

Issued by the Local Government Auditor  
18 June 2010



## Ballymoney 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 14<sup>th</sup> May 2010. 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 23<sup>rd</sup> June 2009 and members of the Council approved the accounts on 23<sup>rd</sup> 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 1 April 2010.
- 4 The most significant adjustments to the accounts made as a result of our audit findings during our audit were:
  - £325,957 increase in the landfill provision
  - £192,508 increase in the single status provision
  - Impairments to fixed assets of £704k and associated depreciation adjustment of £168k. The impact of this on the District Fund balance is £nil.

This resulted in the District Fund reserve reducing by £170,272 to £207,057 and the Council's net worth reducing from £19,067,571 to £18,510,549.

## ***Financial standing***

- 5 The Council needs to carefully consider its financial management arrangements to ensure that both the District Fund and Capital Fund balances increase and also that significant unfunded capital expenditure of £2.1 million is addressed (see paragraph 15). Both balances are currently too low. The capital fund of £1132k should be at least equal to the landfill provision balance, which at the year- end was £1669k. The adequacy of the landfill provision also has to be kept under review given that Council has assumed that it will not have to pay for anticipated capping materials with an estimated value of £600k and also because the Northern Ireland Environment Agency have yet to comment on the adequacy of the landfill closure plan. Hence it is likely that the capital fund and the landfill provision balance may have to increase even further.
- 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 £207k represents 2.5% of the net operating expenditure. As such the Council's financial standing is a matter for concern, as reserves may not be sufficient to cover unexpected costs or decreases in revenue . 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 was included in the accounts prior to audit certification. 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 As outlined in paragraph 5 above, the overall financial position needs to be strengthened. The Council decreased by £601k the District Fund in 2008-09, leaving the District Fund balance at £207k as at March 2009. The decrease was largely due to a number of matters including planned use of the district fund to reduce the level of rates increase, transfer of funds to the capital fund, to be used to meet landfill closure costs, and also additional provision of single status costs .

- 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 2011-12 estimates and the accounts for 2009-10 and 2010-11 should include consideration of such topics as the outworking of single status appeals and revenue contributions to capital in relation to any unfinanced capital expenditure. I would also consider that the Council take into account the need for any 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 of £2.1m highlighted in note 11 to the financial statements.
- 13 In addition, the Council has the following earmarked reserves :

<b>Funds</b>	<b>Balance at 31 March 2009</b>
Capital Fund	£1,132,453
Capital Receipts Reserve *	£127,449

- 14 The Capital Fund account is to be used to meet the expected future landfill closure costs, but that provision is currently underfunded.

### ***Capital Programme***

- 15 The Council has Fixed Assets totalling £31.4m with loans outstanding of £9.2m. As at 31 March 2009 the Council has not yet secured funding for £2.1m of its Fixed Assets. The Council plans to largely 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.
- 16 The Statement of Accounts reports that the council does not have any significant capital commitments at 31 March 2009 and so there are no recorded funding arrangements.

### ***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, and by the Chief Executive on 16 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 paragraphs 26 to 28 of this Audit Letter includes matters I considered.

### ***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 10 February 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 was examined as part of the audit and the following issues were identified:
- The impairment of fixed assets was not disclosed separately within the accounts – subsequently revised

### ***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 have been 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*

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 the following in its Governance Statement as significant governance issues:

- Risk management measures are not yet fully developed at all levels in the Council’s work and this will be a priority in 2009-10. Allied to this, business continuity measures will be further developed.

27 I will review progress on the above during the forthcoming audit.

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

- The Treasury Management policy was not in place by 1 April 2009 as planned.
- There is no reference to the Local Government Auditor or PSNI as an external point of contact for whistle blowers.
- Internal audit does not have specific terms of reference for approval by the Audit Committee.

- The Audit Committee does not have any external members.
- The council does not have a comprehensive and current data quality statement in place and accordingly has not performed a specific data quality review.

## **Absenteeism**

- 29 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.
- 30 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.
- 31 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 was included in the Chief Local Government Auditor's 2008-09 report.
- 32 The 2008-09 absenteeism figure for the Council is 14.44 days. This represents a decrease of 2.90 days on the previous year.
- 33 Ballymoney Borough Council's three-year absenteeism rate has increased by 0.20 days from 15.17 days in 2003-06 to 15.37 days in 2006-09 and it is still higher than the Northern Ireland average for this latter three year period.

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

- 34 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 10550 tonnes and the volume of waste disposed of to landfill was 7172 tonnes.
- 35 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).
- 36 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***

- 37 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.
- 38 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***

- 39 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. Equality issues and impacts are taken into account at the policy development stage and screened before being adopted and implemented. Equality Impact Assessments have been undertaken in a number of policy areas in the past but none were undertaken in 2008-09.

## Other Audit Work

### Joint Committee

- 40 The Council is a member of the North West Regional Waste Management Group [NWRWMG] Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £3,577 towards funding the expenditure of the Joint Committee.
- 41 The Joint Committee is a partnership of seven 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.
- 42 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.
- 43 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)

- 44 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.

The 2008-09 DPP audit, comprising expenditure of £134k, was completed in June 2009.

## Grant Claims

- 45 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

- 46 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.
- 47 It was currently anticipated that a new council, incorporating the existing Ballymoney, Coleraine, Limavady, and Moyle Councils would 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. However a recent announcement by the Minister has indicated that May 2011 will not apply and that new proposals in relation to local government will be put to the Executive at a later date.

## Conclusion

- 48 This Audit Letter has been discussed and agreed with the Chief Executive and Director of Central and Leisure Services.
- 49 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.

Stephen Knox

Local Government Auditor

18<sup>th</sup> June 2010

# Ballymoney 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

	Ballymoney	NI Councils	Variance	Variance %
Average total days lost per employee	14.44	12.43	2.01	16%

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

	Ballymoney	NI Councils	Variance	Variance %
Average total days lost per employee	15.37	13.31	2.06	15%

