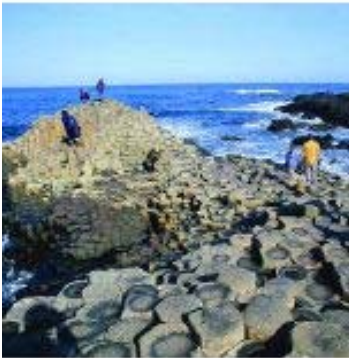


Issued by the Local Government Auditor
17 December 2008



Larne 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 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. The Council's annual accounts were signed by the Chief Financial Officer on 23rd June 2008. Members of the Policy & Resources Committee approved the accounts on 23rd 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 30th October 2008 in compliance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 deadline of 31st October 2008. This represents significant progress on the 2006-07 accounts which I certified on 10th March 2008. The council is to be commended for this progress.
- 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 by Land & Property Services at the start of the year.
- 5 The district fund balance at £2.141m represents 24.5% 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. However, see my comments at paragraphs 6 and 7.
- 6 Although the council has a substantial district fund balance (£2.141m) at 31 March 2008, this does not equate to a disposable reserve. Note 11 of the accounts records unfunded capital expenditure of £2.270m (an increase of £456,125 during 2007-08). 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, the council has moved from having the equivalent of £324,770 of 'uncommitted funds' in the District Fund to a capital funding shortfall of £129,151 as at 31 March 2008.

- 7 I repeat my 2006-07 Annual Audit Letter comment. The council should, as a matter of urgency, seek to provide a funding source for the unfunded capital expenditure which has now increased to £2.27m. 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. I also reiterate that, 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 "penny product" finalisation adjustment for the year [£45,949 repayable] was notified to the Council after the completion of the accounts [but has not been adjusted for before certification as the amount is not considered 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 increased by £2,204 resulting in a District Fund balance of £2.141m at 31 March 2008.
- 11 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2008
Capital Receipts Reserve	£41,700

Capital Programme

- 12 The Council has Fixed Assets totalling £33.6m with loans outstanding of £6.3m. The Statement of Accounts reports a future capital programme totalling £1.6m in the course of or planned for delivery. I understand that the Council plans to fund this programme via loans in 2008-09.

Annual Governance Statement

- 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 23 June 2008 both by the Chairman of the Policy and Resources Committee and by 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 20 and 21 of this Audit Letter include matters I considered.

Internal Audit

- 15 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires Councils, from 2007-08, 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 plans to commence its review of the effectiveness of its system of internal audit in 2008-09. This is in breach of the Regulations which require the review to commence in 2007-08.

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 2008/09 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 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.
- 21 The Council noted the following in its Governance Statement as significant governance issues
- **Financial and performance reporting**
Financial and performance reporting has been weak within the Council. It is recognised, however, that relevant, timely and clear information will enable the Council members and officers to drive improvements and ensure that they are fully aware of how the Council is performing.
 - **Consultation**
Larne Borough Council is a listening organisation. However, the lack of a formal consultation policy means it is difficult to evidence how the Council takes on board the views of service users and stakeholders.
 - **Risk management**
Larne Borough Council recognises it has a responsibility to manage both internal and external risks as a key component of good corporate governance and is committed to embedding risk management in to the day-to-day operation of the Council. The Corporate Risk Register and draft Risk Strategy are prepared and forms part of the Governance records for 2007/08.
- 22 I shall review the council’s progress against its stated objectives as part of my 2008-09 audit.

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

- A suitable system of risk management should be introduced. By not having this in place by 1 April 2007, the council was in breach of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.
- A review of the effectiveness of Internal Audit was not carried out in 2007-08. This is in breach of the Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006.
- The Council should adopt appropriate financial regulations for 2008-09 onwards
- A code of conduct for officers should be introduced
- A hospitality policy and associated hospitality register should be devised and implemented
- The Council should introduce a standalone whistle blowing policy with appropriate awareness training provided to employees
- A system of in-year financial reporting should be introduced which keeps senior management and elected members abreast of the financial position of the Council
- An IT strategy should be devised and implemented

I will examine progress on the following during my forthcoming audit:

- the re-introduction of formal business planning
- the review of procurement procedures and the possible appointment of a full-time procurement officer audit
- the proposed integrated governance reporting mechanism, including the introduction of additional performance indicators

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 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 17.27 days. This represents a significant decrease of 7.0 days on the previous year.
- 28 Whilst Larne Borough Council's absenteeism rate has decreased by 0.39 days to 19.54 days from 2002-05 to 2005-08, it is still the highest in Northern Ireland for this three year period.

Other Audit Work

Joint Committee

- 29 The Council is a member of the Arc21 Joint Committee which is established for the purposes of waste management. During the year the Council advanced £787,711 towards funding the expenditure of the Joint Committee.
- 30 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.
- 31 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.
- 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 £130,850, was completed in June 2008. The net cost of this service to the council was £45,056.

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.

Ombudsman's report – follow up

- 38 At paragraph 48 of my 2006-07 Annual Audit Letter to the council, I noted my intention to follow up the implementation of the recommendations made by the Ombudsman in his report dated 24 January 2008.
- 39 During my current audit, I found that all recommendations capable of immediate action had been progressed satisfactorily. Recommendations on procedural matters relating to future tender competitions will only be demonstrated as and when such competitions take place. Future audits will address this as part of our normal testing procedures.

Conclusion

- 40 This Audit Letter has been discussed and agreed with the Chief Executive and Finance Officer.

- 41 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

Local Government Auditor

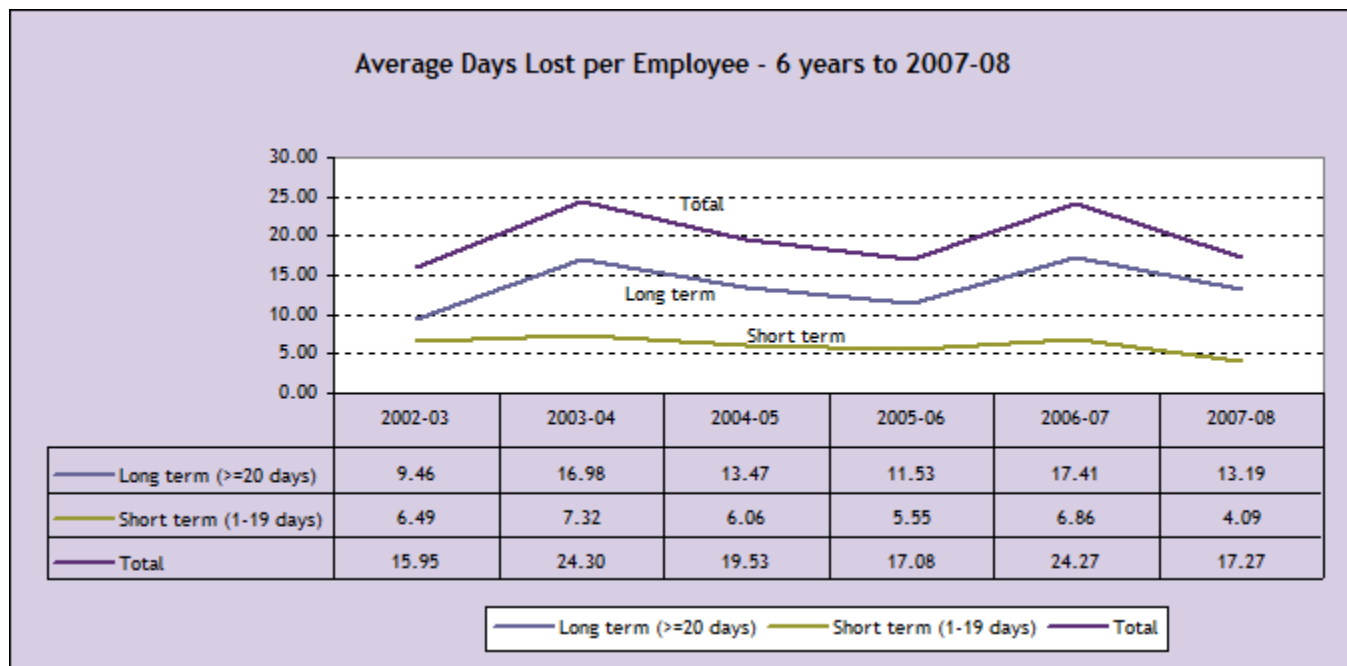
17 December 2008

ANNEX A

Larne 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*

	Larne	NI Councils	Variance	Variance %
Average total days lost per employee	17.27	13.70	3.57	26%

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

	Larne	NI Councils	Variance	Variance %
Average total days lost per employee	19.54	13.75	5.79	42%

* 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.