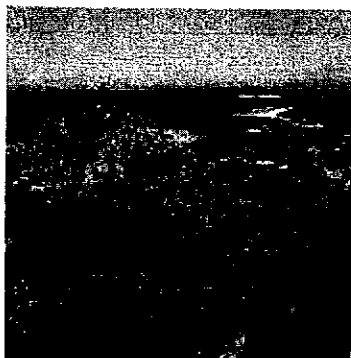


# Annual Audit Letter

Issued by the Local Government Auditor  
19 December 2008



## Castlereagh Borough Council

Year to 31 March 2008

## **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 and Availability of this Annual Audit Letter**

This Annual Audit Letter is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006. The Regulations require the local government body to publish this Annual Audit Letter as soon as reasonably possible. The local government auditor will place a copy of his Annual Audit Letter on the NIAO website at [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk).

The Audit Letter 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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# Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 29<sup>th</sup> October 2008. I gave an unqualified opinion on your accounts.

## ***Matters arising from the final accounts audit***

- 2 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. The Council's annual accounts were signed by the Chief Financial Officer on 26<sup>th</sup> June 2008. Members of the Finance & General Purposes Committee approved the accounts on 26<sup>th</sup> June 2008 which was within statutory guidelines. Following a material amendment and a number of minor adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 22<sup>nd</sup> October 2008.
- 3 A number of minor narrative and financial adjustments were made as a result of our audit findings during audit.

## ***Financial standing***

- 4 As a measure of prudence, a council should retain a sufficient balance in its District Fund to cover unexpected revenue expenditure or an unexpected drop in income in the foreseeable future. In recent years relevant examples of these include unforeseen costs associated with employment issues and reduced rates income from that estimated by Land & Property Services at the start of the year.
- 5 The district fund balance at £2.98m represents 26.16% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit). I consider the Council's financial standing to appear satisfactory with one issue of note.
- 6 Although the Council has a substantial district fund balance (£2.98m), this does not equate to a disposable reserve. Note 11 of the accounts records unfunded capital expenditure of £3.66m at 31 March 2008 (an increase of £1.21m from £2.45m at 31 March 2007). This capital expenditure has, in effect, been funded by the District Fund although the Council has taken no decision to provide funding from that source and record this in the accounts. Consequently there are no uncommitted funds which will be available to the Council in the future.
- 7 The Council, should seek to provide a funding source for the £3.66m unfunded capital expenditure. Only when this is achieved can the District Fund balance be seen as a disposable reserve and a true measure of the excess funds that the Council has accumulated. In future, capital expenditure should only be undertaken after the source of funds has been established by the Council (including loans, grants or Council reserves).

- 8 It should be noted that the Council's accounts do not reflect debtors of unpaid rates at 31 March 2008. These are carried by the Land and Property Services (an agency of the Department of Finance and Personnel) in their Statement of Rate Levy and Collection. The Council is therefore vulnerable to later adjustment in respect of uncollectible rates. The Statement of Rate Levy and Collection was the subject of a Public Accounts Committee hearing on 18 September 2008 and report on 6 November 2008.
- 9 The "final penny product" finalisation adjustment for the year amounted to £100,520 was notified to the Council after the completion of the accounts but has been adjusted for before audit certification as the amount was material. It should be noted that when the estimates for the year were prepared they were based on an "estimated penny product" and thus when final figures are received from Land and Property Services this can lead to additional funds or clawback adjustment.

### ***District fund spending and balances***

- 10 The overall financial position remains stable. The Council increased by £1.12m the District Fund in 2007-08, leaving the District Fund balance at £2.98m as at March 2008.
- 11 In addition, the Council has the following earmarked reserves :

<b>Funds</b>	<b>Balance at 31 March 2008</b>
Capital Fund	£1,613,996
Renewal & Repairs Fund	£nil
Useable Cash Receipts Reserve	£nil

- 12 The Capital Fund account is mainly used to meet expected future capital outlay.

### ***Capital Programme***

- 13 The Council has Fixed Assets totalling £48.18m with loans outstanding of £17.98m. The Statement of Accounts reports a capital programme totalling £2.7m in the course of or planned for delivery. I understand that the Council plans to fund this programme via loans, capital grants, revenue contribution and the sale of surplus land stock.

## **Annual Governance Statement**

- 14 The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Councils to conduct a review at least once in a financial year of the effectiveness of its governance framework (including its system of internal control) and then approve an Annual Governance Statement.
- 15 The Chairman on behalf of the Finance & General Purposes committee and the Chief Executive originally approved the Annual Governance Statement on 26<sup>th</sup> June 2008. Following a number of amendments to this statement it was signed by the Chief Executive on 22<sup>nd</sup> October 2008. My opinion on the accounts includes the Annual Governance Statement. I am required to report if the Governance Statement is inconsistent with the guidance provided by DOE or if disclosures in the Statement are inconsistent with my understanding of the Council. I noted no Governance Statement matters in my report but paras 19 to 22 of this Audit Letter includes matters I considered.

## **Internal Audit**

- 16 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 also required Councils to maintain an adequate and effective system of internal audit and to conduct a review at least once in a financial year of the effectiveness of its system of internal audit. The Council's internal audit service is provided in-house. The Council did not undertake a formal review of the 2007-08 work completed by internal audit as required by the Regulations. The Council intends to have this formal annual review of Internal Audit's 2008-09 audit work by 1<sup>st</sup> April 2009. **I recommend particular attention is paid to the resources available to internal audit. It is my view that these are below the levels found in comparable size district councils,** and I suggest the review of Internal Audit should include benchmarking against best practice in other district councils.
- 17 I have reviewed the internal audit reports presented to the Council for 2007-08. I am concerned that the internal audit service does not fully comply with the requirements as laid out under the "Code of Practice for Internal Audit in Local Government in the United Kingdom 2006". The aim of every internal audit report should be:
  - To give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment;
  - To prompt management to implement the agreed actions for change leading to improvement in the control environment and performance; and
  - To provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.

The reports:

- Do not clearly identify the scope and purpose of the audit;
- Do not clearly identify what tests were actually carried out and the findings of those tests;

- Do not prioritise recommendations according to risk or note agreements reached with management or the timescales for implementation of the recommendations. We noted occasions where no recommendations were made, even though significant weaknesses were detected; and
- Do not detail any follow-up actions taken by internal audit on previous recommendations made.

### ***Revaluation of Land and Buildings – 2008/2009 Accounts***

- 18 The Council has instructed the District Valuer to revalue the council's land and buildings at 1 April 2008 for the 2008/2009 accounts. The accounting for these revaluations will be examined as part of next year's audit.

### ***Transition to International Financial Reporting Standards (IFRS)***

- 19 In central government, International Financial Reporting Standards (IFRS) applies to 2009/10 accounts. The Central Government 2008/2009 accounts will be prepared on a normal Financial Reporting Standard basis in June 2009 then again on a shadow IFRS basis in September 2009 which audit will check before the end of December 2009.

For Local Government -the Chartered Institute of Public Finance Accountancy (CIPFA) website outlines the latest position regarding the development of the "IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010". Councils will need to start considering the implications of the transition to IFRSs.

# Council Performance

## *Scope of my audit*

- 20 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.”*

- 21 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”. Part of the way Councils monitors this is by benchmarking aspects of its financial data against other Councils and this information is also provided to the Department of the Environment.
- 22 A review of the council’s corporate governance and VFM arrangements for 2007-08 was carried out separately from the audit of the accounts. The finding from the review was included in my audit file and a summary report, prepared for me, was copied to the Chief Executive. I used this information, together with information obtained during the course of the audit of the accounts, to examine the Governance Statement.
- 23 The Council noted the following in its Governance Statement as significant governance issues
- **Finance section restructure:** “To address the new and tighter reporting deadlines and to continue to improve the financial controls and segregation of duties within the finance section it needs to be better resourced. The lateness of the 200607 financial statements, signed 31<sup>st</sup> July 2008 after the statutory deadline of 31<sup>st</sup> October 2007 and the management letter weaknesses illustrate the issue”.
  - **Corporate Risk Register:** “The Council does not have a risk register in place in line with statutory requirements as of 1<sup>st</sup> April 2007 and is in breach of this requirement”.
- 24 We note the above Governance issues and the steps being taken by the Council to address the weaknesses noted. We did not identify any other significant governance issues as a result of our audit.
- 25 I noted the following additional issues from the corporate governance and VFM arrangements review:
- The Council does not have a suitable policy on the acceptance of gifts and hospitality;  
and

- The Council should appoint independent non-executive members to the Audit Committee.

## **Absenteeism**

- 26 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. A study of absenteeism in Northern Ireland councils was completed in respect of 2006-07. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2006-07 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
- 27 In his 2007-08 report, due to be published in January 2009, the Chief Local Government Auditor will analyse absenteeism for each council over the three year period to March 2008 and will derive an average annual absenteeism rate for this period. This analysis counters the impact of annual fluctuations in absenteeism which would distort the findings, particularly within smaller councils.
- 28 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 Annex A which contains the most recent absenteeism rates for your Council.
- 29 The 2007-08 absenteeism figure for the Council is 11.74 days. This represents an increase of 1.92 days on the previous year.
- 30 Castlereagh Borough Council's absenteeism rate has, however decreased by 1.3 days to 10.26 days from 2002-05 to 2005-08. It is still lower than the Northern Ireland average of 13.76 days for this latter three year period.

## Other Audit Work

### Joint Committee

- 31 The Council is a member of the Arc21 Joint Committee which was incorporated as a body corporate, pursuant to section 19 of the Local Government Act (Northern Ireland) 1972, on 13<sup>th</sup> February 2004. During the year the Council advanced £1.17m towards funding the expenditure of the Joint Committee.
- 32 The Arc21 Joint Committee is a partnership of eleven councils established to collaborate in implementing the Waste Management Plan to develop an integrated network of regional waste management facilities which would be cost effective to the public. Total expenditure by the Committee for the year was £23.5 million and the Committee's Accounts identify longer term capital expenditure in the region of £300 million.
- 33 The Joint Committee accounts for its funding by the provision of a statement of accounts which is prepared under the Local Government (Northern Ireland) Order 2005 and subject to statutory audit by a local government auditor.
- 34 The Council is in the process of setting up a Joint Committee for the purpose of participation in programmes funded by the European Union. Under this arrangement Peace III and INTERREG IVA funding will be available from the Special EU Programmes Body and the Department of Agriculture and Rural Development through to 2013.

### District Policing Partnership (DPPs)

- 35 Under the Police (Northern Ireland) Act 2000, DPPs have been established by each district council. The Policing Board for Northern Ireland provide a grant equal to three-quarters of approved DPP expenses. The set-up arrangements provide for DPP expenditure to be audited annually by Local Government Auditors.
- 36 The 2007-08 DPP audit, comprising expenditure of £143,551, was completed in June 2008.

## Grant Claims

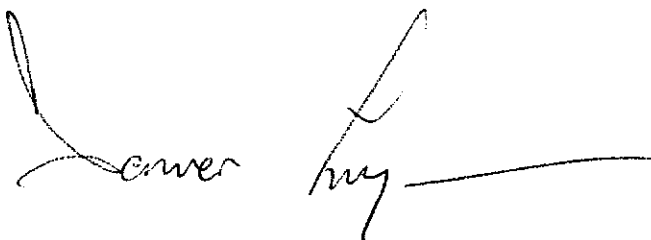
- 37 The Chief Local Government Auditor in accordance with Article 25 of the Local Government (Northern Ireland) Order 2005 has made arrangements for the certification of local government body grant claims. These arrangements, which are not an audit but a different form of engagement designed to provide reasonable assurance, apply where their application has been agreed with the grant paying body. The key principle is that the certification of grant should be proportionate to the amounts involved and the associated risks. Specifically financial thresholds apply and grants below £25,000 are not examined.

## Looking Ahead

- 38 The Environment Minister in March 2008 announced as part of the Review of Public Administration in Northern Ireland that the current 26 council areas will be rationalised to create 11 new council areas. The Minister also outlined the functions to transfer to local government.
- 39 This will present many challenges to the Council not only in managing the transition process but also in maintaining effective delivery of services in the interim.

## Conclusion

- 40 This Audit Letter has been discussed and agreed with the Chief Executive and Director of Finance.
- 41 The Council has taken 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.

A handwritten signature in black ink, appearing to read 'Denver Lynn', with a long horizontal line extending to the right.

Denver Lynn

Deputy Chief Local Government Auditor

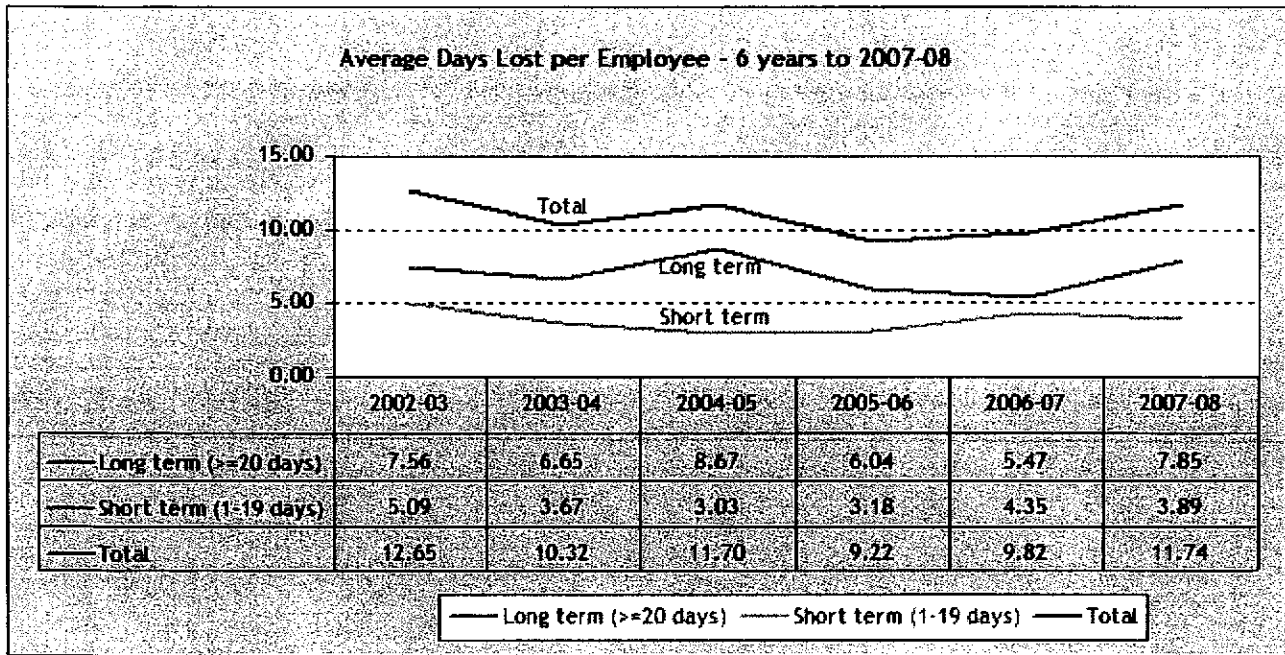
19th December 2008

ANNEX A

# Castlereagh Borough Council Absenteeism

## Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2007-08 for total days lost per employee.



### 2007-08 absenteeism compared to Northern Ireland councils as a whole\*

	Castlereagh	NI Councils	Variance	Variance %
Average total days lost per employee	11.74	13.73	-1.99	-14%

### 3-year absenteeism (2005-08) compared to Northern Ireland councils as a whole\*

	Castlereagh	NI Councils	Variance	Variance %
Average total days lost per employee	10.26	13.76	-3.50	-25%

\* The Northern Ireland Council position is derived from figures as at 10th November 2008. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2007-08.