose specific information about State grant funding received in their financial statements, and other information as a condition of funding. This information includes: the name of the grantor and the grant; the purpose of the grant and how it is accounted for; certain detail on capital grants; whether the grant is for a restricted purpose; confirmation of compliance with tax clearance procedures; and specified employee remuneration (e.g. CEO) details.

- 4.36** Grantees are also required to disclose the number of employees, in bands of €10,000, whose total employee benefits (excluding employer pension costs) for the reporting period exceeded €60,000; and an overall figure for total employer pension contributions. The disclosure is required even if salaries are not being funded by the Exchequer.

- 4.37** Local authorities do not disclose any of the specified information in their annual financial statements as the current format of local authority financial statements does not facilitate such disclosure. In December 2020, the DHLGH sought derogation from DPENDPDR on the application of the section 5 reporting requirements, citing difficulties with implementing such disclosures.<sup>1</sup> It noted, *inter alia*, that if the requirements were to be strictly applied, a change in the current format of the annual financial statements of local authorities would be required.

- 4.38** DPENDPDR did not provide the requested derogation. In its response, DPENDPDR noted that it was not intended that the circular would impose disproportionate obligations on grantees and that it was ultimately a matter for the DHLGH to determine what was appropriate in the circumstances, once satisfied that effective management of, and accountability for, public money was ensured.

- 4.39** Subsequently, in June 2021, the Department issued a departmental circular to local authorities stating that the General Accounts Working Group (GAWG), having reviewed and considered the above advice from DPENDPDR, are satisfied that the current format of the annual financial statements complies with the requirements in relation to the effective management of and accountability for public money, and that no additional disclosure is needed.<sup>2,3</sup>

## **Governance and disclosure requirements in the public sector**

- 4.40** Following the publication of an updated *Code of Practice for the Governance of State Bodies* in 2016 (2016 Code), DPENDPDR published an associated *Guide to the Implications for the Annual Financial Statements and the Annual Report*. This clarified the definition and location of certain additional disclosures in State bodies' financial statements and annual report (see Figure 4.2).<sup>4,5</sup> A number of the requirements of the Code have since been extended to the appropriation accounts of government departments e.g. pay band and chief officer remuneration disclosures.

1 The DTCAGSM stated that the Creative Ireland programme does not request submission of local authorities' audited accounts. It proposes to seek an exemption from the Circular 13/2014 submission requirements.

2 The GAWG comprises representatives from the DHLGH, the Local Government Audit Service, heads of finance from the local authorities and other representatives from the local government sector. It is chaired by the DHLGH.

3 DHLGH *Circular Fin 13/2021 Clarification in relation to the reporting requirement of Circular 13/2014 Management of and Accountability for Grants from Exchequer Funds*.

4 The Code replaced the previous code of practice published in 2009.

5 The guide was published in November 2017 and can be found [here](#).

- 4.41** The 2016 Code does not apply to local authorities. Instead, the framework for corporate governance in local authorities is set out in the *Governance Principles and Governance Framework for the Local Government Sector*.<sup>1</sup> The framework is principles-based, and does not require local authorities to include the standard 2016 Code disclosures.<sup>2</sup> Local authorities are also required to apply the policies outlined in the current *Accounting Code of Practice and Accounting Regulations (ACOP)* for local authorities, published in July 2019, in the preparation of their annual financial statements. The ACOP also prescribes the format of the financial statements.<sup>3</sup>

**Figure 4.2 Financial statement and annual report disclosure requirements set out in *Code of Practice for the Government of State Bodies 2016***

Disclosures	Key disclosure requirements
Statement on internal control <sup>a</sup>	<ul style="list-style-type: none"> <li>▪ sets out the approach to, and responsibility for, risk management, internal control and corporate governance</li> <li>▪ explains how control assurance is obtained and the ongoing monitoring and review arrangements</li> <li>▪ specific disclosure on compliance with Office of Government Procurement procurement rules and guidelines or discloses instances of non-compliance</li> <li>▪ confirms the Board's annual review of the effectiveness of internal controls</li> <li>▪ discloses material weaknesses in internal controls and the action (to be) taken to address the weaknesses</li> </ul>
Governance statement and Board members' report	<ul style="list-style-type: none"> <li>▪ sets out how the entity and the Board were established, how the Board operates, decisions reserved for the Board, decisions delegated to the Executive, the reporting mechanism between the Board and the Executive</li> <li>▪ discloses the Board's responsibilities, membership, meetings held, attended, standing agenda items, fees and expenses paid, internal/external review of the Board's effectiveness</li> <li>▪ disclosures in relation to certain categories of expenditure including the breakdown of short-term employee benefits, legal costs and settlements, travel and subsistence, consultancy costs, hospitality expenditure<sup>b</sup></li> <li>▪ statement on compliance with the 2016 Code requirements or explain areas of non-compliance</li> </ul>
Remuneration	<ul style="list-style-type: none"> <li>▪ discloses aggregate employee benefits (covering staff short-term benefits, termination benefits, retirement benefit costs, employer's contribution to social protection)</li> <li>▪ discloses the total value of employee benefits for key management personnel</li> <li>▪ separate disclosure on Chief Executive Officer's salary and benefits</li> </ul>

Source: *Code of Practice for the Governance of State Bodies 2016 — A Guide to the Implications for the Annual Financial Statements and the Annual Report*, November 2017. Analysis by the Office of the Comptroller and Auditor General.

Notes: a Replaces the previous statement on internal financial control.

b In accordance with Circular 13/2014, short-term employee benefits should be presented in the remuneration note in the financial statements for entities covered by the circular.

1 The framework, published in 2015, was developed by the City and County Management Association and the Association of Irish Local Government, in conjunction with the Institute of Public Administration.

2 The framework is based on six governance principles and associated supporting principles.

3 The GAWG is responsible for developing new accounting policies, providing guidance in their implementation, reviewing existing policies requiring amendment, addressing all issues in relation to accounting policy in the local authority sector, updating the annual financial statements/budget documents as and when needed and updating the accounting code of practice.

- 4.42** The DHLGH has stated that a process involving local government stakeholders to introduce a new code of governance for local authorities is nearing completion. It stated that this will build on the local authority sector's existing governance framework by introducing similar governance compliance arrangements to those in place for the rest of the public sector and that roll out of the new code is planned from the 2023 financial year. It further stated that given that this will be a new initiative with certain capacity implications for local authorities, all compliance elements of the new code are unlikely to be fully implemented in every local authority for 2023, but that it is planned that all authorities will include a statement on internal control in their 2023 annual reports.

## Conclusions

- 4.43** Central government departments and bodies under their aegis that provide funding to local authorities are required to apply Circular 13/2014 *Management of and Accountability for Grants from Exchequer Funds* to ensure that appropriate financial controls are in place and that value for money is achieved.
- 4.44** The examination team's review of three programmes — Creative Ireland (DTCAGSM); energy efficiency retrofitting (DHLGH); and active travel (NTA) — found that, in general, the grantors largely complied with the conditions of Circular 13/2014. However, there were a number of areas where the conditions of the circular had not been sufficiently applied.
- 4.45** Circular 13/2014 requires that if a department wishes to prefund a programme, prior approval from DPENDPDR must be obtained. The NTA provides funding to the local authorities prior to the receipt of vouched documentation, on the basis that the related liabilities have matured and are due for payment. While not in line with the stated provisions of Circular 13/2014, DPENDPDR acknowledged in April 2023 that the NTA could provide funding on a matured liability basis.

## Disclosures in financial statements

- 4.46** Grantees are required under Circular 13/2014 (section 5) to include adequate disclosures in their annual financial statements to provide public assurance over the central government funding they receive and the related expenditure. In December 2020, the DHLGH sought derogation from DPENDPDR on the required disclosure requirements for the funding it provides to the local authority sector.
- 4.47** Although DPENDPDR did not provide the requested derogation, it set out in its response that it was not intended that the circular would impose disproportionate obligations on grantees and that ultimately it was a matter for the DHLGH to determine what was appropriate in the circumstances, once effective management of, and accountability for, public money was ensured.
- 4.48** Subsequently, in June 2021, the DHLGH issued a departmental circular to local authorities permitting them to omit the disclosures required under the circular from their annual financial statements.

## Code of Practice for the Governance of State Bodies 2016

- 4.49** Unlike most State bodies, local authorities are not required to present a statement on internal control or a governance statement with their annual financial statements, nor to include what are standard public sector remuneration disclosures within their financial statements.

- 4.50** A process involving local government stakeholders is nearing completion to introduce a new code of governance for local authorities. This will build on the local authority sector's existing governance framework by introducing similar governance compliance requirements to those already in place for the rest of the public sector.
- 4.51** It is planned that all local authorities will include a statement on internal control in their 2023 annual reports.

