



# Annual Audit Letter

Issued by the Local Government Auditor  
2009



## North Down Borough 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](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 21<sup>st</sup> 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 18<sup>th</sup> June 2009 and members of the Audit Committee approved the accounts on 18<sup>th</sup> June 2009 which was within the statutory guidelines which requires this to be completed by 30 June. Following material amendments the accounts were authorised for issue by the Chief Financial Officer on 1<sup>st</sup> October 2009.
- 4 The most significant amendments made as a result of our audit findings and additional information received during our audit were as follows:
  - An adjustment of £357,236 in relation to the calculation of the revaluation gains and losses for operational land and buildings, together with revaluation gains depreciation of £10,611;
  - A decrease in the net cost of services of £237,484 following notification in July 2009 of income due to the Council from HM Revenue & Customs in respect of a claim for overpaid output tax; and

- Revision to the Governance Statement to reflect the findings of an independent consultant's report regarding a capital project undertaken by the Council.

## ***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 £1,991,317 represents 8.4% of the net operating expenditure. As such the Council's financial standing would appear to be satisfactory. 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).
- 8 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 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 £738,077 of which £720,277 was in respect of the Ministry of Defence (MoD) and British Telecom (BT). This was notified and adjusted for by the Council prior to the completion of the accounts. In the financial statements for the two previous financial years, the Council accounted for the loss of income in relation to net finalisation of rates income of £720,227 by charging it to the District Fund (£346,062 for the year ended 31 March 2007 and £374,165 for the year ended 31 March 2008). 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 £602,783 the District Fund in 2008-09, leaving the District Fund balance at £1,991,317 as at March 2009. The increase was largely due to the following key exceptions:
- Expenditure on waste management services was £390,000 lower than expected as a result of lower than estimated landfill and recycling costs;
  - Income from building control activities was £130,000 lower than expected as a result of a fall in large property development activities across the Borough;
  - Expenditure on Insurance was £200,000 lower than expected as a result of a reduction in the level of claims outstanding as at 31 March 2009, against which a general provision was made;
  - Expenditure on repayment of borrowings was £265,000 lower than expected and income from investments was £165,000 higher than expected. This was mainly due to delays in capital spend, which resulted in borrowings being made later than expected; and
  - Income from district rates was £160,000 lower than expected which arose primarily as a result of increased vacancies, arrears and increases in the cost of collection.
- 11 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.
- 12 The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 15.
- 13 In addition, the Council has the following earmarked reserves :

<b>Funds</b>	<b>Balance at 31 March 2009</b>
Capital Fund	£3,025,469
Renewal & Repairs Fund	£250,000
Cash Receipts Reserve	£2,668,121

- 14 The Capital Fund account is mainly used to meet the expected future costs of repaying maturity loans.

### ***Capital Programme***

- 15 The Council has Fixed Assets totalling £102.7m with loans outstanding of £27m. As at 31 March 2009 the Council has not yet secured funding for £1.4m of its Fixed Assets. The Council plans to fund this expenditure from borrowings, capital receipts and government grants. Should other sources of funding not be available the shortfall would have to be made up from the surplus in the District Fund.
- 16 The Statement of Accounts reports a future capital programme totalling £1.75m. I understand that the Council plans to fund this programme via loans of £0.95m, capital receipts of £0.2m and capital grants of £0.6m. 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.

### ***Annual Governance Statement***

- 17 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.
- 18 The Annual Governance Statement was approved by the Chairman on behalf of Audit committee on 18th June 2009 and the Chief Executive on 18<sup>th</sup> 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 but paragraph 27 of this Audit Letter includes one matter I considered and paragraphs 39 to 54 note my findings on a significant governance weakness noted by the Council.

## ***Internal Audit***

- 19 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 contracted out its internal audit to a private sector firm. The council reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee on 18<sup>th</sup> June 2009.

## ***Revaluation of Land and Buildings – 2008-09 Accounts***

- 20 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 no issues were identified.

## ***Transition to International Financial Reporting Standards (IFRS)***

- 21 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 preparation for the change the 2008-09 accounts of Central Government have been prepared again on a shadow IFRS basis in September 2009 with an audit review to be undertaken before the end of December 2009.
- 22 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 (2010-11) on an IFRS basis and have this subject to audit review.

# Council Performance

## *Scope of my audit*

- 23 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.”*

- 24 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.
- 25 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.
- 26 The Council noted it’s handling of a procurement of ejection trailers for its new waste management facility in its Governance Statement as a significant governance issue. I have covered this issue at paragraphs 39 to 54 of this annual audit letter.
- 27 I noted the following additional issue from the corporate governance and VFM arrangements review:
- Apart from IT and administrative functions the Councils Business Continuity Plans are at the development stage;

## ***Absenteeism***

- 28 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.
- 29 A 2008-09 absenteeism study is due to be published in December 2009. In this the Chief Local Government Auditor will analyse absenteeism for each council over the three year period (2006-07, 2007-08 and 2008-09) 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.
- 30 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. 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.
- 31 The 2008-09 absenteeism figure for the Council is 12.08 days. This represents a fall of 1.94 days on the previous year.
- 32 North Down Borough Council's three-year absenteeism rate has been reduced by 0.79 days from 13.38 days in 2003-06 to 12.59 days in 2006-09 and is lower than the Northern Ireland average for this latter three year period.

## ***Waste Minimisation and Recycling***

- 33 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 28,186 tonnes and the volume of waste disposed of to landfill was 20,221 tonnes.
- 34 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).
- 35 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***

- 36 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.
- 37 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***

- 38 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 “Provision of children’s playgrounds which will be free from visible manifestations of sectarianism and racism”.

## **Other Audit Work**

### ***Procurement of Ejection Trailers***

- 39 In September 2006 the Council commenced a tender process for the procurement of ejection trailers to remove waste from its new waste transfer station at Balloo in Bangor. This was not an acquisition of standard, off the shelf equipment. It involved developing a specification for customised trailers to be manufactured to operate compatibly in tandem with specialist waste compaction equipment at Balloo. This meant the Council could not ‘pilot’ ejection trailers in its existing facilities or elsewhere in Northern Ireland.
- 40 The Council purchased 14 ejection trailers at a cost of £529,000 and these were delivered over the period February to May 2007. Due to slippage in construction at the Balloo waste transfer station the facility was not completed in July 2007 as planned and did not open until May 2008. One year after delivery the Council began to use the ejection trailers.
- 41 It immediately became clear to council officials that there were difficulties associated with the operation of the ejection trailers. When filled to capacity the loads (including tractor and trailer) exceeded the legal limit of 44 tonnes. When the ejection trailers were only partially filled this restricted the weight but resulted in grave vehicle safety concerns as loads could not be appropriately distributed across all the vehicle’s axles. This seriously impaired the steering and braking of the vehicles.

- 42 The Council took the decision to modify the trailers by reducing their capacity from 84 cubic metres (as specified in the contract) to 72 cubic metres. This enabled the ejection trailers to carry loads which were within the legal limit of 44 tonnes and which were safely distributed across all the vehicle's axles. The Council modified nine ejection trailers at a cost of £124,000. The modification was not carried out to the remaining five trailers as the nine modified trailers were sufficient to meet the Council's immediate waste transfer needs.
- 43 In April 2009 the council established a review of the procurement process which had been used to acquire and modify the ejection trailers. The review was completed in July 2009.
- 44 The review found that there had been "little meaningful contact between the procuring Department (Corporate Services) and the user Department (Amenities & Technical Services)". At that time there had been no effective corporate mechanism to achieve cohesion between the two Departments on key issues such as the design specification of the ejection trailers and the number of trailers needed.
- 45 The Council based its ejection trailers design specification on a facility operating in England with one significant modification. Whereas trailers in England had a 72 cubic metre capacity the Council's specification required a capacity of 84 cubic metres. This increased capacity appears first in a draft tender specification prepared by the Corporate Services Department and copied to the Amenities & Technical Services Department for comment. There is no documentation to support why the larger capacity was used. The Amenities & Technical Services Department did not at this time caution that the 84 cubic metre capacity would create loading difficulties. The review found that the supplier when questioned had concerns with regards the enlarged capacity required by the Council for its trailers but there was no record of this either during the tender process or when supplying the trailers.
- 46 The estimation that the Council needed 14 ejection trailers originates from the Technical Services Department. Although this is on file it surprisingly makes no clear reference to the total waste tonnage that the Council was dealing with. With the Balloo waste transfer station fully operational the Council found that nine ejection trailers were sufficient for its needs. Five trailers purchased by the Council for use at the Balloo waste transfer station have not been modified and remain unused. Waste tonnage levels in 2008-09 were 51,000, an 11 per cent decrease on the 2005-06 levels, which would have informed the trailer number estimation. It is unclear if the initial calculation overstated the Council's needs at that time or if an expected increase in waste tonnage levels has not materialised.

- 47 I agree fully with the review findings that the necessary levels of co-ordination between the Corporate Services Department and the Amenities & Technical Services Department to deliver this tender process were inadequate. In key areas the poor documentation in both Departments hampered co-ordination and did not provide an audit trail to support why decisions, which would lead to significant Council expenditure, were taken. As a result the Council:
- Purchased 14 trailers, when only nine was required; and
  - Purchased trailers which could only be used after costly modifications brought them back to a specification which the Council had seen operating in England.
- 48 The Council needed trailers to be available as soon as the Balloo waste transfer station was operational. Due to the required compatibility with facilities at Balloo trailers could not be tested in advance. Both factors meant the biggest risks to a successful tendering exercise were a design specification which did not work, and either over or under capacity arising from the number of trailers purchased. I saw no evidence that the Council was aware of these specific risks and sought to mitigate them. This would have involved:
- Following closely the trailer design specification in operation elsewhere (which was done in all respects except with the key omission of the 72 cubic metre capacity);
  - Taking great care with projected usage level calculations; and
  - Seeking to co-ordinate trailer delivery with the Balloo waste transfer station becoming fully operational.
- 49 The review recommended the Council pursue whether the supplier of the ejection trailers had any contractual liability to the Council. As noted in paragraph 7 above the supplier recognised the loading difficulties which the 84 cubic metre trailer capacity provided but had not drawn these to the Council's attention prior to delivery. The Council has told me that L'Estrange and Brett are reviewing this issue on behalf of council and will have completed their report by mid- November.
- 50 The Council is seeking to obtain independent specialist technical advice on what to do with the five unmodified trailers. The Council has told me that discussions are currently taking place with a number of technical specialists. Once these discussions are complete, the Council will undertake testing in relation to the unmodified trailers before arriving at the most appropriate solution.

51 The Council could have purchased nine ejection trailers with a capacity of 72 cubic at a total cost of £307,000. In the event that the Council is unable to secure any compensation from the supplier, or find a use for the unmodified trailers, the total expenditure incurred by the Council would be £661,000 broken down as follows:-

Fourteen trailers	£529,000
Trailer modification	£124,000
Review costs	£5,000
Legal cost – (estimate)	<u>£3,000</u>
Total	£661,000

Consequently the cost to the Council of failing to purchase the correct number of ejection trailer with a usable design specification could be £354,000.

52 The Council's response to the issues noted above have been twofold:

- To commission the independent review noted above: and
- To introduce a formal project Management Process including a Project Board to be chaired by the Chief Executive. Had this process been in operation and applied to the ejection trailer procurement the lead department would have been the Amenities & Technical Services Department and not the Corporate Service Department. In late 2007 the Council also introduced a specialist central procurement function.

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53 I commend the Council for the comprehensive and prompt response to the serious issues which became apparent when the ejection trailers were used for the first time. Nevertheless, I am shocked that a key procurement process involving sizable funds was so poorly handled on a number of levels by the Council. Expected public sector levels of risk assessment, project management and documentation, normally a feature of this Council, were seriously inadequate and have resulted in significant losses to the rate payers of North Down.

54 It is my intention to monitor progress on the following:

- The successful operation of the recently introduced Project Management process
- The outcome of the legal action taken by the Council against the supplier of the trailers; and
- The result of the advice to Council on the usage of the five unmodified trailers.

## Joint Committee

- 55 The Council is a member of the Arc21 Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £2,312,029 towards funding the expenditure of the Joint Committee.
- 56 The 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 £27.1 million and the Committee's Accounts identify longer term capital expenditure plans in relation to the Residual Waste Treatment project. Arc21 expect to be in a position to acquire land and property for the construction of facilities to provide the necessary waste treatment services. Such acquisitions will be subject to independent valuations undertaken by the Land and Property Services Agency of the Department of Finance and Personnel and will be accounted for in the relevant financial year.
- 57 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.
- 58 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)

- 59 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.
- 60 The 2008-09 DPP audit, comprising expenditure of £155,713, was completed in June 2009.

## Grant Claims

- 61 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

- 62 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.
- 63 It is currently anticipated that a new council, incorporating North Down Borough 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

- 64 This Audit Letter has been discussed and agreed with the Chief Executive and Director of Corporate Services.
- 65 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

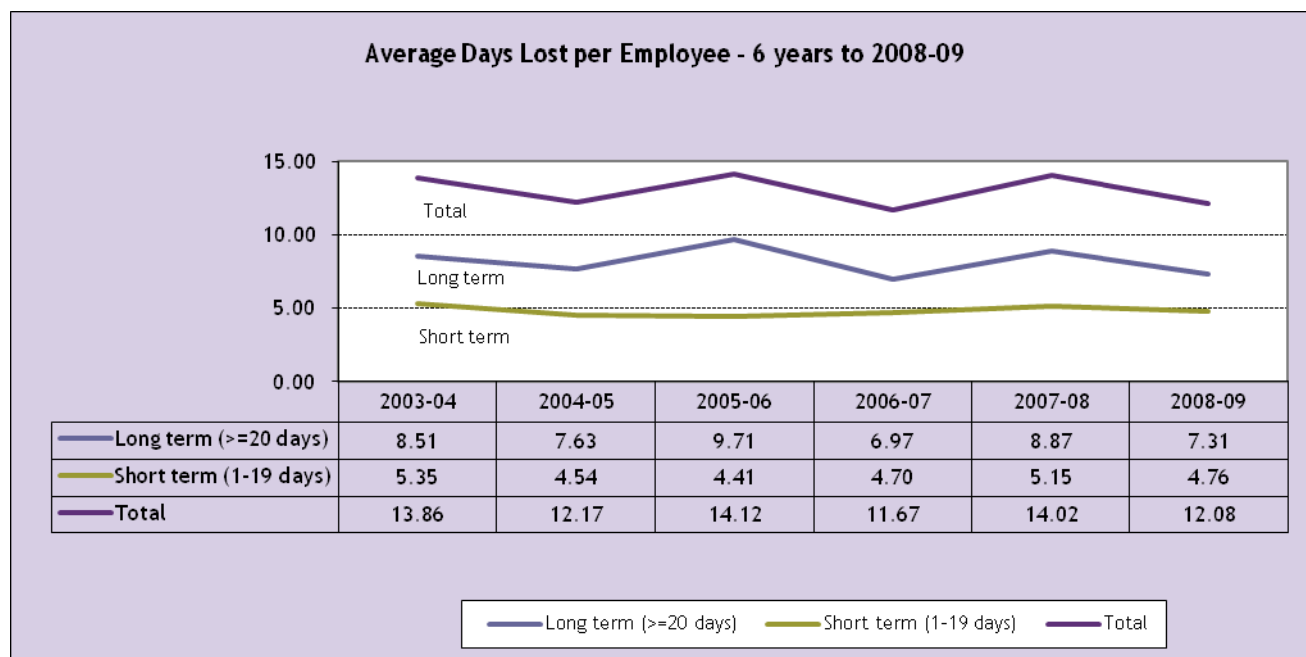
Deputy Chief Local Government Auditor

November 2009

## North Down Borough 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\*

	North Down	NI Councils	Variance	Variance %
Average total days lost per employee	12.08	12.43	-0.35	-3%

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

	North Down	NI Councils	Variance	Variance %
Average total days lost per employee	12.59	13.31	-0.71	-5%

\* The Northern Ireland Council position is derived from figures as at 26th October 2009. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2008-09.