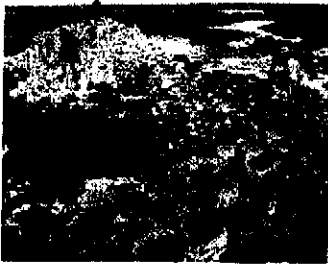
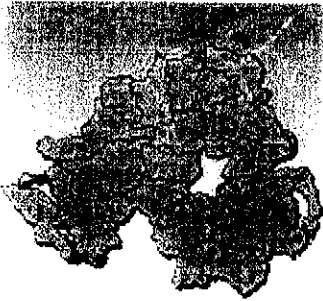


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Annual Audit Letter

Issued by the Local Government Auditor
2010



Castlereagh Borough Council

Year to 31 March 2010

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). For the year ending 31 March 2010 I have been designated the local government auditor for the Council.

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 this Annual Audit Letter on the NIAO website at 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 25th November 2010. I gave an unqualified opinion on your accounts.
- 2 The Local Government (Northern Ireland) Order 2005 requires that in auditing accounts a local government auditor must by examination of the accounts or otherwise satisfy himself that:
 - (a) they are prepared in accordance with regulations;
 - (b) they fully comply with the requirements of all other statutory provisions applicable to the accounts;
 - (c) proper practices have been observed in the compilation of the accounts; and
 - (d) the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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. The Council's annual accounts were signed by the Chief Financial Officer on 23rd June 2010 and members of the Finance & General Purposes Committee approved the accounts on 23rd June 2010 which was within the statutory guidelines which requires this to be completed by 30 June. Following material amendments the accounts were authorised for issue by the Chief Financial Officer on 7th October 2010.
- 4 The most significant adjustment to the accounts made as a result of our audit findings during our audit / the availability of additional information was as follows:
 - An increase in the Landfill provision by £493,410 following an updated review of the latest 2010/11 year to date actual landfill aftercare costs.

- 5 At the conclusion of our audit we issue a Management Letter to the Chief Financial officer noting the most significant audit issues found and seeking comments. I would draw the following points from the Management Letter:

i. **Completion of notification of Councillors' interests**

Whilst Council obtained 100% notification of interests from Councillors for the 2009-10 financial year, they were actually completed by Councillors in the period June – July 2009. When declarations are signed at the beginning of or during the financial year, there is a risk that conflicts of interests could go unnoticed and / or uninvestigated.

Management Response:

The Council has amended its standing orders with effect from July 2010, whereby declarations of interest are a standing item of business at the beginning of every agenda. The Council will however issue a letter at the end of the financial year asking for any further declarations, in order to ensure that the full year is covered, i.e. to include the period April to July, before the new standing orders are introduced.

ii. **Partnerships with other organisations**

Council have not formally documented their procedures to identify any other organisations under the direct control of the Council. Without a formal process for identifying any other organisations under the direct control of the Council there is a risk that controlled organisations will go unnoticed and unmonitored; and

We noted that signed Service Level Agreements (SLA's) were not in existence between the Council and certain organisations for which it carried out service functions for the year ended 31st March 2010. There is a risk that the Council may undertake activities for which it is not contracted to perform. Further in the absence of signed SLA's neither party is bound to carry out activities in an agreed manner. The risk of the Council not receiving payment for services provided as a result of disputes with the other body is heightened.

Management Response:

The Council has signed SLA's in place for the partnerships with other organisations.

Financial standing

- 6 The Council continues to have adequate financial management arrangements overall.

- 7 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, reductions in general grant, and reduced rates income from that estimated by Land & Property Services at the start of the year. The Department of the Environment under circular LG20/09 provided guidance on the level of minimum balance that a council should plan to carry on its District Fund, suggesting some 5% to 7.5% of the net operating expenditure (adjusted by taking the net operating figure in the District Fund, excluding depreciation and impairment but adding back repayment of loan principal).
- 8 The district fund balance at £1,351,192 represents 10% of the net operating expenditure after proper practices adjustments in relation to capital expenditure entries. Whilst Council's financial standing would appear to be satisfactory, I would encourage the Council to keep under review its balance in light of the guidance noted in paragraph 7. The average for the 26 Councils as at 31 March 2010 is 10.6%, based on the accounts presented for audit, (10.3% as at 31 March 2009).
- 9 It should be noted that the Council's accounts do not reflect debtors of unpaid rates at 31 March 2010. 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.

District fund spending and balances

- 10 The Council decreased by £883,440 the District Fund in 2009-10, leaving the District Fund balance at £1,351,921 as at 31 March 2010. The decrease was largely due to £1.5million being directly used to finance capital expenditure.
- 11 It is important that in preparing accounts the Council includes for all known liabilities and provisions in relation to committed events. In this regard preparation of the 2011-12 estimates and the accounts for 2010-11 should include consideration of such topics as the outworking of single status, and revenue contributions to capital in relation to any unfinanced capital expenditure.
- 12 The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 15.

- 13 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2010
Capital Fund	£737,053
Renewal & Repairs Fund	£500,000
Useable Capital Receipts Reserve	£nil

- 14 The Capital Fund account is mainly used to meet expected future capital costs.

Capital Programme

- 15 The Council has Fixed Assets totalling £67,438,995 with loans outstanding of £19,514,147. As at 31 March 2010 the Council has not yet secured funding for £26,576 of its Fixed Assets.
- 16 The Statement of Accounts reports a future capital programme totalling £2,921,812. I understand that the Council plans to fund this programme via a revenue contribution of £400,000 with the remainder being between Government loans and possible VAT claims.

Annual Governance Statement

- 17 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.

- 18 The Annual Governance Statement was approved by the Chairman on behalf of the Finance & General Purposes committee and the Chief Executive on 23rd June 2010. 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 25 to 27 of this Audit Letter includes matters I considered.

Internal Audit

- 19 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 has recently contracted out its internal audit to a private sector firm, but for the 2009-10 financial year the service was provided in-house. The council reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee on 29th April 2010. The review was carried out by an independent consultant who concluded that the in-house Internal Audit Service was not compliant with the CIPFA Code of Practice for Internal Audit in Local Government (2006). Of the 11 prescribed standards within the CIPFA Code of Practice, Internal Audit met two in full, three partially, and failed to meet the standard required in the other six. The following key issues were identified within the report:

- The current reporting structure within the Council for Internal Audit did not promote the independence required of an Internal Audit Service;
- The Audit Sub-Committee did not meet as frequently as required and was not being presented with effective information in relation to Internal Planning and delivery;
- The resourcing, training and development of the current Internal Audit resource lacked structure;
- There was no formal Internal Audit Strategy in place defining protocols and the methodology being applied by Internal Audit to plan its delivery; and
- Internal Audit reporting was not consistent and focused.

Transition to International Financial Reporting Standards (IFRS)

- 20 In central government, International Financial Reporting Standards (IFRS) applied to the 2009-10 accounts and the Central Government 2008-09 accounts were prepared for the last time on the UK Financial Reporting Standard basis in June 2009. In preparation for the change the 2008-09 accounts of Central Government were prepared again on a shadow IFRS basis in September 2009 with an audit review undertaken before the end of December 2009.
- 21 For Local Government the change to IFRS will take place a year later (i.e. from 2010-11). The Chartered Institute of Public Finance Accountancy (CIPFA) issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the implementation of IFRS. This included a Project Plan with key steps and dates.
- 22 The DoE commissioned CIPFA (NI) to provide training and support to local government bodies in Northern Ireland to help take forward IFRS issues. A series of training days were held in late 2009 and early 2010. A new IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010 has been issued by CIPFA. As was the case in Central Government, Councils will be required to re-state their final UK Financial Reporting Standard based accounts (ie 2009-10) on an IFRS basis and have this subject to audit review. DOE, under Circular LG 22/10 dated 28 October 2010, require re-stated accounts to be prepared by 17 December 2010 and we plan to undertake our audit reviews before the end of February 2011.

Council Performance

Scope of my audit

- 23 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.”

- 24 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 monitor this is by benchmarking aspects of its financial data against other Councils and this information is also provided to the Department of the Environment.

- 25 A review of the council's corporate governance and VFM arrangements for 2009-10 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.
- 26 The Council noted a number of issues in its Annual Governance Statement. The more significant governance issues included:
- **Resignation of the Chief Executive** – Since the previous Chief Executive resigned on 10th March 2009, the position has remained vacant. The position is currently filled by the monthly rotation of the Council's four directors. The Council has just completed a recruitment exercise and an appointment offer has been made;
 - **Time and Attendance** - Weaknesses were identified within the current clocking in/out procedures. Council has procured and is implementing Biometric Scanners and related time and attendance software in order to reduce the risk of potential fraud in the future;
 - **Landfill site financial risk** – The European Union landfill site closure options require Council to comply with more onerous directives at its Moss Road landfill site. The new regulations may have serious cost implications for the Council and, in turn, the ratepayers of the borough;
 - **Lockkeeper's Inn** – In January 2010, following allegations in a BBC Spotlight programme, the Council commissioned an independent external investigation into the awarding of the lease at the Lockkeeper's Inn. Deloitte LLP have concluded the 'ground work' regarding the investigation and the Council currently awaits the report from Deloitte. The Council has advised me that upon consideration of the report the Council will as necessary implement any changes to policy and practices accordingly.
- 27 The Council is not fully compliant with various elements of the Annual Governance framework including:
- Following an independent review on the effectiveness of the Council's Internal Audit Service it was found that the Council was not fully compliant with the CIPFA Code of Practice. The Council has implemented the recommendation's within the report including the contracting out of its internal audit service;
 - The Council did not have a formalised whistle-blowing policy in place during 2009-10. The Council's draft whistle-blowing policy was reviewed by the Finance & General Purposes Committee during 2009/10 and, after further attention by officers, has been given approval subject to comments requested from others;

- The Council's Audit sub-committee was not compliant with the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities; and
 - The expected level of compliance for the updated performance appraisal system was not achieved due to competing priorities and lack of resources.
- 28 I noted the following additional issues from the corporate governance and VFM arrangements review:
- The Council does not have an independent member on the Audit sub-committee which is contrary to CIPFA's Audit Committees Practical Guidance for Local Authorities; and
 - Council did not complete the audit committee self assessment checklist to confirm how they were complying with CIPFA's Audit Committees Practical Guidance for Local Authorities.

Absenteeism

- 29 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 2008-09 and published in December 2009. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2008-09 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
- 30 A 2009-10 absenteeism study is due to be published in November 2010. In this the Chief Local Government Auditor will analyse absenteeism for each council over the three year period (2007-08, 2008-09 and 2009-10) 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.
- 31 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. This includes annual rates of absenteeism for the last six years and the three-yearly absenteeism rate for the period ending 31 March 2010 which will be included in the Chief Local Government Auditor's 2009-10 report.
- 32 The 2009-10 absenteeism figure for the Council is 11.51 days. This represents an increase of 0.89 days on the previous year.

- 33 Whilst Castlereagh Borough Council's three-year absenteeism rate has increased by 1.05 days from 10.23 days in 2004-07 to 11.27 days in 2007-10 it is still lower than the Northern Ireland average for this latter three year period.

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Waste Minimisation and Recycling

- 34 The DoE, as Allocating Authority under the Waste and Emissions Trading Act 2003, allocates Biodegradable Municipal Waste (BMW) allowances to district councils for the amount of waste which can be sent to landfill. It is intended to include information on volume of waste disposed to landfill in the Chief Local Government Auditor's Annual Report.
- 35 The Landfill Allowance Scheme (NI) Regulations 2004 place a statutory responsibility on district councils, in each scheme year, to landfill only the quantity of BMW they have allowances for. To exceed this may result in financial penalties of £150 per tonne of exceeded allowance (Landfill Allowance Scheme (Amendment) Regulations (Northern Ireland) SR 2005/588).
- 36 While there is some provision for the re-allocation of allowances, the Council needs to give careful consideration as to the risk of incurring penalties under the scheme.

Payment of invoices

- 37 In November 2008 the Minister at the Department of Finance and Personnel reduced the target for the payment of invoices by the public sector from 30 days to 10 days. This was to assist small business in the changed financial circumstances prevailing, thus assisting businesses with their cash flow.
- 38 The target is not mandatory for local government but for the first time in 2009-10 DoE required district councils to disclose their prompt payment performance. For the council a sample of invoices indicated that this was 18 days (the average for Northern Ireland councils was 30 days). It is hoped that councils will consider means by which the time taken to pay invoices can be reduced.

Equality

- 39 The Council has an established Equality Scheme and Policy and has developed a process for undertaking equalities impact assessments of its strategies so that it understands the likely impact on its diverse population. Castlereagh Borough Council did not carry out any Equality Impact Assessments in 2009-10.

Other Audit Work

Joint Committee – Waste Management

- 40 The Council is a member of the Arc21 Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £1,523,036 towards funding the expenditure of the Joint Committee.
- 41 The Joint Committee is a partnership of 11 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 almost £29 million.
- 42 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.

Joint Committee – Rural Development / Peace III

- 43 The Council also participates in Joint Committees for the purpose of delivering 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. The Council is part of the following Joint Committees:
- Lisburn-Castlereagh Peace III (with Lisburn City Council)
 - Lagan Rural Partnership (with Belfast City Council and Lisburn City Council).
45. Separate accounts have been prepared by the Joint Committee and audited by a Local Government Auditor for 2009/10. A separate Annual Audit Letter issues to the Joint Committee.

District Policing Partnership (DPPs)

- 46 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.
- 47 The 2009-10 DPP audit, comprising expenditure of £137,053, was completed in May 2010.

Grant Claims

- 48 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.

Conclusion

- 49 This Audit Letter has been discussed and agreed with the Acting Chief Executive and Director of Finance.
- 50 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.

John Buchanan

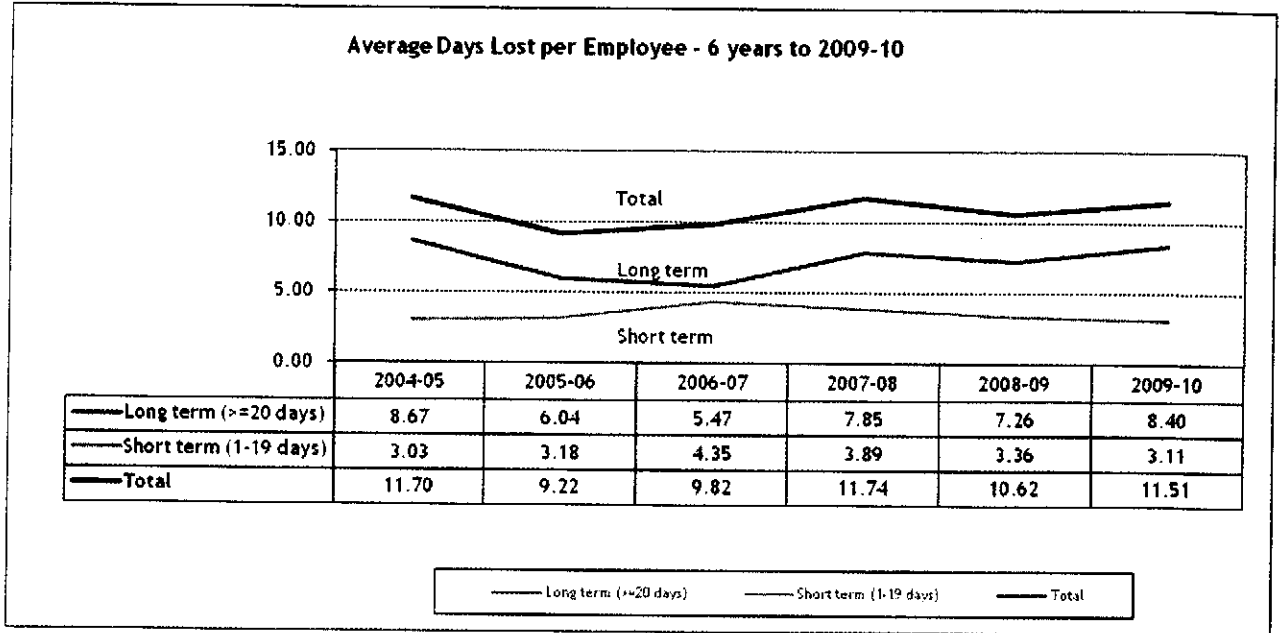
Local Government Auditor

November 2010

Castlereagh Borough Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2009-10 for total days lost per employee.



2009-10 absenteeism compared to Northern Ireland councils as a whole*

	Castlereagh	NI Councils	Variance	Variance %
Average total days lost per employee	11.51	12.39	-0.88	-7%

3-year absenteeism (2007-10) compared to Northern Ireland councils as a whole*

	Castlereagh	NI Councils	Variance	Variance %
Average total days lost per employee	11.27	12.83	-1.56	-12%

* The Northern Ireland Council position is derived from figures as at 14 October 2010. Final Figures are included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2009-10.

