



Northern Ireland Audit Office

Annual Audit Letter

Castlereagh Borough Council

Year to 31 March 2007

Issued by
Denver Lynn
Local Government Auditor (NIAO)

Introduction

The Department of the Environment, may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate persons who are members of the staff of the Northern Ireland Audit Office as local government auditors (Article 4(3) of the Local Government (Northern Ireland) Order 2005.

As an auditor independent of the audited body I seek to examine that the body has managed its affairs having regard to a combination of economy, efficiency and effectiveness and that public money is properly spent or in the case of income properly accounted for.

Status of this report

This report is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.

The report is addressed to members and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Financial management

- 1 As your statutory appointed auditor I issued my audit opinion on the 2006–07 Statement of Accounts on 31 July 2008. I gave an unqualified opinion on your accounts. This comprises both the Councils' own accounts and that of its "group".
- 2 Where entities have controlling interests in other entities, accounting practice requires the accounts of the controlled entity to be consolidated within the 'group' accounts of the controlling body. In this case the accounts of the Hanwood Trust have been consolidated with the Council's own accounts, as the Council in accounting terms 'controls' the Hanwood Trust, to form the Council's group accounts. Castlereagh Borough Council is the only Northern Ireland Council required to prepare 'group' accounts.

Matters arising from the final accounts audit

- 3 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Although the accounts submitted for audit note they were approved by resolution of the Council on 28th June 2007, which was within statutory guidelines (30th June) , the accounts were not signed by the Chief Financial Officer until 16th August 2007. In addition I was unable to complete my audit by the required statutory date of 31st October 2007. I deal with these matters in more detail at paragraphs 11 to 23.
- 4 The material adjustments (Annex A) noted during our audit are included in the final accounts.

Financial standing

- 5 The Council's financial position remains generally stable; however financial pressures continue to present the Council with challenges. The Council recognises these challenges and continues to maintain levels of reserves to help manage future pressures.
- 6 The district fund balance at £1.87m represents 17.3% of the net operating expenditure. The average for the 26 district councils is 14.4% (based on the accounts presented for audit).

District fund spending and balances

- 7 The financial position remains relatively stable. The Council contributed £331,000 to reserves in 2006-07. In addition to a District Fund balance of £1.87m the Council has another significant reserve in the Capital Fund of £0.9m.

Capital Programme

- 8 The Council has Fixed Assets totalling £49.4m with loans outstanding of £19.9m. The Statement of Accounts reports a capital programme totalling £2.1m in the course of or planned for delivery.

Systems of internal financial control

- 9 I was able to place reliance on the Council's internal control environment for the purposes of forming my opinion on the financial statements.

Internal Audit

- 10 As part of my evaluation of the general control environment I assessed the quality of the Internal Audit function in accordance with ISA 500. The Council has one part-time member of staff with internal audit responsibilities.

Significant Audit Issues

Late Submission of Accounts

- 11 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 [the Regulations] introduced new requirements for district councils with effect from 2006 - 07. In addition to the completion of accounts by 30th, including certification by the Chief Executive, the Regulations required the accounts to be signed by the person presiding at the committee meeting or council meeting, which approved the accounts. The 2006-07 Castlereagh Borough Council accounts were not completed on time. The Chief Executive certified the accounts on 16th August 2007 before the accounts were approved on the same date by the Chairman of the Finance and General Purposes Committee.
- 12 The accounts note that they have been approved by resolution of the Council on 28th June 2007. I am concerned that either, the Council approved accounts which were amended over the next six weeks, or that the accounts did not change and their certification by the Chief Executive and Chairman was unnecessarily delayed. I recommend that in future the Council ensures that all aspects of the account completion process are concluded by 30th June.

Incomplete Statement of Accounts submitted for audit

- 13 The Regulations require district councils to prepare accounts “in the form directed by the Department [of Environment]”. The accounts prepared by the Council were incomplete. Key disclosures required by the Department, in line with professional practice applicable to local government accounts, had been omitted. In addition to the incomplete accounts, the audit team noted that the Council’s supporting papers provided insufficient depth to permit the audit of many key elements of the balance sheet. As it would not have been cost effective to continue, the audit team withdrew on 18th September.
- 14 The Regulations require district councils to either:
 - Publish their audited accounts by 31st October immediately following the end of the financial year; or
 - In the event that the audit is incomplete to publish unaudited accounts by the 31st October immediately following the end of the financial year together with a declaration of the fact and an explanation of the circumstances.

- 15 The Council advised the audit team to return on 22nd October, and following a three week period of audit, a final list of outstanding audit matters was raised by the audit team on 15th November. Following investigation of these matters by the Council, on 11th December the Council and audit team met and agreed that an adjustment of £170,149 was required to the income statement to correct errors or omissions made in the accounts presented for audit on 16th August 2007. On 7th February 2008 a draft set of accounts incorporating these adjustments and the results of the Hanwood Trust (see paragraph 2) were provided to the audit team. Following presentational changes required to this draft set of accounts, including changes to the Statement of Internal Financial Control to reflect the matters giving rise to the late completion of the accounts a revised version of the accounts was agreed in March 2008 subject to a short list of outstanding audit matters. The Council subsequently decided that they would commission assistance from an external consultant to undertake a final review of the 2006-07 accounts and outstanding audit matters in conjunction with a review of the 2007-08 accounts. This review was carried out in June and resulted in a number of minor amendments to the accounts which were subsequently agreed and finalised on July 2008. I issued my report on the accounts on 31 July 2008.
- 16 As a result of the standard of the accounts and supporting information presented to me (paragraphs 13 and 14), I was unable to complete my audit of the 2006-07 accounts by the 31st October 2007. The Council published its unaudited accounts on its website on 31st October together with the attached declaration and explanation:

Castlereagh Borough Council's – Declaration and Explanation

Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 Regulation 6

In accordance with the above legislation, Castlereagh Borough Council is hereby publishing its draft statement of accounts for 2006/07 financial year.

Also in accordance with the above legislation, Castlereagh Borough Council makes the following declaration and explanation:

- 1. The statement of accounts for the 2006/07 financial year have not yet received an audit opinion from the Local Government Auditor as they are currently being audited.*
- 2. The statement of accounts for 2006/07 are currently draft as at 31st October 2007 for the following reasons:*
 - a) The Councils statement of accounts for the 2005/06 year were only completed in August 2007 following a technical review of the accounting treatment of the Hanwood Trust. The review resulted in the Council having to produce Group accounts to include the Hanwood Trust for the first time.*
 - b) The Councils Senior Financial and Management Accountant position was vacant during November/December 2006 while a new employee was recruited.*
 - c) New Local Government accounting standards and major changes to the Financial Statements layout have created additional workload this year.*
 - d) 2006/07 Audited Hanwood Trust accounts are yet to be completed to allow for the group accounts preparation. It is hoped that in future years completed Hanwood Trust accounts will be available sooner in the audit timetable.*

17. I make the following comments on the Council's declaration:

- The declaration was not clearly titled and in my view the publication process would have been aided if the declaration had been a separate document (it is included as the first page of the unaudited accounts).
- As noted in paragraph 2, because of the Council's controlling interest in the Hanwood Trust it is required to include the Trust's accounts as part of the Council's accounts. It should have been possible to complete this by the 31st October had the Council put in place an account preparation timetable which recognised all the material requirements such as the Hanwood Trust figures. In 2006-07 these were not available until 7th February 2008. I welcome the assurance that in future Hanwood Trust figures will be available sooner.
- While I accept that the key financial post was vacant for two months at the end of 2006 this should not have impacted upon the preparation of accounts six months later. Adequate supporting papers from the 2005-06 accounts, together with input from suitably qualified and experienced support staff, should have compensated for the vacancy. Where this was not possible the position should have been identified and early remedial action taken.
- I recognise that the introduction of the Regulations involved additional responsibilities for district councils in preparing their 2006-07 accounts. This included Council approval by 30th June and facilitating the completion of the audit by 31st October. The vast majority of Northern Ireland district councils however introduced plans to deal successfully with the additional 2006-07 requirements including ensuring, where gaps had been identified, the necessary resources would be in place. . This process should have been particularly important for this Council as it was faced with the preparation of an additional set of group accounts.

Impact of Late and Incomplete Accounts

18. The revised accounts together with my audit opinion were published on the council's website on 5th August 2008. Whereas nearly all district councils have completed the 2006-07 audit process by October 2007, in accordance with legislative requirements, Castlereagh Borough Council was continuing to deal with its 2006-07 accounts nine months later. Its ratepayers have not had the timely opportunity to examine the Council's accounts and my audit findings as has been the case in the vast majority of Northern Ireland district councils.

19. The preparation of several versions of the accounts will have involved considerable staff input. It is my view that the Council will have prepared an account more cost effectively had it prepared a complete and fully supported version at the outset.
20. The audit staff withdrew from the 2006-07 audit when it would not have been cost effective to proceed. This action aims to minimize additional audit costs. Audit fees involve a full cost recovery and are based on the assumption of the availability of good quality accounts and supporting papers. These enable an audit to be completed within a pre-determined budget. This has clearly not been possible with the audit of the Castlereagh Borough Council 2006-07 accounts.
21. Pointing out deficiencies in the material available for audit and checking subsequent responses adds to audit time and costs – additional costs which will be passed on to the Council. To ensure that the Council brings the cost of accounts preparation and audit in line with other district councils, I recommend that all future accounts are prepared to the required standard and by the required deadline (30th June 2008). Particular attention should be paid to the additional accounting requirements that all district councils must meet from 2007-08.
22. Castlereagh Borough Council failed to comply with a significant requirement of the Regulations introduced by the Department of the Environment to enhance the corporate governance of district councils – the timely publication of audited accounts. I view this matter seriously. I note that the Council's 2007-08 accounts were completed by the statutory deadline although my audit of these has not yet been completed.
23. As noted previously Castlereagh Borough Council was subject to additional accounting requirements in 2006-07 and in accordance with the Local Government (Northern Ireland) Order 2005. Additional requirements will apply in 2007-08. It is my view the Council was not adequately resourced to meet the changes that took effect in 2006-07. I understand the Council has reviewed the position. It has informed me that a re-structure of the finance section is currently underway.

Cash Theft at Robinson Centre in August 2007

24. The council drew my attention in August 2007 to an alleged theft of cash at the Robinson Centre. This occurred between November 2006 and May 2007. Material subsequently passed to me included:
 - Internal Audit Report “Cash Audit – The Robinson Centre” (February 2006)

- Report of investigation [into the fraud] (May 2007)
- Internal Audit of Cash Holding Arrangements (May 2007)
- Revised Access to Safe Procedures (issued to all Leisure Service Management August 2007).

In addition to reviewing the above I met with management grades of the Robinson Centre and the Council's Internal Auditor.

25. Staff from the fitness suite in the Robinson Centre (the council contracts out the service to a private sector provider) raised money in November 2006 in response to the BBC's "Children in Need" appeal. The money raised was placed in the Robinson Centre safe by a member of Council staff.
26. On 9th May 2007, when a decision was taken to pay the money to the BBC, Council staff found that it was no longer in the safe. The incident was reported to senior management including the Chief Executive, and to the PSNI. The Council promptly launched an investigation into the specific fraud and an Internal Audit review of cash handling arrangements across all its leisure faculties.
27. It is important to register two distinct elements to this theft:
- The money involved was not received in respect of routine council procedures. In fact it was not the council's property but was being held in "safe keeping" for the BBC's charity appeal.
 - Deficiencies in the council's cash handling procedures at the Robinson Centre exposed the council to an enhanced risk of theft regardless of its source. Other compensating controls, which would have subsequently detected a cash loss, will have deterred theft. However these compensating controls will not have reduced the Council's exposure to an initial cash loss from the Robinson Centre. In addition the compensating controls had no impact when the cash being held did not belong to the Council as was the case with the "Children in Need" money. When this money was held in the Robinson Centre safe, between November 2006 and May 2007, it was particularly vulnerable to theft.
28. There was no documentary evidence to confirm the exact amount of money which had been placed in the Robinson Centre safe for the "Children in Need" appeal. A member of staff from the private sector provider made a statement outlining a total of £567 had been involved (£547 placed in the safe on 17th November, followed by £20 on the 29th November). The sums involved were not verified by Council staff and no receipt was issued. Between 29th November 2006 and 9th May 2007 the sum held in the safe was not checked to ensure it remained there. The

safe had no contents register. Consequently the council is not in a position to confirm the exact sum which it held for “safe keeping”.

29. The Council’s report of investigation into the fraud noted the following with regards the key to the safe in the Robinson Centre:

- The safe key was not always carried by the responsible officer (the Assistant Manager or Duty Manager).
- The safe key was sometimes left in the Manager’s office.
- All senior staff had a master key which provided access to the Manager’s office. In addition the majority of staff knew the keypad code to access this office without a key.
- The safe key “went missing” for several days in March 2007.

30. The Council’s report of investigation made the following comment on the physical access to the Robinson Centre safe and the absence of any contents register which was regularly checked:

“opportunities are present should staff wish to exploit them for their personal gain”.

I concur with this conclusion. A wide range of staff at the Robinson Centre had over six months to remove the charity money from the safe. This could be done in the knowledge that, because of the deficient cash handling controls, it would be difficult to trace the theft to a specific date or individual. In these circumstances it is understandable that the PSNI were unable to proceed with an investigation. Consequently money raised for the BBC’s “Children in Need” appeal from members of the public, including Council staff, was misappropriated from the Council – most likely by an employee of the Council.

31. Given the report of investigation findings the Council asked its Internal Auditor to review cash handling procedures at all its leisure facilities. Following this revised procedures were issued to all Leisure Service Management in August 2007. These included:

- Each safe should have an inventory of its contents.
- The Duty Manager should check the safe contents against the inventory when beginning work.
- All cash holdings must be clearly labelled and accounted for.

I examined the operation of these procedures in the Robinson Centre during a visit in September 2007.

32. In my view the Council acted promptly and comprehensively once the cash loss was identified. However I am deeply concerned that the

deficient cash handling procedures which had existed in the Robinson Centre for at least six months, were not detected by management controls. The Council was clearly exposed to a loss from the Robinson Centre safe which would be extremely difficult to attribute to an individual. It is essential that the revised procedures are monitored by management to ensure they continue to operate effectively and no future losses occur.

33. I note that an Internal Audit report on “Cash Audit – The Robinson Centre” was completed in February 2006 – possibly less than a year before the “Children in Need “ cash theft. This report did not address the key risk of ensuring that cash received in the Robinson Centre was adequately safeguarded once it had been placed in the safe. I recommend that future Internal Audit studies are scoped to ensure all the significant risks in the study area are covered.

34. I am pleased to report that the council successfully claimed from its insurers and £567 was forwarded to the BBC in October 2007. In my 2007-08 audit I will examine if this claim has added to the Council’s insurance costs. Although this fraud did not involve a large sum of money I have covered the issue in some detail. All public sector fraud, regardless of the sums involved, should be a matter of concern to auditors and audited bodies. Castlereagh Borough Council should ensure the control failings in the Robinson Centre which may, arguably, have inadvertently encouraged theft, but without question meant there was little prospect of detecting the fraudster, do not reoccur.

How is the Council Performing

Scope of my audit

- 35 My audit is conducted in accordance with a Code of Audit Practice (the Code) issued by the Chief Local Government Auditor. The Code prescribes the standards, procedures and techniques which comprise a local government audit. The Code notes that due to the special accountabilities attached to public money and the conduct of public business:

“the scope of auditors’ work is extended to cover not only the audit of financial statements but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources.”

- 36 Throughout the public sector the economic, efficient and effective use of resources is known as Value for Money (VFM). More particularly in the context of the Local Government (Best Value) Act (Northern Ireland) 2002 “a council shall make arrangements for continuous improvement in the way in which its functions are exercised, having regard to a combination of economy efficiency and effectiveness”.

- 37 A review of the council’s corporate governance and VFM arrangements for 2006-07 were carried out. The finding from the review was included in my audit file and a summary report, prepared for me, was copied to the Chief Executive. This corporate governance and VFM arrangements review provided no evidence that the Council does not have proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 38 I have however noted the following issues from the corporate governance and VFM arrangements review:

- There is no Business Continuity Plan for the Information Technology Unit.
- There is no Receipt of Gifts or Hospitality policy.
- There is no stand alone Whistleblowing policy.

Absenteeism

- 39 The Chief Local Government Auditor may, in accordance with the Local Government (Northern Ireland) Order 2005, undertake and publish studies which examine the provision of services by local government bodies. Studies of absenteeism in Northern Ireland Councils were completed in respect of 2005-06 and 2006-07. Similar unpublished absenteeism reviews had been undertaken in earlier years by the Chief Local Government Auditor. This data enabled the 2005-06 and 2006-07 reports to address absenteeism performance over a long period for each Council, and for the sector as a whole.
- 40 In his 2006-07 report, published in January 2008, the Chief Local Government Auditor analysed absenteeism for each Council over a three year period and an average annual absenteeism rate was derived for this period. This analysis counters the impact of annual fluctuations in absenteeism which would distort the findings, particularly within smaller Councils.
- 41 The Chief Local Government Auditor recommends that Councils monitor their absenteeism regularly as part of an ongoing process of absenteeism management. To facilitate this I attach at Annex B annual absenteeism data which includes 2006-07 figures. Also included is the three yearly data from the Chief Local Government Auditor's 2006-07 report.
- 42 The 2006-07 absenteeism figures for the Council is 9.82 days. This represents an increase of 0.60 days or 6.5% on the prior year.
- 43 The Council's three year average for 2004-07 of 10.24 days is well below the Northern Ireland council average of 13.82 days. The 2004-07 rate is more than two and a half days lower than the 2001-04 rate of 12.83 days. One quarter (25 per cent) of the Council's absenteeism was due to stress related causes, higher than the average for Northern Ireland councils of 20 per cent.
- 44 Had the Council's 2004-07 absenteeism rate matched that of Magherafelt District Council, annual productivity gains of £101,000 would have been possible according to the Chief Local Government Auditor's report of January 2008.

Grant claims

- 45 The Chief Local Government Auditor has developed a more risk based approach to the certification of grant claims. We have reduced our audit scope of these claims and where appropriate we have adopted a controls-based approach on all of the Council's grant claims. In certain cases the grant claim was new so there was no established track record of compliance and in others the claim had been amended in the prior year. In such cases, it was considered more efficient to take a fully substantive approach.

Conclusion

- 46 This letter has been discussed with the Chief Executive and Director of Finance.
- 47 Once the Council appreciated the demands of the new legislative regime to its 2006-07 accounts it took a positive and constructive approach to our audit. I would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

Availability of this letter

- 48 This letter will be published on the Northern Ireland Audit Office's website at www.niauditoffice.gov.uk, and also on the Council's website.

Denver Lynn

Local Government Auditor

5 September 2008

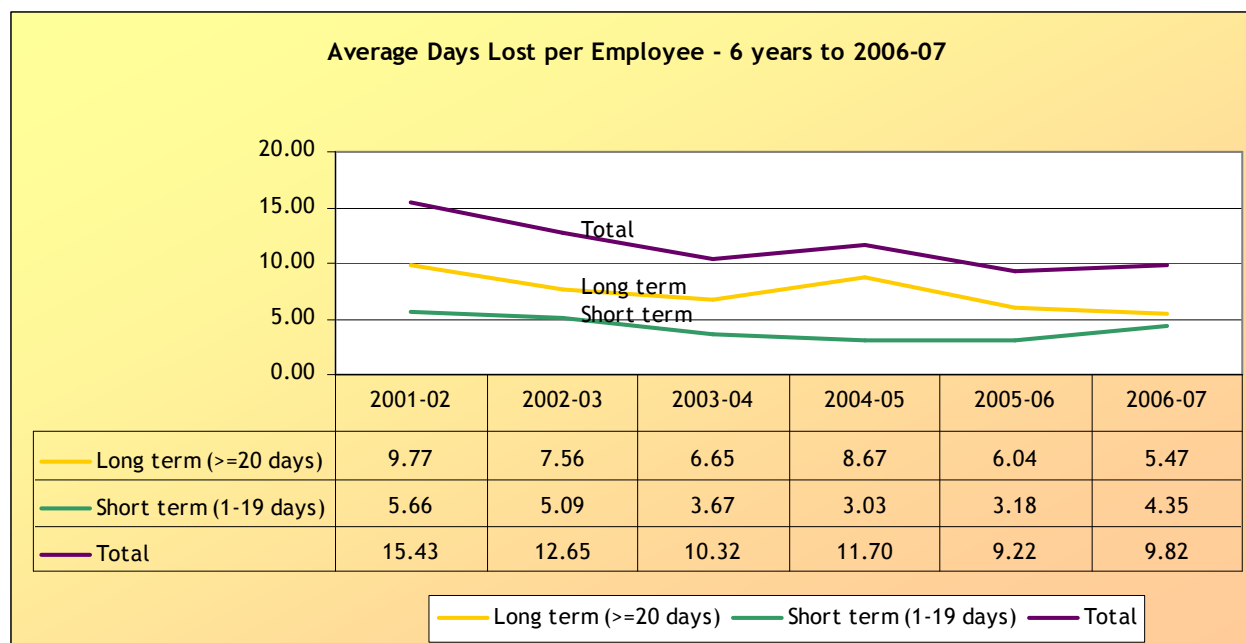
Material Audit Adjustments – Castlereagh Borough Council 2006-07

	Issue	Value of Misstatement	Impact on Surplus/ (Deficit)
		£	£
1	To correct inappropriate accruals accounting	142,719	142,719
2	To account for annual leachate costs relating to the landfill site	25,622	
3	To remove stale cheques from the bank reconciliation	7,300	-

Castlereagh Borough Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2006-07 for total days lost per employee.



2006-07 absenteeism compared to Northern Ireland councils as a whole

	Castlereagh	NI Councils	Variance	Variance %
Average total days lost per employee	9.82	13.82	-4.00	-29%

3-year absenteeism (2004-07) compared to Northern Ireland councils as a whole

	Castlereagh	NI Councils	Variance	Variance %
Average total days lost per employee	10.24	14.05	-3.81	-27%