

Issued by the Local Government Auditor
27th January 2011



Ballymoney Borough Council

Year to 31 March 2010

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 2010 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.

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Audit of Accounts

- 1 As your statutory appointed auditor John Buchanan reported his audit opinion on the Statement of Accounts on 29th October 2010. He 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 28th June 2010 and members of the Corporate Services Committee approved the accounts on 28th June 2010 which was within the statutory guidelines which requires this to be completed by 30 June. Following minor adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 28th October 2010. These adjustments included an increase in both bank and creditors by £104k.
- 4 At the conclusion of our audit we issue a Management Letter to the Chief Financial officer noting the most significant audit issues found and seeking comments. In the management letter we referred to the need for the Council to build up its District Fund reserves. This is discussed further in paragraphs 5 and 6.

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, reductions in general grant, and reduced rates income from that estimated by Land & Property Services at the start of the year. The Department of the Environment under circular LG20/09 provided guidance on the level of minimum balance that a council should plan to carry on its District Fund, suggesting some 5% to 7.5% of the net operating expenditure (adjusted by taking the net operating figure in the District Fund, excluding depreciation and impairment but adding back repayment of loan principal). We would encourage the Council to keep under review its balance in light of this guidance.
- 6 The district fund balance at £353k represents 5.3% of the net operating expenditure after proper practices adjustments in relation to capital expenditure entries. The average for the 26 Councils as at 31 March 2010 is 10.6%, based on the accounts presented for audit, (10.3% as at 31 March 2009). Given Council received notice that its former landfill site is subject to the EEC Landfill Directive, then further significant additional closure costs may be incurred in addition to the £1727k already recognised as a provision in the financial statements. On this basis the current balance in the District Fund would appear to be materially less than what is needed.
- 7 It should be noted that the Council's accounts do not reflect debtors of unpaid rates at 31 March 2010. 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.

District fund spending and balances

- 8 The Council increased by £146k the District Fund in 2009-10, leaving the District Fund balance at £353k as at March 2010.
- 9 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 2011-12 estimates and the accounts for 2011 should include consideration of such topics as the outworking of single status, and revenue contributions to capital in relation to any unfinanced capital expenditure.
- 10 The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 13.
- 11 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2010
Capital Fund	£1,621,030
Capital Receipts Reserve	£127,449

- 12 The Capital Fund account is mainly to be used to meet the expected future landfill closure costs, but that provision is currently underfunded. Given the landfill provision is £1727k, then the Capital Fund is underfunded by at least £106k. (See comment at paragraph 6 above and also note 20b of the financial statements regarding assumptions in the landfill provision calculation which includes the expectation that Council will not have to pay for approximately £600k of capping materials)

Capital Programme

- 13 The Council has Fixed Assets totalling £30.8m with loans outstanding of £9.9m. As at 31 March 2010 the Council has not yet secured funding for £1.5 of its Fixed Assets. The Council plans to fund this expenditure from Government Loans. Should other sources of funding not be available the shortfall would have to be made up from the surplus in the District Fund.

The Statement of Accounts reports a future capital programme totalling £1.8m. We understand that the Council plans to fund this programme largely via loans.

Annual Governance Statement

- 14 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.
- 15 The Annual Governance Statement was approved by the Vice Chairman on behalf of Audit Committee on 23rd June 2010 and the Chief Executive on 23rd June. The audit opinion on the accounts includes the Annual Governance Statement. We are 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. No Governance Statement matters were noted in the audit report but paragraphs 23 to 25 of this Audit Letter include matters 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 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 23rd June 2010.

Transition to International Financial Reporting Standards (IFRS)

- 17 In central government, International Financial Reporting Standards (IFRS) applied 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 were prepared again on a shadow IFRS basis in September 2009 with an audit review undertaken before the end of December 2009.
- 18 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.
- 19 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 were 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 has been issued by CIPFA. As was the case in Central Government, Councils will be required to re-state their final UK Financial Reporting Standard based accounts (ie 2009-10) on an IFRS basis and have this subject to audit review. We understand DOE, under Circular LG 22/10 dated 28 October 2010, require re-stated accounts to be prepared by 17 December 2010. We plan to undertake our audit reviews before the end of February 2011.

Council Performance

Scope of my audit

- 20 Our 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.”

- 21 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 monitor this is by benchmarking aspects of its financial data against other Councils and this information is also provided to the Department of the Environment.
- 22 A review of the council’s corporate governance and VFM arrangements for 2009-10 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. We used this information, together with information obtained during the course of the audit of the accounts, to examine the Governance Statement.
- 23 The Council noted the following in its Governance Statement as significant governance issues:
- Risk management within council will be augmented by 2010-11 by updating or developing risk registers for specific buildings and activities.
 - During April 2010 the Council’s Emergency Plan was tested in earnest when two humanitarian assistance centres were opened for four days to assist residents affected by unprecedented power cuts. The management review session on Council’s emergency plan was held in 2010 and lessons learned will inform further work to develop and test the council’s level of preparedness for emergencies.
 - The cancellation of plans for the amalgamation of the four Councils in Causeway area in May 2011 will create significant governance issues for Ballymoney Council, including the need to prepare a new Corporate Plan. Council will face challenges to ensure that it avoids fines for failing to meet its landfill targets beyond May 2011. It will also have to find ways to fund its services in the face of cuts to central government funding and reduced ability by ratepayers and service users to pay for council services.

- Internal audit highlighted three important areas where controls/systems need to be improved, namely fixed assets register, monitoring of budgets/treasury management and IT. Council is working to implement these recommendations.

24 We will review progress on the above during the forthcoming audit.

25 We noted the following additional issues from the corporate governance and VFM arrangements review:

- The completion and adoption of service level risk registers remain outstanding.
- A business continuity plan for ICT has been in place for some time but remains untested. Other business continuity plans have still to be developed.
- The roles and responsibilities of various officers, delegation arrangements and communication protocols have been documented but not yet reviewed by the senior management team
- During 2009-10 the Council did not issue any reminders to members and officers regarding adherence to the council's policies for gifts, hospitality and pecuniary interests.
- There is no reference to the PSNI as an external point of contact for whistleblowers.
- Internal audit does not have specific terms of reference as required by CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom [2006].
- The Audit Committee does not have any external members contrary to CIPFA's Audit Committee Practical Guidance for Local Authorities.
- The Local Government Auditor may not always attend but he should always be invited to every meeting of the Audit Committee.

Absenteeism

- 26 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 2008-09 and published in December 2009. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2008-09 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
- 27 A 2009-10 absenteeism study was due to be published in November 2010. In this the Chief Local Government Auditor analysed absenteeism for each council over the three year period (2007-08, 2008-09 and 2009-10) 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.
- 28 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 2010 which will be included in the Chief Local Government Auditor's 2009-10 report.
- 29 The 2009-10 absenteeism figure for the Council is 17.02 days. This represents an increase of 2.57 days on the previous year.
- 30 Whilst Ballymoney Borough Council's three-year absenteeism rate has decreased by 0.31 days from 16.59 days in 2004-07 to 16.28 days in 2007-10 it is still higher than the Northern Ireland average for this latter three year period.

Waste Minimisation and Recycling

- 31 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. It is intended to include information on volume of waste disposed to landfill in the Chief Local Government Auditor's Annual Report.
- 32 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).
- 33 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

- 34 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.
- 35 The target is not mandatory for local government but for the first time in 2009-10 DoE required district councils to disclose their prompt payment performance. For the council a sample of invoices indicated that this was 41 days (the average for Northern Ireland councils was 38 days). It is hoped that councils will consider means by which the time taken to pay invoices can be reduced.

Equality

- 36 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.

Other Audit Work

Joint Committee – Waste Management

- 37 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 £7,048 towards funding the expenditure of the Joint Committee.
- 38 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.
- 39 For 2009-10 the funding of the NWRWMG is included in the statement of accounts of the Council / Derry City Council but it is anticipated that separate accounts will be prepared for 2010-2011.

Joint Committee – Rural Development / Peace III

- 40 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. The Council is part of the following Joint Committees:
 - North East Peace III (with Ballymena Borough Council, Coleraine Borough Council, Larne Borough Council, Limavady Borough Council and Moyle District Council)
 - North East Region Rural Development Programme (with Ballymena Borough Council, Coleraine Borough Council, Larne Borough Council and Moyle District Council)
- 41 Separate accounts have been prepared by the Joint Committee and audited by a Local Government Auditor for 2009/10. A separate Annual Audit Letter issues to the Joint Committee.

District Policing Partnership (DPPs)

- 42 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.
- 43 The 2009-10 DPP audit, comprising expenditure of £32,190, was completed in May 2010.

Grant Claims

- 44 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.

Conclusion

- 45 This Audit Letter has been discussed and agreed with the Chief Executive and the Director of Central & Leisure Services.
- 46 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.

Louise Mason

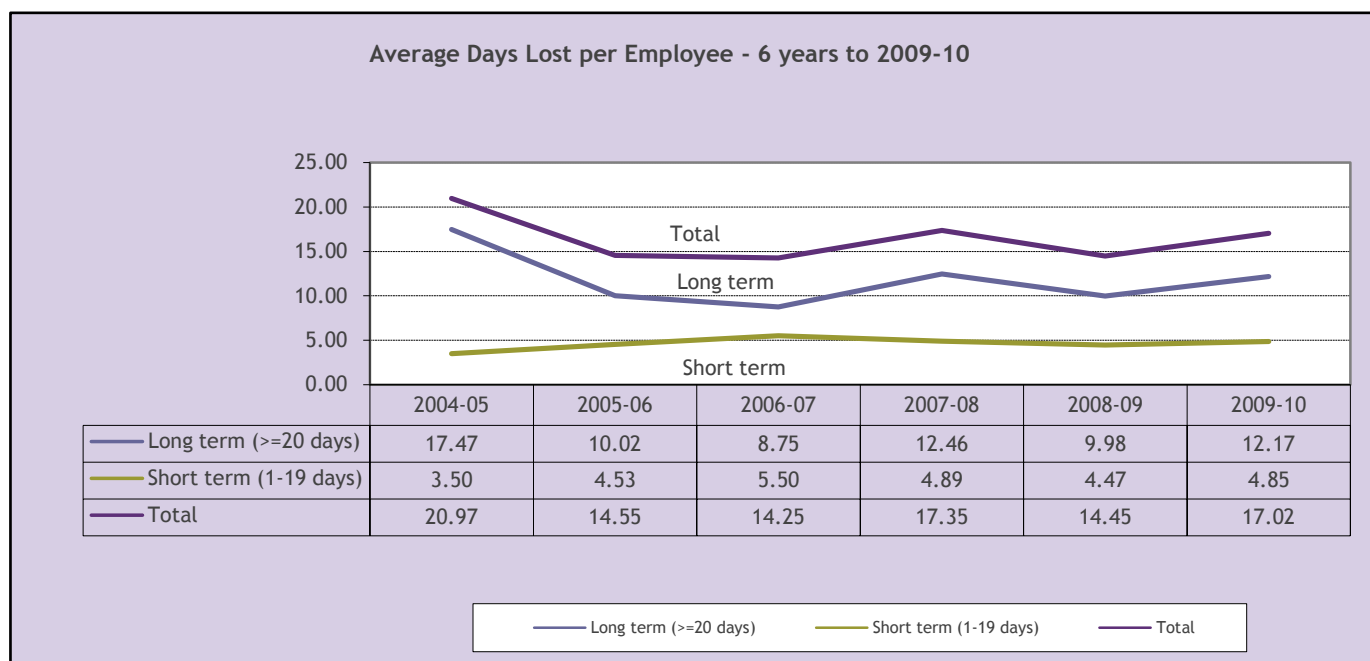
Chief Local Government Auditor

27th January 2011

Ballymoney Borough Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2009-10 for total days lost per employee.



2009-10 absenteeism compared to Northern Ireland councils as a whole*

	Ballymoney	NI Councils	Variance	Variance %
Average total days lost per employee	17.02	12.39	4.63	37%

3-year absenteeism (2007-10) compared to Northern Ireland councils as a whole*

	Ballymoney	NI Councils	Variance	Variance %
Average total days lost per employee	16.28	12.83	3.45	27%

* The Northern Ireland Council position is derived from figures as at 14 October 2010. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2009-10. NOTE Delete this footnote if the Annual Audit Letter is issued