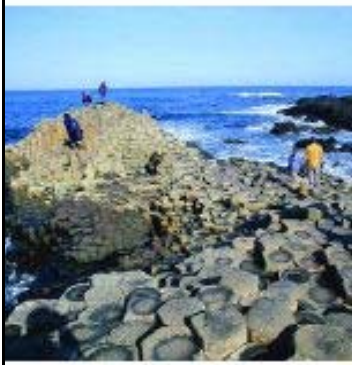




Northern Ireland Audit Office

# Annual Audit Letter

Issued by the Local Government Auditor  
14 January 2009



## Derry City 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 28<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 30<sup>th</sup> June 2008. Members of the Council approved the accounts on 30<sup>th</sup> June 2008 which was within statutory guidelines. Following material amendments from the audit the accounts were authorised for issue by the Chief Financial Officer on 28<sup>th</sup> October 2008.
- 3 A number of minor narrative and financial adjustments were made as a result of our audit findings during our 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 £2.5m has increased by £1m in the past year and represents 8% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit). The Council should continue to keep the level of its district fund balance under review and whether it is adequate to meet unexpected expenditure.
- 6 The financing of the City of Derry Airport is a significant cost for the local ratepayer. The accounts include a Service Revenue Account for the City of Derry Airport showing a net cost of service of £4.3m (2006/07, £3.5m). In addition during the year there was substantial capital expenditure relating to the Airport to enable safety related works to be carried out. These capital costs are or will be mostly funded by Government Grants (75% of eligible expenditure) but also by the Council.
- 7 The district fund balance (£2.5m) at 31 March 2008 does not equate necessarily to a disposable reserve. Note 14[d] of the accounts records unfunded capital expenditure of £5.7m. The £5.7m has increased by £2.2m during 2007-08. Officers have indicated that the deficit will be funded in 2008-09 by a combination of loans, grants receivable and revenue contributions. Only when this is achieved can the District Fund be seen as a disposable reserve and a true measure of the excess funds that the council has accumulated.

- 8 It should be noted that the Council's accounts in common with all Councils in Northern Ireland 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 "penny product" finalisation adjustment, which is a reduction for the year amounting to £416,247, was notified to the Council after the completion of the accounts and 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 £1m the District Fund in 2007-08, leaving the District Fund balance at £2.5m 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	£19,718,484
Renewal & Repairs Fund	£3,412,619
Capital Receipts Reserve	£88,540

- 12 The Capital Fund account is mainly to be used to meet the expected future costs associated with the closure of Culmore Landfill site (£8m), the restorations of the Guildhall and Brooke Park, and Leisure Projects.

### ***Capital Programme***

- 13 The Council has Fixed Assets totalling £85.7m with loans outstanding of £21m. The Statement of Accounts reports a capital programme totalling £34.8m in the course of or planned for delivery. I understand that the Council plans to fund this programme via loans and capital grants and capital fund.

## ***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 Annual Governance Statement was approved on 30<sup>th</sup> June 2008 by the Mayor, on behalf of the Council, and by the Chief Executive. 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 paragraphs 21 and 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 reviewed the effectiveness of its system of internal audit on 30<sup>th</sup> June 2008.

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

- 17 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)***

- 18 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

19 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.”*

20 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.

21 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.

22 The Council has significant governance issues in its Governance Statement including the following:

- A number of internal Audit Reports had received limited assurance rating during the year including: Economic Development, Heritage and Museum Service, ICT, Pennyburn Depot (Stores), and City of Derry Airport (financial issues);
- City of Derry – weaknesses in Safety Management System; and
- High Levels of absenteeism.

23 I note the above Governance issues and the steps being taken by the Council to address the weaknesses noted or reasons given for not addressing them. I did not identify any other significant governance issues as a result of our audit.

24 I noted the following additional issues from the corporate performance and management arrangements review:

- The Council does not have a Whistleblowing policy;
- There is no hospitality policy in place;

- There are no Business Continuity plans in place;
- There is no Pecuniary Interest Register; and
- The Council does not have a formal Treasury Management Policy although the Council does monitor and maximises investment returns.

The Council has included actions to address these issues within its plans for 2008/2009.

## **Absenteeism**

- 25 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.
- 26 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.
- 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 19.86 days. This represents an increase of 2.86 days on the previous year.
- 29 Derry City Council's absenteeism rate has increased 0.81 days to 17.89 days from 2002-05 to 2005-08. This is higher by 30% than the Northern Ireland average of 13.75 days for this latter three year period. The Council have the third worst absenteeism figures within all Councils. A recent internal audit report highlighted a number of control deficiencies within the Council and the need for more effective management input. I would anticipate an overall improvement in the council's figures when the Internal Auditor's recommendations are implemented.

## Other Audit Work

### Joint Committee

- 30 Derry City Council is a member of the North West Regional Waste Management Group (NWRWMG) which was established for strategic waste management purposes.
- 31 The NWRWMG is a partnership of seven 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. The NWRWMG was set up as a Joint Committee from May 2008 for the purpose of procuring waste infrastructure for the treatment of residual waste.
- 32 The Council has agreed to participate in a Joint Committee for the purpose of delivering certain programmes funded by the European Union. Peace III funding available from the Special EU Programmes Body and Rural Development funding available from the Department of Agriculture and Rural Development will be delivered through the Joint Committee structure 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 £163,697, was completed in June 2008. The net cost of this service to the council was £43,515.

### 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 the City Treasurer.
- 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

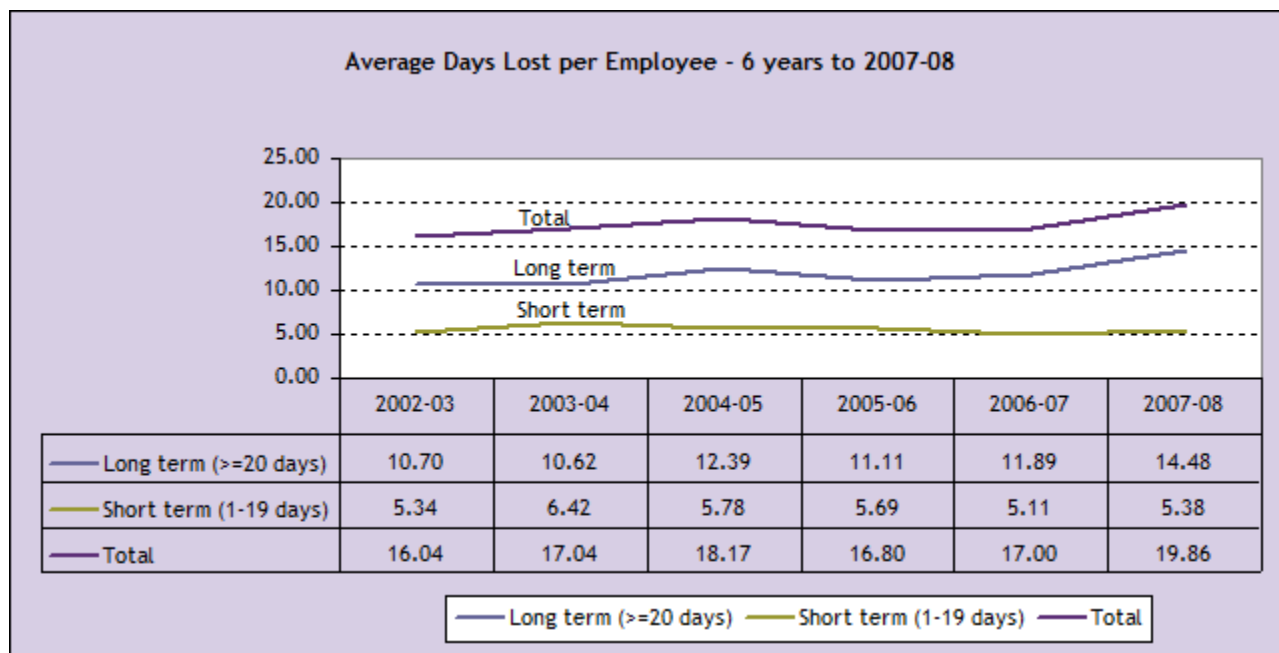
Local Government Auditor

14 January 2009

## Derry City 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\*

	Derry	NI Councils	Variance	Variance %
Average total days lost per employee	19.86	13.70	6.16	45%

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

	Derry	NI Councils	Variance	Variance %
Average total days lost per employee	17.89	13.75	4.14	30%

\* 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.