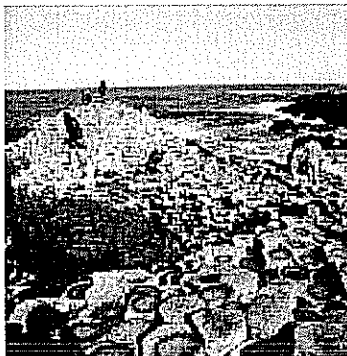
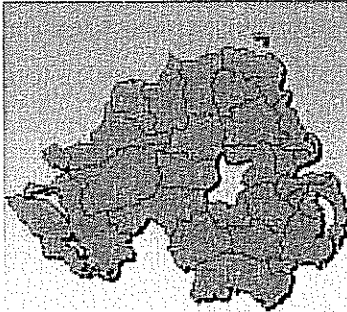




Northern Ireland Audit Office

# Annual Audit Letter

Issued by the Local Government Auditor  
9 November 2010



## Carrickfergus 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](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 7<sup>th</sup> October 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 28<sup>th</sup> June 2010 and members of Council approved the accounts on 28<sup>th</sup> June 2010 which was within the statutory guidelines which requires this to be completed by 30 June. Following minor adjustments to the accounts, the accounts were authorised for issue by the Chief Financial Officer on 7<sup>th</sup> October 2010.
- 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.

## ***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, reductions in general grant, and reduced rates income from that estimated by Land & Property Services at the start of the year.
- 7 The district fund balance at £931k represents 8.1% of the net operating expenditure after proper practices adjustments in relation to capital expenditure entries. As such the Council's financial standing would appear to be satisfactory. 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).
- 8 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***

- 9 The overall financial position remains stable. The Council decreased by £55k the District Fund in 2009-10, leaving the District Fund balance at £931k as at March 2010. The decrease was largely due to a combination of savings in loan charges and increased service net expenditure at the leisure centre.
- 10 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 2010-11 should include consideration of such topics as the outworking of single status, and revenue contributions to capital in relation to any unfinanced capital expenditure.
- 11 The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 13.

- 12 In addition, the Council has the following earmarked reserves :

<b>Funds</b>	<b>Balance at 31 March 2010</b>
Capital Fund	£ Nil
Renewal & Repairs Fund	£ 314k
Useable Cash Receipts Reserve	£ 216k

### ***Capital Programme***

- 13 The Council has Fixed Assets totalling £46.8m with loans outstanding of £21.5m. As at 31 March 2010 the Council has not yet secured funding for £684k of its Fixed Assets. The Council plans to fund this expenditure from loans to be drawn down along with a £200k contribution from the Legg Trust. Should other sources of funding not be available the shortfall would have to be made up from the surplus in the District Fund.
- 14 The Statement of Accounts reports a future capital programme totalling £3.82m. I understand that the Council plans to fund this programme via loans.

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

- 15 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.
- 16 The Annual Governance Statement was approved by the Mayor on behalf of Council and by the Chief Executive in June 2010. 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 paras 24 and 25 of this Audit Letter includes matters I considered.

## ***Internal Audit***

- 17 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 its own in-house internal audit function. The council employed KPMG to review the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee in August 2010. To date we have not had sight of the KPMG report, but the matter will be followed up in our next audit.

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

- 18 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.
- 19 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.
- 20 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. DOE, under Circular LG 22/10 dated 28 October 2010, require re-stated accounts to be prepared by 17 December 2010 and we plan to undertake our audit reviews before the end of February 2011.

# Council Performance

## *Scope of my audit*

- 21 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.”*

- 22 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.
- 23 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. I used this information, together with information obtained during the course of the audit of the accounts, to examine the Governance Statement.
- 24 The Council noted the following in its Governance Statement as a significant governance issue –
- The Council's risk management register has been fully operational for the year under review. The number of red risks has remained at 5 for the duration of 2009-10. Four of these risks relate to the inherent exposure of staff with a regulatory role to abuse from members of the public as they discharge their duties and the remaining risk relates to a historic homestead with a thatched roof exposed to a higher than normal risk of fire. Red risks will continue to be accorded high priority on an on-going basis but the current level of 5 is deemed to be reasonable and manageable, demonstrating adequate control at an acceptable cost.
- 25 I noted the following additional issues from the corporate governance and VFM arrangements review:
- The Corporate Governance sub-committee reporting structure is to be reviewed before 31 March 2010.
  - The Corporate Governance sub-committee does not have any independent non-executive members.

- A review of the effectiveness of the Corporate Governance Sub-Committee has been recommended for external review by the end of 2009-10. This should be benchmarked against the CIPFA Self Assessment Checklist for Audit Committees (Appendix 2, CIPFA's Audit Committees – Practical Guidance for Local Authorities)
- There is no documented treasury management policy.
- An Information Technology strategy has been in draft form for a couple of years now. The IT officer has been asked to revisit the draft strategy and finalise it in consultation with the Director of Support Services.

## ***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 is due to be published before 31 December 2010. In this the Chief Local Government Auditor will analyse absenteeism for each council over the three year period (2007-08, 2008-09 and 2009-10) 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.
- 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 13.88 days. This represents an decrease of 3.92 days on the previous year.
- 30 Whilst Carrickfergus Borough Council's three-year absenteeism rate has decreased by 2.77 days from 19.67 days in 2004-07 to 16.9 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 21 days (the average for Northern Ireland councils was 30 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. During the financial year Council did not conduct any full impact assessments.

# Other Audit Work

## Joint Committee – Waste Management

- 37 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 £1.245m towards funding the expenditure of the Joint Committee.
- 38 The Joint Committee is a partnership of 11 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 £28.9m million. The Committee's Accounts state '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'.
- 39 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.

## 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:
- Carrick, Antrim & Newtownabbey Peace III (CAN - with Antrim Borough Council and Newtownabbey Borough Council)
  - Generating Rural Opportunities within South Antrim (GROW - with Antrim Borough Council and Newtownabbey Borough Council)

A statement of accounts for the Joint Committees has been prepared for 2009/10.

- 41 Separate accounts have been prepared by the Joint Committee and audited by a Local Government Auditor. 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 gross expenditure of £119k, 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 Director of Support 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.



John Buchanan

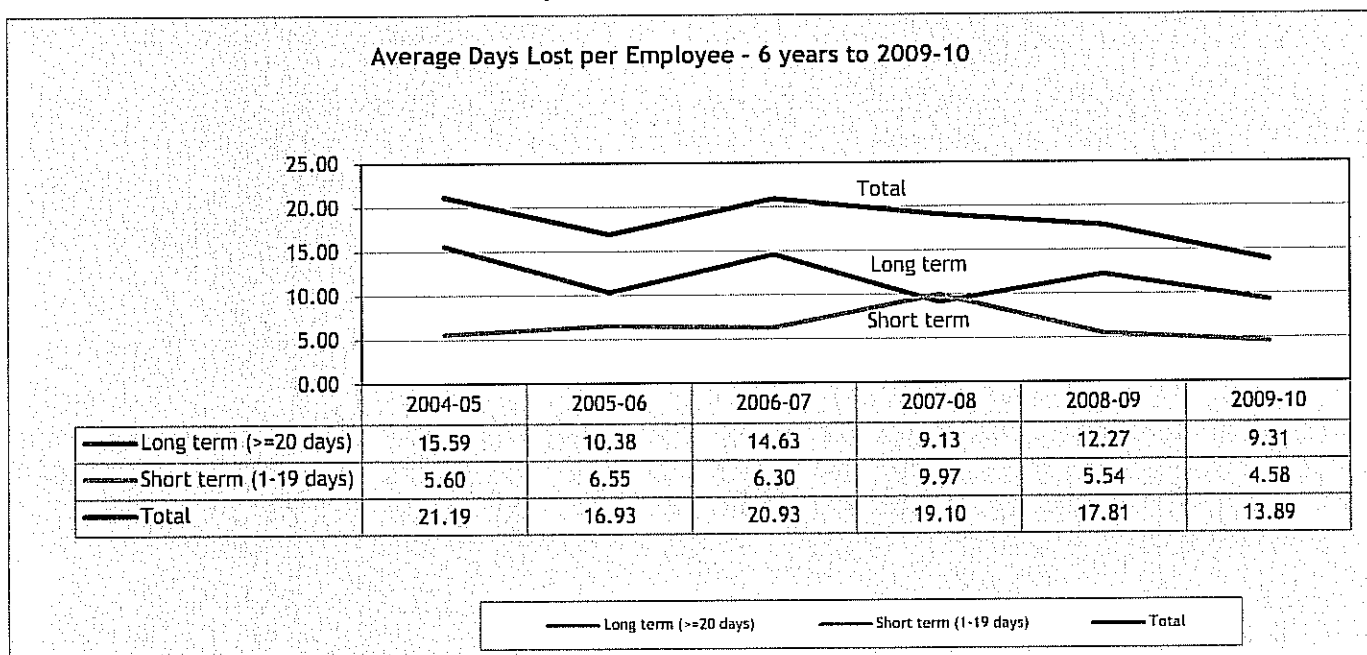
Local Government Auditor

9 November 2010

## Carrickfergus 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\*

	Carrickfergus	NI Councils	Variance	Variance %
Average total days lost per employee	13.89	12.39	1.50	12%

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

	Carrickfergus	NI Councils	Variance	Variance %
Average total days lost per employee	16.90	12.83	4.07	32%

\* 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.