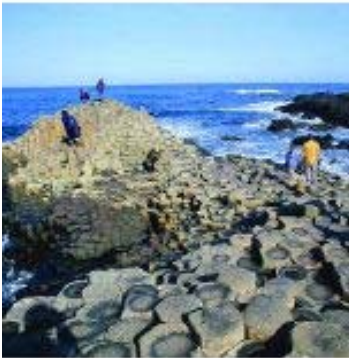


Issued by the Local Government Auditor
8th May 2009



Dungannon & South Tyrone Borough Council

Two Years 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.

No Letter was issued following my certification of the accounts for the year to 31 March 2007 due to my ongoing consideration of matters now reported at paragraph 20 of this Letter. This Letter therefore covers both years.

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Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the 2006/07 Statement of Accounts on 26th October 2007 and the 2007/08 accounts on 30th 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.
- 3 The Council's 2006/07 annual accounts were signed by the Chief Financial Officer and Corporate Services Committee on the 27th June. Following minor adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 22nd October 2007.
- 4 The Council's 2007/08 annual accounts were signed by the Chief Financial Officer on 25th June 2008. Members of the Corporate Services Committee approved the accounts on 25th June 2008 which was within statutory guidelines. Following minor adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 24th October 2008.
- 5 In both years a number of minor narrative and financial adjustments were made as a result of our audit findings during our audit.

Financial standing

- 6 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.
- 7 The 2007/08 district fund balance at £1,405k represents 12.5% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit). As such the Council's financial standing would appear to be satisfactory.
- 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 2007/08 “penny product” finalisation adjustment of additional funds of £154k for the year was notified to the Council after the completion of the accounts. This was less than the £195k accrued by Council but has been adjusted for before audit certification as the difference was not 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. In 2007-08, the District Fund decreased by £540k resulting in a District Fund balance of £1,405k at 31 March 2008.
- 11 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2008
Renewal & Repairs Fund	£610,363
Tullyvar Reserves and Loan Balance	£1,671,590

Capital Programme

- 12 The Council has Fixed Assets totalling £21.7m with loans outstanding of £2.03m. The Statement of Accounts reports a future capital programme totalling £305k in the course of or planned for delivery. I understand that the Council plans to fund this programme via loans and revenue contributions.

Annual Governance Statement – 2007/08

- 13 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.
- 14 The Annual Governance Statement was approved on 25 June 2008 both by the Chairman of the Corporate Services Committee and the Chief Executive. My opinion on the accounts includes reference to 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 paragraphs 22 and 23 of this Audit Letter includes matters I considered.

Internal Audit

- 15 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 contracted out its internal audit to a private sector firm. The Council reviewed the effectiveness of its system of internal audit but the findings of the review were not presented to the Audit Committee.

Revaluation of Land and Buildings – 2008/2009 Accounts

- 16 The Council has instructed Land and Property Services 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)

- 17 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

- 18 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.”

- 19 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 a Council 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.

- 20 Several value for money management issues came to my attention associated with the former Chief Executive who resigned at the end of June 2007. My main areas of concern are as follows:-

- The Council has no policy on the maximum amount of toil (time off in lieu) that can be used in any month or carried forward in any year. I am aware that certain councils do not grant toil to senior staff, as attending meetings outside office hours is deemed to be part of their job, while others would specify that the maximum amount of toil that can be carried forward in any month is 2 days. The former Chief Executive, who joined the Council on the top of his pay scale, several years ago, was able to leave at an earlier date than the termination date partly due to availing of toil in excess of 15 days including 10 days of toil carried over from 2006/07. In my view the Council should research toil arrangements at other councils and then develop its toil policy in this respect. Should toil be allowed to continue then, in light of the above use of toil, I recommend that there should be regular reporting of toil earned, used and carried forward to the appropriate committee of council.
- The former Chief Executive participated in the Institute of Directors Diploma in Company Direction at a cost of £9,750, which finished in November 2006. Good practice would require repayment of all or a portion of these fees, should an employee leave within 2 years of completing such a course. While the Chief Executive’s contract did not include any repayment of course fee conditions, the Council could have introduced a general policy in this regard prior to authorising this attendance. (Indeed partly to address this issue, the Council revised its Life Long Learning Policy in April 2008.) In my view failure to introduce such a policy prior to granting approval for this course was a significant value for money oversight.

- 21 A 2007/08 review of the council's corporate governance and VFM arrangements 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.
- 22 The Council noted the following in its Governance Statement as significant governance issues:-
- Review and update the Corporate and Divisional Risk registers.
 - A number of weaknesses were identified in the risk management process including linkage between the council's Corporate/Business plans, and risk registers.
 - Periodic review of Standing Orders, capital expenditure, procurement and human resource management.
 - A number of deficiencies have been identified in the disaster recovery arrangements in place for the critical IT systems within the council.
- 23 I noted a number of additional issues from the corporate performance and management arrangements review, including:-
- a. The development of a formal Business Continuity Plan, which was due to take place during 2007-08, was scheduled for 2008-09.
 - b. The Council does not have formal, integrated Standing Financial Instructions. The Audit & Risk Officer is currently working towards this objective.
 - c. The Council's Audit Committee does not have any non-executive members.
 - d. There are no formal policies in place in respect of disposal of land and property and inventory controls within 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, published in January 2009, the Chief Local Government Auditor analysed absenteeism for each council over the three year period to March 2008 and derived 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** 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.
- 27** The 2007-08 absenteeism figure for the Council is 11.92 days. This represents a decrease of 2.88 days on the previous year.
- 28** Dungannon & South Tyrone Borough Council's absenteeism rate has decreased by 0.06 days to 13.25 days from 2002-05 to 2005-08 and is still lower than the Northern Ireland average for this latter three year period.

Other Audit Work

Joint Committee

- 29 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. During the year the Council part funded the expenditure of this Joint Committee. 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
- 30 The Council has also a joint committee with Omagh District Council in respect of the Tullyvar Landfill Site. The Council's share of reserves stood at £1.67m at 31 March 2008.
- 31 The Council along with four other councils (Omagh, Strabane, Fermanagh and Cookstown) are part of the WEST committee, which has a remit for economic development. This is currently in the process of being discontinued.
- 32 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 1VA, 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)

- 33 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.
- 34 The 2007-08 DPP audit, comprising expenditure of £138k, was completed in June 2008. The net cost of this service to the council was £34k.

Grant Claims

- 35 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

- 36 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.
- 37 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

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

Stephen Knox

Local Government Auditor

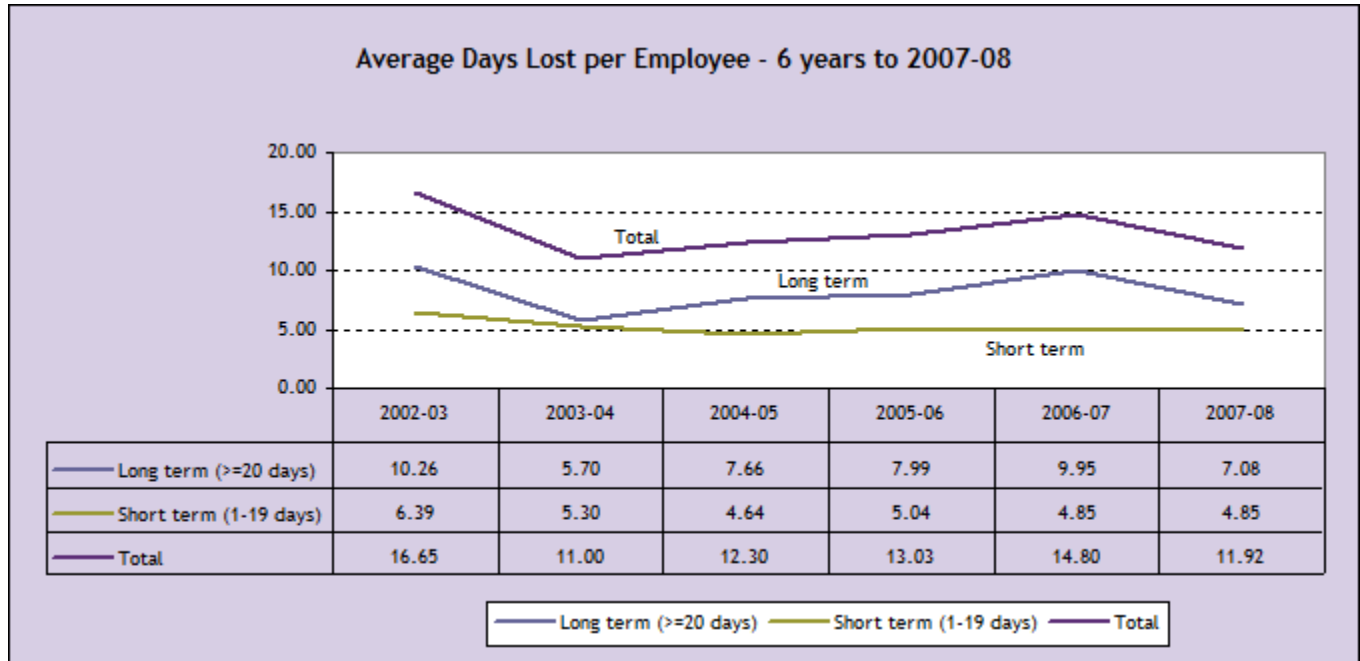
8th May 2009

ANNEX A

Dungannon & South Tyrone District 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*

	Dungannon	NI Councils	Variance	Variance %
Average total days lost per employee	11.92	13.70	-1.78	-13%

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

	Dungannon	NI Councils	Variance	Variance %
Average total days lost per employee	13.25	13.75	-0.50	-4%

* 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.