

Issued by the Local Government Auditor
15 December 2008



Newry & Mourne 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.

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Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 21 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 24 June 2008. Members of the Audit Committee approved the accounts on 24 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 30 September 2008.
- 3 A number of minor narrative adjustments were made as a result of our audit findings.
- 4 During 2007-08, the Council approved contribution payments of £250,000 and £100,000 to two organisations. In both instances, Council procedures were not adhered to in that Voluntary Contribution Agreements were not completed and submitted by each organisation prior to a decision being made by Council. The Council should ensure that consideration of such grants outside of normal circumstances would not contravene Council's voluntary contribution procedure and set precedent for other organisations to follow this route.

Financial standing

- 5 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.
- 6 The district fund balance at £1,537,286 represents 7% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit).
- 7 Although the Council has a district fund balance of £1,537,286, this may not equate to a disposable reserve. Note 10 of the accounts records unfunded capital expenditure of £1,026,286 at 31 March 2008.
- 8 The Council should seek to provide a funding source for the £1,026,286 unfunded capital expenditure and any further capital expenditure incurred in 2008-09 by 31 March 2009. Only when this is achieved can the district fund balance be seen as a useable reserve and a true measure of the excess funds that the Council has accumulated. Capital expenditure should only be undertaken after the source of funds has been established by the Council (including loans, grants or Council reserves).

- 9 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 reported on 6 November 2008.
- 10 The "final penny product" finalisation adjustment for the year of £66,255 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

- 11 The overall financial position remains stable. The Council increased by £19k the District Fund in 2007-08, leaving the District Fund balance at £1,537k as at March 2008.
- 12 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2008
Capital Fund	£1,482,182
Renewal & Repairs Fund	£496,969

- 13 The Capital Fund account will be mainly used to meet the expected future costs of building a community centre at Crossmaglen, costs associated with Newry Town Hall and other capital schemes.

Capital Programme

- 14 The Council has Fixed Assets totalling £59.2m with loans outstanding of £21.8m. The Statement of Accounts reports a capital programme totalling £1.026m in the course of or planned for delivery. I understand that the Council plans to fund this programme via loans in the medium term and working capital in the short term.

Annual Governance Statement

- 15 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.

The Audit Committee Chairman on behalf of Audit Committee on 24 June 2008 and the Chief Executive on 24 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 but paragraphs 21 to 24 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 has an Internal Audit Department staffed by 2 people. In addition, Internal Audit work is also carried out by buying in external expertise. The planned Internal Audit programme of work for 2007-08 was completed in the year. The Council has an Audit Committee established in November 2007 and which from April 2008 includes an external member who chairs the Committee.

Regulation 3 of the Local Government (Accounts and Audit) Regulations (NI) 2006 requires a local government body to conduct an annual review of the effectiveness of its system of Internal Audit. This Annual Review was not completed in the year.

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 noted the following in its Governance Statement as significant governance issues:

- During the year there were a number of circumstances reported/uncovered, which resulted in loss to the Council. The losses were not material, and in all cases corrective actions and/or additional controls were implemented to decrease the likelihood that there would be a re-occurrence.
- Absenteeism was significantly reduced in 2006/07 and this trend continued in the year under review. It is the Council’s intention to continue the downward trend to the Northern Ireland Local Government average and below.
- During the year Internal Audit carried out a number of audits, which resulted in partial assurance. The annual audit report of Internal Audit also commented on partial assurance, and could not provide absolute audit assurance.

23 The Council proposes to take steps to address the above matters to further enhance their governance arrangements. The Council are satisfied that these steps will address the need for improvement. I will monitor their implementation and operation as part of my audit in 2008-09.

24 I noted the following additional issues from the corporate governance and VFM arrangements review:

- The annual review of the effectiveness of the system of Internal Audit was not completed during the year. This Annual review should be completed before the Annual Assurance Statement is signed by the Chief Executive. This annual review of Internal Audit should be considered by the Audit Committee in 2008-09.

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 14.66 days. This represents a decrease of 0.34 days on the previous year figure of 15 days.
- 29 Whilst Newry & Mourne District Council's absenteeism rate has reduced by 6.47 days to 14.96 days from 2002-05 to 2005-08, it is still higher than the Northern Ireland average of 13.76 days for this period.

Other Audit Work

Joint Committee

- 30 The Council is also 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 £167,298.19, 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 working groups with Down District Council in the new council area and this is to be welcomed.

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.

Alfred Knox

Local Government Auditor

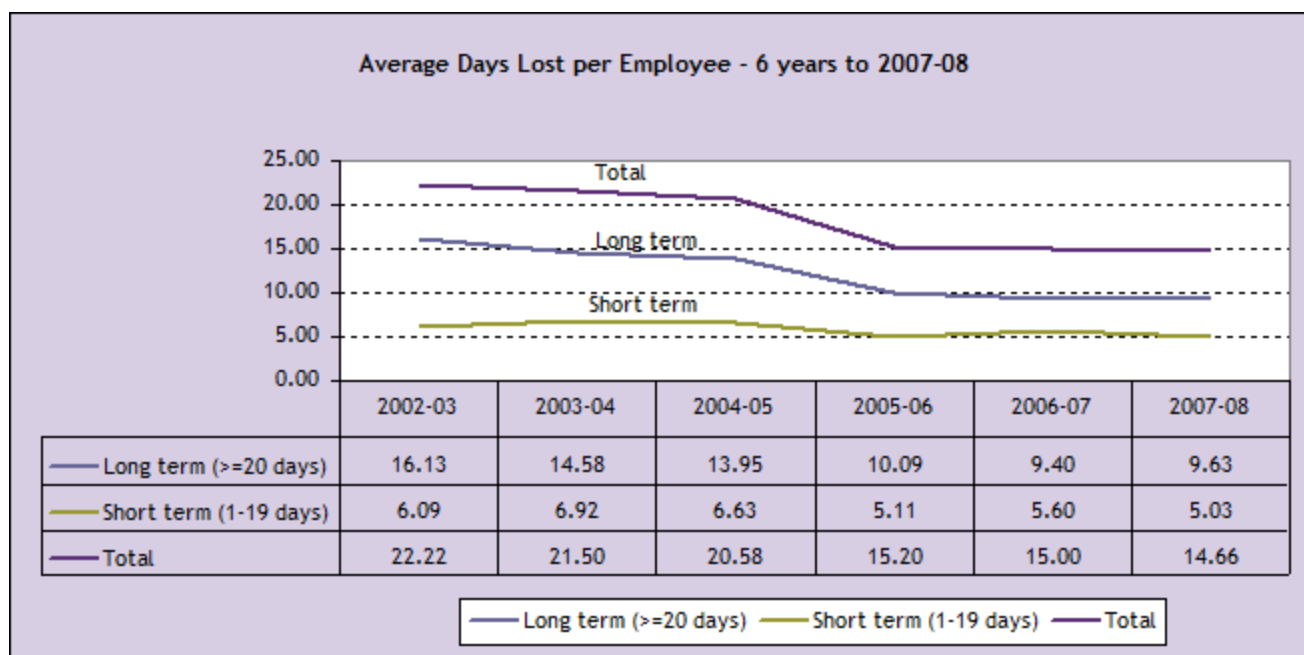
15 December 2008

ANNEX A

Newry & Mourne 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*

	Newry	NI Councils	Variance	Variance %
Average total days lost per employee	14.66	13.71	0.95	7%

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

	Newry	NI Councils	Variance	Variance %
Average total days lost per employee	14.96	13.76	1.20	9%

* The Northern Ireland Council position is derived from figures as at 6th November 2008. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2007-08.