

# Annual Audit Letter

Ards Borough Council

Year to 31 March 2007

Issued by  
Denver Lynn  
Local Government Auditor (NIAO)

## 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 of this report

This report is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.

The report 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

- Financial management
- How is the Council performing?
- Grant claims
- Conclusion/ Availability of this letter

## Financial management

- 1 As your statutory appointed auditor I issued my audit opinion on the Statement of Accounts on 10 October 2007. 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 26 June 2007. Members of the Risk Management and Audit Committee approved the accounts on 26 June 2007 which was within statutory guidelines. Following disclosure adjustments arising from the audit the accounts were authorised for issue by the Chief Financial Officer on 10 October 2007.
- 3 No material adjustments were noted during our audit.
- 4 I note that a contingent liability has been disclosed in note 32 to the financial statements regarding a land transaction as follows:

“A review is ongoing into a land transaction which may result in litigation against the Council. The information usually required by FRS 12 is not disclosed on the grounds that the review is at an early stage and is not possible to determine, at this time, if the Council has an obligation.”

I am content that this disclosure is appropriate at this time. Due to the ongoing nature of the review I continue to monitor developments having regard to statutory responsibilities.

### *Financial standing*

- 5 The Council's financial position remains generally stable; however financial pressures continue to present the Council with challenges. The Council recognises these challenges and continues to maintain levels of reserves to help manage future pressures.
- 6 The District Fund balance at £1.2m represents 8.4% of the net operating expenditure. The average for the 26 district councils is 14.4% (based on the accounts presented for audit).

### ***District fund spending and balances***

- 7 The financial position remains relatively stable. The Council contributed £41k to District Fund reserves in 2006/07. In addition to a District Fund balance of £1.2m the Council has another significant reserve in the Capital Fund of £2.4m.

### ***Capital Programme***

- 8 The Council has Fixed Assets totalling £47.1m with loans outstanding of £15.7m. The Council has future capital commitments, expenditure approved but not contracted for of £4.2m.

### ***Systems of internal financial control***

- 9 I was able to place reliance on the Council's internal control environment for the purposes of forming my opinion on the financial statements.

### ***Internal Audit***

- 10 As part of my evaluation of the general control environment I assessed the quality of the Internal Audit function in accordance with ISA 500. The Council has an in-house Internal Audit function. An Audit Committee was set up in June 2007. I will address this Annual Audit Letter and other findings from my 2006-07 audit at the Audit Committee's next meeting (29 November 2007).

# How is the Council performing?

## Scope of my audit

- 11 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.”*

- 12 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”.
- 13 A review of the Council’s corporate governance and VFM arrangements for 2006-07 was carried out. The findings from the review were included in my audit file and a summary report, prepared for me, was copied to the Chief Executive. This corporate governance and VFM arrangements review provided no evidence that the Council does not have proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 14 I noted the following issues from the corporate governance and VFM arrangements review:
- Risk Registers are due to be completed by March 2008. I will examine progress in my forthcoming audit of the Council.
  - The Council’s Fraud and Corruption Policy does not include the Local Government Auditor as a point of contact for a ‘Whistleblower’. I note the Council is preparing a separate ‘Whistleblowing’ Policy.
  - The Council is in the process of redrafting a procurement strategy. I will examine progress on this in my forthcoming audit.

## **Absenteeism**

- 15** 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 2005-06. Similar unpublished absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2005-06 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
- 16** In his 2005-06 report, published in March 2007, the Chief Local Government Auditor analysed absenteeism for each council over a three year period and an average annual absenteeism rate was derived for this period. This analysis counters the impact of annual fluctuations in absenteeism which would distort the findings, particularly within smaller councils.
- 17** 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 at Annex A annual absenteeism data which includes 2006-07 figures. Also included is the three yearly data from the Chief Local Government Auditor's 2005-06 report. The 2006-07 data will be included in a revised three yearly derived absenteeism rate which will be part of the Chief Local Government Auditor's 2006-07 report on all councils. The report will be published later this year.
- 18** The 2006-07 absenteeism figure for the Council is 13.38 days. This represents a slight increase on the previous year. Taking 2006-07 in isolation the Councils' absenteeism remains below the Northern Ireland average but the gap is closing.
- 19** Over the three year period 2003-6 the Council's average total days lost per employee was 13.70 days which, similar to the subsequent year (2006-07), is half a day below the Northern Ireland average.

## Grant claims

- 20 The Chief Local Government Auditor has developed a more risk based approach to the certification of grant claims. We plan to reduce our audit scope of these claims and where appropriate adopt a controls-based approach on all of the Council's grant claims.
- 21 Central government funding bodies have been advised of the new approach through a Department of Finance and Personnel circular DAO(DFP) 09/07 dated 6 August 2007.

## Other Matters

- 22 At paragraph 4 of this Annual Audit Letter I have made reference to a land transaction recorded in note 32 of the financial statements. During the course of this audit an elected representative drew my attention to a further land matter relating to the Council (the sale of land at North Road, Newtownards).
- 23 In October 2005 Ards Borough Council sold a small strip of land following an approach from the purchaser. He outlined that the land would provide him with access to adjacent land where he intended to graze ponies. On this basis the Valuation and Lands Agency (now part of Land and Property Services) valued the land at £4,000. The land sale progressed at this value.
- 24 The land was sold freehold. The only restriction was a requirement that a retaining wall was built by the purchaser between the strip of land and the Council's remaining land.
- 25 In July 2006 the strip of land was included as part of a residential development planning application submitted to the Planning Service. No decision has as yet been taken on the application. In the event that the planning application is successful, I have no doubt that the value of the strip of land will be higher than the £4,000 received by the Council in October 2005.
- 26 I wish to underline my review of this matter found nothing to support any deliberate failing on the part of the Council. Nevertheless it is my view that the Council's interest should have been better protected. The strip of land in question is zoned as "White Land" in the Ards and Down Area Development Plan – this means it is open for all types of planning application including residential development. I recommend that when the Council considers the sale of similar "White Land" in future either:
- The land is leased rather than sold; or
  - The land is sold subject to a restriction which ensures the Council derives benefit when this occurs as a result of a foreseeable change in future use.

## Conclusion

- 27 This letter has been discussed and agreed with the Chief Executive and Director of Corporate Services.
- 28 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.

## Availability of this letter

- 29 This letter will be published on the Northern Ireland Audit Office's website at [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk), and also on the Council's website.

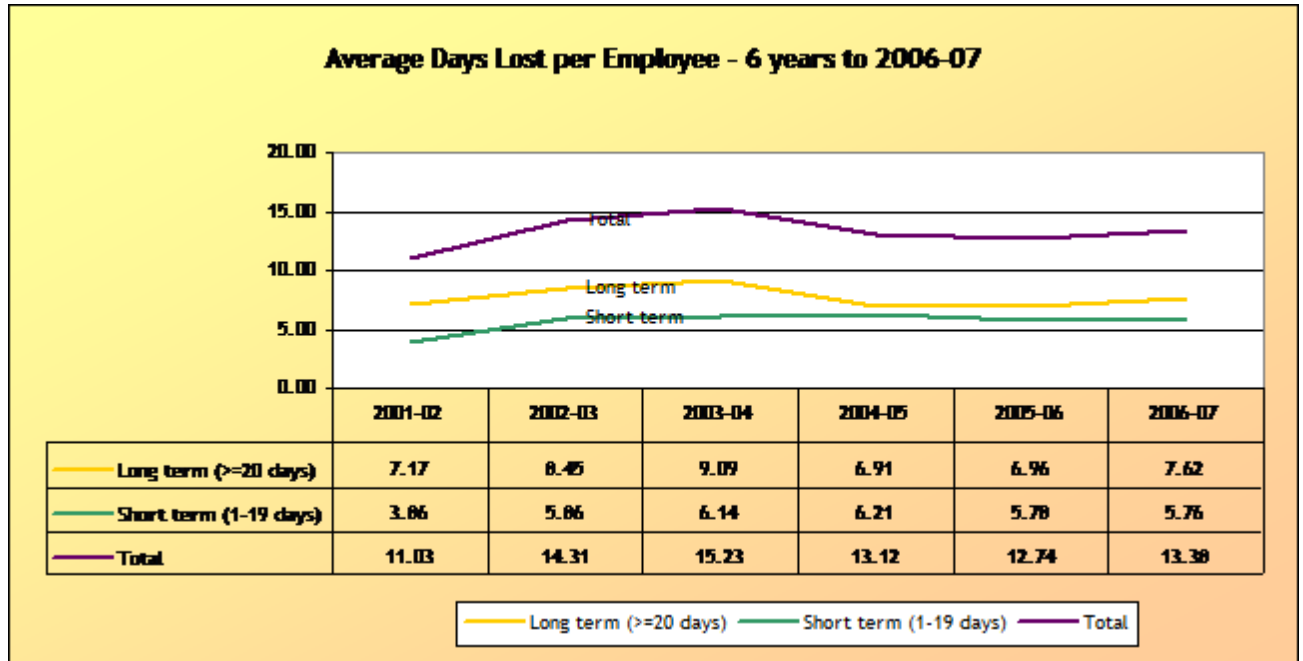
Denver Lynn  
Local Government Auditor  
NORTHERN IRELAND AUDIT OFFICE  
106 University Street  
BELFAST  
BT7 1EU

November 2007

## Ards Absenteeism

### Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2006-07 for total days lost per employee.



### 2006-07 absenteeism compared to Northern Ireland councils as a whole\*

	Ards	NI Councils	Variance	Variance %
Average total days lost per employee	13.38	13.81	-0.43	-3%

\* The Northern Ireland Council position is derived from figures as at 21/09/07. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2006-07. The report is due to be published in December 2007. The 2005-06 report included the following for the period 2003-06:

### 3-year absenteeism (2003-06) compared to Northern Ireland councils as a whole

	Ards	NI Councils	Variance	Variance %
Average total days lost per employee	13.70	14.28	-0.58	-4%