

Issued by the Local Government Auditor
28 January 2010



Derry City Council

Year to 31 March 2009

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). For the year ending 31 March 2009 I have been designated the local government auditor for the Council.

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 this 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
- Annex A Council Absenteeism

Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 8th October 2009. I gave an unqualified opinion on your accounts.
- 2 The Local Government (Northern Ireland) Order 2005 requires that in auditing accounts a local government auditor must by examination of the accounts or otherwise satisfy himself that:
 - (a) they are prepared in accordance with regulations;
 - (b) they fully comply with the requirements of all other statutory provisions applicable to the accounts;
 - (c) proper practices have been observed in the compilation of the accounts; and
 - (d) the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Matters arising from the final accounts audit

- 3 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 2009 and members of the Council approved the accounts on 23rd June 2009 which was within the statutory guidelines which requires this to be completed by 30 June. Following material adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 6th October 2009.
- 4 The most significant adjustments to the accounts made as a result of our audit findings during our audit were as follows:
 - The revaluation Reserve and Fixed Assets were decreased by £1,337,632;
 - Impairments of land and buildings of £7,147,221 (in respect of the revaluation by Land and Property Services as at 01/04/08) were added to service expenditure on the face of the Income and Expenditure Account;
 - Deferred grants of £4,479,433 (on the lands and buildings impairments) were deducted from service expenditure on the face of the Income and Expenditure Account;

- Depreciation on buildings was decreased by £388,457; and
- Additional Airport capital grant amounting to £216,225 was accrued which related to 2008/09 expenditure.

Financial standing

- 5 The Council continues to have adequate financial management arrangements overall.
- 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 by Land & Property Services at the start of the year.
- 7 The district fund balance at £2,273,309 represents 5.95% of the net operating expenditure. The average for the 26 Councils as at 31 March 2009 is 8.5%, based on the accounts presented for audit, (12.9% as at 31 March 2008). The district fund balance is in compliance with the guidance on financing of council expenditure in the DOE circular (LG 20/09) issued on 9 September 2009. This circular recommended the district fund balance to be a minimum of 5% to 7.5% of net operating expenditure for the year.
- 8 The district fund balance (£2.2m) at 31 March 2009 does not equate necessarily to a disposable reserve. Note 14[d] of the accounts records unfunded capital expenditure of £5.6m. The £5.6m has decreased by £0.1m during 2008-09. Some of this capital expenditure has, in effect, been covered by the District Fund although the council has taken no formal decision to provide funding from that source and record this in the accounts. Officers have indicated that the deficit will be funded in 2009-10 by a combination of loans, grants receivable or revenue contributions if necessary. 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. This has been recognised by Council in that the Council approved the temporary borrowing from the capital fund on the 27 January 2009 (C46/09) to avoid any strain on the district fund balance.
- 9 It should be noted that the Council's accounts do not reflect debtors of unpaid rates at 31 March 2009. 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 may therefore be 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.

- 10 The “final penny product” finalisation adjustment for the year amounted to a reduction of £867,765 and was notified and adjusted for by the Council prior to the completion of the accounts. 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. The above adjustment includes a rates finalisation element for 2008-09 amounting to £694,346, and a rebate of £173,419 due to the Ministry of Defence and BT following successful appeals against rating valuations. The Department of Finance and Personnel has agreed to let Councils defer the impact of these rebates over a period up to four years. Council intends to avail of this relief by deferring the cash flow impact of the clawback over the remaining 2 years of the current Council, 2009-10 and 2010-11.

District fund spending and balances

- 11 The overall financial position remains stable. The Council decreased by £223,361 the District Fund in 2008-09, leaving the District Fund balance at £2,273,309 as at March 2009. As explained in the Explanatory Foreword of the Accounts the decrease was due to a number of factors:
- The net cost of services being £2,605,494 lower than estimated;
 - A reduction in rates income amounting to £867,765;
 - The receipt of the general grant being £26,717 lower than estimated; and
 - The use of the Council’s reserves lower than estimated by £1,934,373.
- 12 It is important that in preparing accounts the Council includes for all known liabilities and provisions in relation to committed events. In this regard preparation of the 2010-11 estimates and the accounts for 2009-10 and 2010-11 should include consideration of such topics as the outworking of single status, revenue contributions to capital in relation to any unfinanced capital expenditure and the early departure of staff not transferring to the new Council. I would also consider that Councils take into account the need for the new Council to have an opening capital position and thus discussion through the Transition Committee and any advice from the Department should be taken into account.
- 13 The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 18.

14 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2009
Capital Fund	£20,745,253
Renewal & Repairs Fund	£2,726,314
Capital Receipts Reserve	£70,850

15 The Capital Fund account will mainly be used to meet the expected future costs of closure and aftercare costs of the Culmore Landfill site currently estimated to be £8,226,033 and other capital projects including restoration work to the Guildhall and Brooke Park.

City of Derry Airport

- 16 The Airport brings important economic benefits to the Northwest but at considerable cost to the Derry City Council ratepayer. The accounts record in the Service Revenue Account the net cash cost of the City of Derry Airport. This 'net cash cost' is the cost that impacts directly on the District Fund balance and the amount needed to be raised from the ratepayer each year. This has increased significantly in recent years to £4.6m in 08/09 (from £3.2m in 07/08, £2.0m in 06/07 and £1.5m in 05/06). The Airport has loans of £7,702,628 at 31/3/2009 and paid loan charges of £0.6m during 2008/2009. If further grant is not forthcoming for the unfunded capital expenditure of £4.1m at the Airport, the expenditure will have to be funded by loans or applying Capital Reserves.
- 17 The Council has reviewed the governance and operations of the Airport and decided to transfer the City of Derry Airport business into a separate company which will be owned by the Council. Consideration has also been given to disposing of the Airport business to the private sector.

Capital Programme

- 18 The Council has Fixed Assets totalling £101.7m with loans outstanding of £24.12m. As at 31 March 2009 the Council has not yet secured funding for £5.63m of its Fixed Assets. The balance unfinanced of £5.63m relates to capital expenditure for which loans will be raised after the year end, grants are receivable during the next year or will be financed by revenue contributions next year. £4.1m of this figure relates to safety works at City of Derry Airport, which are the subject of an application to both Governments for additional funding. If this application is unsuccessful Council will have to source these funds itself, either by taking out loans or applying Capital Reserves.
- 19 The Statement of Accounts reports a future capital programme totalling £39.5m. I understand that the Council plans to fund this programme via loans of £5m, and capital grants of £12.5m. As the Council moves towards RPA in May 2011 this leaves two financial years (2009-10 and 2010-11) in which to fully account for the financing of capital expenditure not met from grants or loans. Council intends to meet the remaining balance from the Capital Reserves which currently amounts to £23m.

Annual Governance Statement

- 20 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.
- 21 The Annual Governance Statement was approved by the Mayor on behalf of the Council on 23rd June 2009 having also being signed by the Chief Executive on 23rd June 2009. 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.

Internal Audit

- 22 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 Council. The Council reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee on 17th July 2009.

Revaluation of Land and Buildings – 2008-09 Accounts

- 23 The Council instructed the District Valuer to revalue the council's land and buildings at 1 April 2008 for the 2008-09 accounts. The accounting for these revaluations were examined as part of the audit and as a result a number of adjustments were made to the accounts as noted in paragraph 4.

Transition to International Financial Reporting Standards (IFRS)

- 24 In central government, International Financial Reporting Standards (IFRS) apply to the 2009-10 accounts and the Central Government 2008-09 accounts were prepared for the last time on the UK Financial Reporting Standard basis in June 2009. In preparation for the change the 2008-09 accounts of Central Government will be prepared again on a shadow IFRS basis in September 2009 with an audit review to be undertaken before the end of December 2009.
- 25 For Local Government the change to IFRS will take place a year later (i.e. from 2010-11). The Chartered Institute of Public Finance Accountancy (CIPFA) issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the implementation of IFRS. This included a Project Plan with key steps and dates. The DoE commissioned CIPFA (NI) to provide training and support to local government bodies in Northern Ireland to help take forward IFRS issues. A series of training days will be held in late 2009 and early 2010. A new IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010 is being developed by CIPFA. As was the case in Central Government, Councils will be required to re-state their final UK Financial Reporting Standard based accounts (2009-10) on an IFRS basis and have this subject to audit review.

Council Performance

Scope of my audit

- 26 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.”

- 27 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.
- 28 A review of the council’s corporate governance and VFM arrangements for 2008-09 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.
- 29 The Council noted the following in its Governance Statement as significant governance issues:
- Review of Public Administration;
 - Limited assurance on three Internal Audit reports including, Sickness and Absenteeism, Arrangements for securing valuables at council Leisure Facilities; and ERNACT;
 - High scoring strategic risks including, Failure to exploit external funding opportunities (City of Derry Airport), Lack of adequate financial resources (Finance), Failure to reach agreement and implement Single Status (Human Resources), and Failure to set appropriate capital budgets for upgrading/ refurbishment of buildings;
 - High levels of Absenteeism; and
 - Issues highlighted by external audit (see paragraph 30).

- 30 I noted the following additional issues from the corporate governance and VFM arrangements review:
- Business continuity plans have not been completed, implemented and tested at appropriate intervals;
 - Whilst the Council does have treasury management and debt collection procedures, these should be subject to periodic review by the Council;

Absenteeism

- 31 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 2007-08 and published in January 2009. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2007-08 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
- 32 A 2008-09 absenteeism study was published in December 2009. In this the Chief Local Government Auditor analysed absenteeism for each council over the three year period (2006-07, 2007-08 and 2008-09) 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.
- 33 The Chief Local Government Auditor recommended 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. This includes annual rates of absenteeism for the last six years and the three-yearly absenteeism rate for the period ending 31 March 2009 which will be included in the Chief Local Government Auditor's 2008-09 report.
- 34 The 2008-09 absenteeism figure for the Council is 16.51 days. This represents a reduction of 3.35 days on the previous year.
- 35 Derry City Council's three-year absenteeism rate has increased by 0.46 days from 17.33 days in 2003-06 to 17.79 days in 2006-09. Whilst it is still higher than the Northern Ireland average for this latter three year period we note the significant improvement on the previous year.

Waste Minimisation and Recycling

- 36 The DoE, as Allocating Authority under the Waste and Emissions Trading Act 2003, allocates Biodegradable Municipal Waste (BMW) allowances to district councils for the amount of waste which can be sent to landfill. The Council's allowance for the year was 39,397 tonnes and the volume of waste disposed of to landfill was 30,962 tonnes.
- 37 The Landfill Allowance Scheme (NI) Regulations 2004 place a statutory responsibility on district councils, in each scheme year, to landfill only the quantity of BMW they have allowances for. To exceed this may result in financial penalties of £150 per tonne of exceeded allowance (Landfill Allowance Scheme (Amendment) Regulations (Northern Ireland) SR 2005/588).
- 38 While there is some provision for the re-allocation of allowances, the Council needs to give careful consideration as to the risk of incurring penalties under the scheme.

Payment of invoices

- 39 In November 2008 the Minister at the Department of Finance and Personnel reduced the target for the payment of invoices by the public sector from 30 days to 10 days. This was to assist small business in the changed financial circumstances prevailing, thus assisting businesses with their cash flow.
- 40 While district councils have not yet been formally required to comply the Council is encouraged to review its arrangements in this regard and to have in place steps for measurement against such a target.

Equality

- 41 The Council has an established Equality Scheme and Policy and has developed a process for undertaking equalities impact assessments of its strategies so that it understands the likely impact on its diverse population. During the financial year impact assessments were carried out on the following:
 - Irish language Policy;
 - Ulster Scots Policy;
 - Linguistic Diversity Policy;
 - Grant Aid;
 - Rates Estimates 2009/10;
 - Policy and Procedures for the Protection of Children and Vulnerable Adults;
 - Heritage & Museum Learning Policy; and
 - Resolution to make application to the Privy Council to have the name of the city changed from Londonderry to Derry.

Other Audit Work

Joint Committee

- 42 The Council is a member of the NWRWMG Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £13,180 towards funding the expenditure of the Joint Committee.
- 43 For 2008-09 the funding of the NWRWMG is included in the statement of accounts of Derry City Council but it is anticipated that separate accounts will be prepared for 2009-10.
- 44 The Council also participates in Joint Committees for the purpose of delivering 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. It is anticipated that a statement of accounts for the Joint Committee will be prepared for 2009-10.

District Policing Partnership (DPPs)

- 45 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.
- 46 The 2008-09 DPP audit, comprising expenditure of £148,708, was completed in June 2009.

Grant Claims

- 47 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

- 48 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.
- 49 It is currently anticipated that a new council, incorporating Derry City Council and Strabane District Council will come into effect in May 2011. In moving towards this the Council participates in a Transition Committee (legislation anticipated to give it a statutory footing) with officers working in a Transition Management Team, to take forward the change process.

Conclusion

- 50 This Audit Letter has been discussed and agreed with the Chief Executive and City Treasurer.
- 51 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.

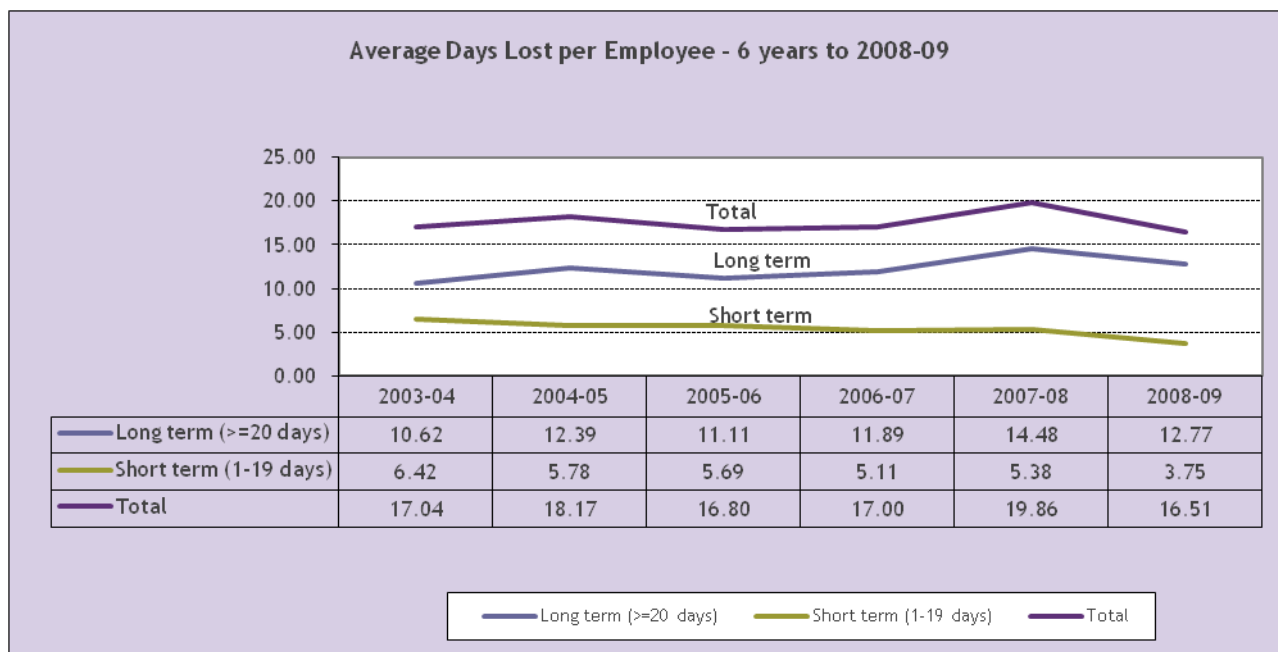
Alfred Knox

Local Government Auditor

Derry City Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2008-09 for total days lost per employee.



2008-09 absenteeism compared to Northern Ireland councils as a whole*

	Derry	NI Councils	Variance	Variance %
Average total days lost per employee	16.51	12.43	4.08	33%

3-year absenteeism (2006-09) compared to Northern Ireland councils as a whole*

	Derry	NI Councils	Variance	Variance %
Average total days lost per employee	17.79	13.31	4.48	34%

* The Northern Ireland Council position is derived from figures as at 4th November 2009. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2008-09.