

Issued by the Local Government Auditor
9 December 2008



Down District 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.

Contents

- Audit of Accounts
- Council Performance
- Other Audit Work
- Looking Ahead
- Conclusion/ Availability of this letter
- Annex A Council Absenteeism

Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 31st 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 30th June 2008. Members of the Policy and Resources Committee approved the accounts on 2nd July 2008 which is technically in breach of the Accounts and Audit (Regulations) (Northern Ireland) 2006 which requires approval by 30 June. Following material adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 30th October 2008.
- 3 A significant number of minor narrative and financial adjustments were made as a result of our audit findings during our audit. I have dealt with this specific issue in more detail in para 30 below.

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 £3.25m represents 19.5% 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 (£3.25m), this does not equate to a disposable reserve. Note 11 of the accounts records unfunded capital expenditure of £1.7m at 31 March 2008 (an increase of £1m from £0.7m 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 only £1.55m uncommitted funds which will be available to the Council in the future.
- 7 The Council, should seek to provide a funding source for the £1.7m 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 £175,521 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 £723,571 the District Fund in 2007-08, leaving the District Fund balance at £3.25m as at March 2008.
- 11 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2008
Capital Fund	£4,903,427
Renewal & Repairs Fund	£157,368
Useable Cash Receipts Reserve	£305,725

- 12 The Capital Fund account is mainly used to meet the expected future costs of refurbishing the Administrative Buildings, and Landfill closure costs.

Capital Programme

- 13 The Council has Fixed Assets totalling £42.23m with loans outstanding of £15.4m. The Statement of Accounts reports a capital programme totalling £2.3m in the course of or planned for delivery.

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 Policy and Resources Committee and the Chief Executive on 30th June 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 the following Governance Statement matter in my report (further details at paras 22 to 24 of this Audit Letter). The Annual Governance Statement did not clearly identify the level of compliance with CIPFA recommended practices as required under DOE guidance.

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 and the findings of the review were considered by the Audit Committee on 29th May 2008.

Revaluation of Land and Buildings – 2008/2009 Accounts

- 17 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)

- 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 included the following in its Governance Statement as significant governance issues

- The vacancy of the Director of Corporate Services post for a period of nine months;
- The Corporate plan from 2009;
- Single status arrangements were still incomplete;
- Council had not updated its Standing Orders, Financial Regulations and Scheme of Delegation which are needed to support the new Committee Structure;
- The Council’s Emergency plan had not been fully tested and business continuity arrangements were incomplete;
- There was one incident of fraud during the year which resulted in a financial loss to the Council of £1,500; and
- The need to continue to embed good risk management practices within the Council.

- 23 We note the above Governance issues and the steps being taken by the Council to address the weaknesses noted. We did identify the following technical governance issue as a result of our audit:
- The Department the Environment circular (LG /04/08) issued in February 2008 introduced from 2007-08, the inclusion of Annual Governance Statements for local government bodies. Although this required compliance with the CIPFA publication “Delivering Good Governance: Framework”, it also recognised that given the late introduction of this additional requirement it would be unreasonable to expect local government bodies to comply in full. Consequently the Department required local government bodies to note those aspects where they did not comply, those aspects where they complied in full, and those aspects of partial compliance where the intention was to comply in full by 1 April 2009. The Annual Governance Statement prepared by Down District Council does not include this analysis.
- 24 I noted the following additional issues from the corporate governance and VFM arrangements review:
- The Council does not have a suitable treasury management policy in place.

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 12.78 days. This represents an increase of 2.49 days on the previous year.

- 29 Down District Council's absenteeism rate has decreased by 0.47 days to 10.73 days from 2002-05 to 2005-08. It is still lower than the Northern Ireland average of 13.75 days for this latter three year period.

Other Audit Work

Account Preparation

- 30 We are disappointed to note the poor quality of the accounts approved by the Council on 30th June 2008. A number of significant issues were identified which resulted in the accounts only just meeting the statutory deadline of 31st October 2008. They were as follows:
- We experienced significant delays in receiving audit evidence which was requested during audit fieldwork;
 - In addition to material adjustments required to the figures, there was a significant number of presentational amendments compared to the prior year; and
 - The time delays and poor quality of accounts in compared to previous years has resulted in a significant amount of additional time being spent on the audit and the subsequent review by the NIAO. This may ultimately result in unnecessary costs to Council.
- 31 Had the council, not published audited accounts by 31 October it would have been in breach of the Accounts and Audit (Regulations) (Northern Ireland) 2006. As a matter of priority the council must ensure it reviews the 2007-08 accounts preparation process to ensure there is significant improvements for 2008-09. The council must appreciate that audits are planned on the assumption that good quality accounts are prepared which minimise audit queries. Where queries do arise they must be addressed promptly and comprehensively. Failure on either or both counts has implications for the audit opinion, the cost of the audit and the council's ability to meet statutory requirements.

Joint Committee

- 32 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 13th February 2004. During the year the Council advanced £314,000 towards funding the expenditure of the Joint Committee.
- 33 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.

- 34 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.
- 35 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)

- 36 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.
- 37 The 2007-08 DPP audit, comprising expenditure of £134,000, was completed in June 2008.

Grant Claims

- 38 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

- 39 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.
- 40 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

- 41 This Audit Letter has been discussed and agreed with the Chief Executive and Director of Corporate Services.
- 42 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.

Denver Lynn

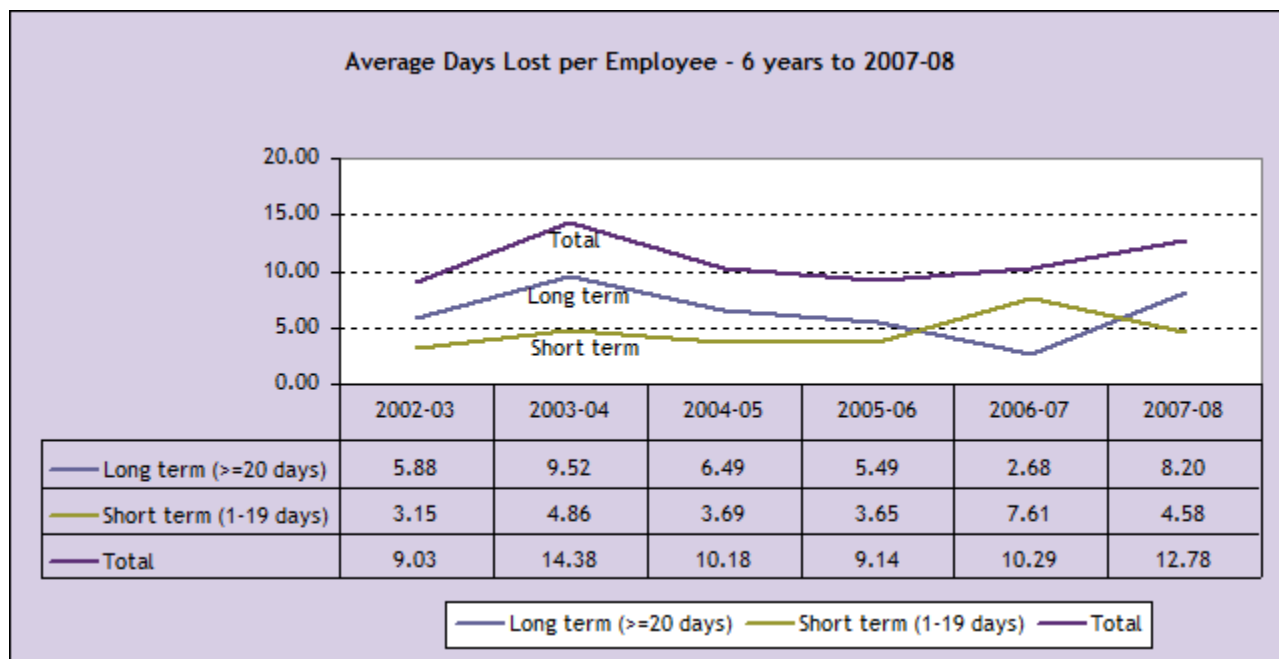
Deputy Chief Local Government Auditor

December 2008

Down 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*

	Down	NI Councils	Variance	Variance %
Average total days lost per employee	12.78	13.70	-0.92	-7%

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

	Down	NI Councils	Variance	Variance %
Average total days lost per employee	10.73	13.75	-3.02	-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.