



Annual Audit Letter

Issued by the Local Government Auditor
22 December 2008



Craigavon 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.

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 14th 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 25th June 2008. Members of the Audit Committee approved the accounts on 25th June 2008 which was within statutory guidelines. Following a material adjustment from the audit the accounts were authorised for issue by the Chief Financial Officer on 8th October 2008.
- 3 A number of minor narrative and one material amendment were made as a result of our audit findings during our audit. The amendment related to additional rates of £610k which was alerted to the Council by Land and Property Services after the accounts had been submitted for 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 at the start of the year.
- 5 The district fund balance at £5,777k represents 27.2% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit). As such, while the Council's financial standing would appear to be satisfactory the need for such a large balance should be reviewed. The Council has indicated that the district fund balance has been earmarked for a number of specific items.
- 6 It should be noted that the Council's accounts do not reflect debtors of unpaid rates at the 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.

7 The “final penny product” finalisation adjustment for the year of additional £610k to the council was notified 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

- 8 The overall financial position remains stable. The Council increased by £1,465k the District Fund in 2007-08, leaving the District Fund balance at £5,777k as at March 2008.
- 9 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2008
Capital Fund	£ 254,978
Renewal & Repairs Fund	£ 2,202,655
Capital Receipts Reserve	£ 609,143

10 The Capital Fund account is available for future capital expenditure, while the Renewal & Repairs Fund will be used to meet closure costs associated with the landfill site.

Capital Programme

11 The Council has Fixed Assets totalling £60.9m with loans outstanding of £8.2m. The Statement of Accounts reports capital contracts approved and contracted totalling £0.857m.

Annual Governance Statement

12 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.

- 13 The Chairman on behalf of the Audit Committee on 25 June 2008 and the Chief Financial Officer on 25 June 2008 approved the Annual Governance Statement. 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. The Audit Committee also approved on 25 June 2008 the self assessment against the CIPFA Code of Practice for 2007/2008.

Internal Audit

- 14 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 a dedicated in-house Internal Audit Department.

Revaluation of Land and Buildings – 2008/2009 Accounts

- 15 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)

- 16 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

17 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.”

18 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 Council’s and this information is also provided to the Department of the Environment.

19 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.

20 The Council noted the following in its Governance Statement as significant governance issues

Issue	Action
The Chief Executive has been on sick leave with effect from 19 November 2007.	<p>The Director of Corporate Services, in accordance with duties detailed in her current job description, deputised for the Chief Executive on corporate issues as an interim arrangement.</p> <p>At the 3 December 2007 Council meeting approval was granted to appoint the former Chief Executive of Banbridge District Council to come to Craigavon in an independent advisory capacity under the following broad terms of reference:</p> <ul style="list-style-type: none"> ➤ Bring forward proposals to address current HR problems and recommend any appropriate actions including interim resourcing requirements ➤ Meet individually, and where appropriate, collectively with members of the Corporate Management Team and other senior officers to identify and prioritise

	<p>issues and develop approaches to resolution</p> <ul style="list-style-type: none"> ➤ Develop an action plan for the Corporate Management Team so that they secure continuity of services ➤ Provide monitoring support/capacity building to Corporate Management Team and individual senior officers <p>The Director of Corporate Services continued to deputise for the Chief Executive until 31 March 2008. With effect from 1 April 2008 the former Chief Executive of South Lanarkshire Council was appointed as Chief Executive (Interim) for an initial period of 6 months subject to review.</p> <p>At 7 April 2008 council Meeting (C241/2008) it was resolved that Council designates the Director of Corporate Services as its Chief Financial Officer in accordance with Section 54 of the Local Government (NI) Act 1972 for an interim period subject to review and to the establishment of a protocol for the operation of such an arrangement.</p>
Leisure Services	<p>The Director of Leisure Services was on sick leave from 29 May 2007 to 26 June 2007 (21 days) and 29 August to 4 December 2007 (70 days). With effect from 7 April 2008 he is currently on sick leave.</p> <p>A former Director of Leisure Services from Belfast City Council and Antrim Borough Council who has particular expertise in Leisure Services was appointed in December 2007 as a Consultant under the following terms of reference:</p> <ul style="list-style-type: none"> ➤ To undertake a scoping study of the problems within the Leisure Services Department ➤ To provide practical support for, and mentoring of, Leisure Services managers ➤ Produce a report including recommendations on the issues to be addressed. <p>With effect from April 2008 the Consultant has been appointed as Interim Director of Leisure Services whilst Director of Leisure Services remains on sick leave.</p>
No permanent Head of Human Resources for 4 years.	<p>A scoping study was carried out by an HR expert and the Council has now appointed a permanent Head of Human Resources with effect from 2 June 2008.</p> <p>The Head of Human Resources sits on the Corporate Management Team and reports to the Director of Corporate Services.</p>
Single Status	<p>Advice has been received from an HR specialist during January 2008 setting out progress to date and proposals for an action plan to fully deliver on Single Status. This issue is being progressed by Council.</p>

<p>Business Continuity Planning.</p> <p>There are currently no business continuity plans within Council.</p>	<p>Policy & Resources Committee approved resources to be used in relation to work on Business Continuity. This work will be facilitated by Internal Audit during 2008.</p>
<p>Absenteeism</p>	<p>Council approved the appointment of a Human Resources Assistant to monitor sickness absence levels ensuring that staff are working to the Attendance Management Policy. She commenced on 28 January 2008 and part of her role includes organising medical referrals to the Occupational Health Advisor and following up on reports submitted.</p> <p>Over the 3 year period 2003-06 the Council's average total days lost per employee was 17.34 days which compared unfavourably to NI Council's average of 14.28 days.</p>
<p>Health and Safety</p>	<p>During the year 7 Health and Safety Executive Prohibition Notices were issued against the Council.</p> <p>All issues are being followed up by the Corporate Management Team and appropriate action being taken.</p>
<p>Review of Public Administration</p>	<p>The Chief Executive (Interim) has met with the Chief Executives from Armagh and Banbridge Councils to consider how they can work together in partnership and co-operate in order to ensure a smooth transition to the new authority when it comes into effect from 1 April 2011. Further meetings have been arranged and the three management teams met on 19 June 2008.</p>

- 21 I note that Council intends to take steps over the coming year to address the above matters to further enhance its governance arrangements. Council appears satisfied that these steps will address the need for improvements that were identified in their review of effectiveness and will monitor their implementation and operation as part of Council's next annual review.
- 22 I will keep these significant governance issues and the action the Council takes to resolve the issues or implements improvements under review as part of our audit work during 2008/9.
- 23 The accounts include professional fees and services relating to "Interim Account Grievance Hearings" of £37,659. It is a matter of concern the number of grievance procedures in the Council and the direct and indirect costs arising from these. At the date of this letter I am aware of ongoing efforts to resolve issues regarding the senior management of the Council.

Absenteeism

- 24 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.
- 25 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.
- 26 Whilst a completed questionnaire for the 2007-08 report was received from Craigavon Borough Council on 27 June 2008, subsequent reasonableness tests pointed to errors in the data. The Council reviewed its original findings and submitted revised data, which was received on 6 November 2008, 18 weeks after the due date.
- 27 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.
- 28 The 2007-08 absenteeism figure for the Council is 18.21 days. This represents an increase of 3.41 days on the previous year and therefore highlighted for Council review.
- 29 Whilst Craigavon Borough Council's absenteeism rate has decreased by 0.98 days from 2002-05 to 2005-08 it is still higher than the Northern Ireland average for this latter three year period.

Other Audit Work

Joint Committee

- 30 The Council is a member of the Southern Area Waste Management Partnership (SWaMP) which is established for the purposes of developing a waste management system that meets the needs of the eight Councils in the group and contributes to economic and sustainable development. The Department of Environment has made an order coming into operation on 20 August 2008 constituting the Joint Committee as a body corporate. The Joint Committee will be known as SWaMP 2008 and accounts for its funding by the provision of a statement of accounts prepared under the Local Government (Northern Ireland) Order 2005 and will be subject to statutory audit by a Local Government Auditor.
- 31 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)

- 32 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.
- 33 The 2007-08 DPP audit, comprising expenditure of £160,792.44, was completed in June 2008.

Grant Claims

- 34 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

- 35 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.
- 36 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.
- 37 I note that the Council has set up a number of working groups with fellow councils in the new council area and this is to be welcomed.

Conclusion

- 38 This Audit Letter has been discussed and agreed with the Interim Chief Executive and the Director of Corporate Services.
- 39 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.

Alfred Knox

Local Government Auditor

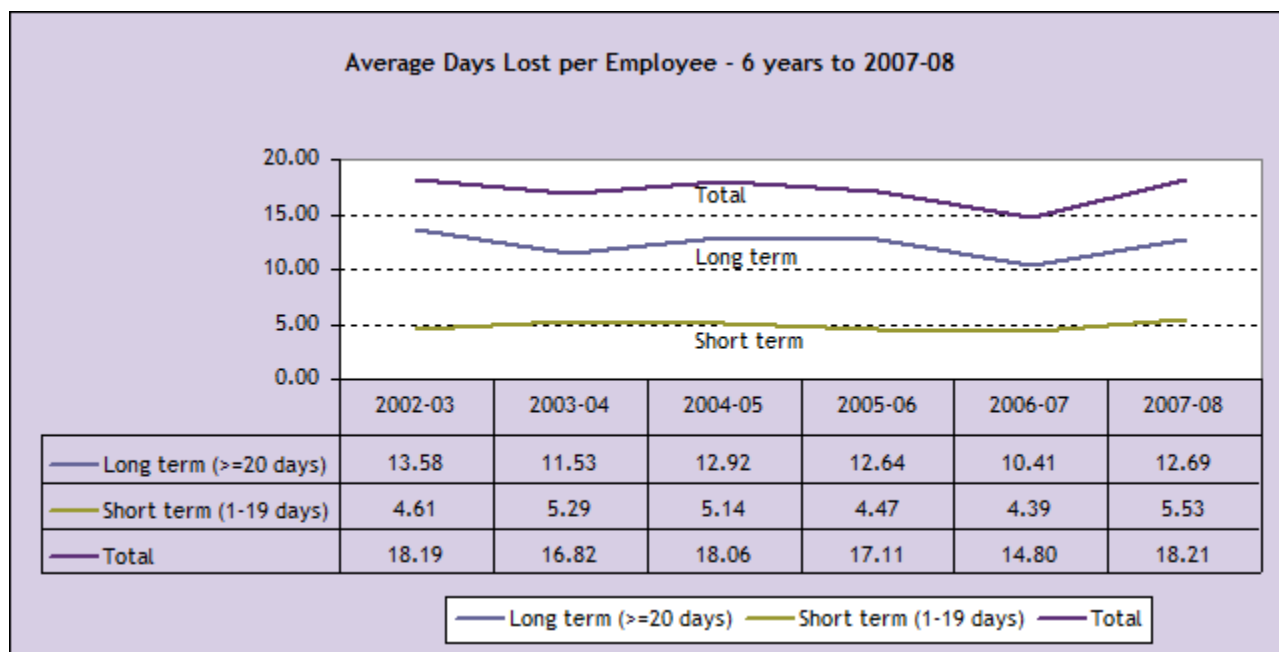
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ANNEX A

Craigavon 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*

	Craigavon	NI Councils	Variance	Variance %
Average total days lost per employee	18.21	13.70	4.51	33%

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

	Craigavon	NI Councils	Variance	Variance %
Average total days lost per employee	16.71	13.75	2.96	22%

* 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.