

Issued by the Local Government Auditor  
2<sup>nd</sup> December 2010



## Strabane District 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 21st 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 the Audit Committee 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 amendments the accounts were authorised for issue by the Chief Financial Officer on 19<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. I would draw the following point from the Management Letter:
  - **EU Grants (Heart Project – Joint project with Donegal County Council)**

This project was jointly funded by DARD, the IFI and the Councils. DARD fully funded the administration costs of this project which amounted to €315,000. However, as IFI also provided grant aid of 12.8% on this spend, then we are concerned that Council has received duplicate funding for these costs, and as such may be in breach of EU regulations and guidance.

In addition to the above we noted that under this scheme in 2007-08, Strabane District Council had claimed £45,000 from DARD for a lighting scheme on Castleberg Bridge. This money was transferred to DRD who were tasked with carrying out the works. The works were not carried out at the time due to planning restrictions on the Bridge. DRD repaid these monies to Strabane District Council on 26/04/10. We have been assured by management that a revised plan which was submitted for this scheme has been approved by all Government Bodies concerned and the works will be carried out by DRD during the 2010-11 financial year. We are concerned that Council claimed for expenditure which had not been incurred in the original claim in 2007-08 and was therefore in breach of EU regulations and guidance which could ultimately result in penalties being applied.

### **Management Response**

The Economic Development Manager will clarify the issue of potential duplicate funding with both DARD and IFI. A full report will be submitted to the Chief Executive and forwarded to the Local Government Auditor. The Castleberg Bridge Report will be complete by February 2011 and all monies will be drawn down by Roads Service.

## ***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 £1,432,442 represents 17.6% 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). 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). I would encourage the Council to keep under review its balance in light of this guidance.
- 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 Council increased by £511,352 the District Fund in 2009-10, leaving the District Fund balance at £1,432,442 as at March 2010. The increase was largely due to rates finalisation of £330,000 for 2009/10 and £127,503 received from HRMC for Vat refunds arising from the Fleming judgement.
- 10 It is important that in preparing accounts the Council include 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 Council plans to use part of the District Fund to finance future capital programmes as noted at paragraph 15.

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

<b>Funds</b>	<b>Balance at 31 March 2010</b>
Capital Fund	£1,259,545
Renewal & Repairs Fund	£183,242
Useable Capital Receipts Reserve	£354,300

13 The Capital Fund account is mainly used to meet the expected future costs of building a new Depot.

### ***Capital Programme***

14 The Council has Fixed Assets totalling £17,989,183 with loans outstanding of £2,408,505. As at 31 March 2010 the Council had fully financed its Fixed Assets. Comparative figures were restated to take account of changes arising from the revaluation of Council properties at 1 April 2008 which were not reflected in the accounts for the year ended 31 March 2009.

15 The Statement of Accounts reports a future capital programme totalling £641,000. I understand that the Council plans to fund this programme via revenue contributions of £537,000 and capital grants of £104,000.

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

16 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.

- 17 The Annual Governance Statement was approved by the Chairman on behalf of the Council and the Chief Executive on 28<sup>th</sup> 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 to 26 of this Audit Letter includes matters I considered.

### ***Internal Audit***

- 18 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 28<sup>th</sup> June 2010.

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

- 19 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.
- 20 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.
- 21 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*

- 22 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.”*

- 23 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.
- 24 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.
- 25 The Council noted the following in its Governance Statement as a significant governance issue:
- The decision by Council to lease land to a club and the subsequent complaint issued under Schedule 9 Paragraph 10 of the Northern Ireland Act 1998.
- I will keep this matter under review including whether any further Audit action is required.
- 26 I noted the following additional issues from the corporate governance and VFM arrangements review:
- There is no policy in place to address the receipt of gifts by members, and management indicated that the Council does not intend to develop such a policy;

- Council does not carry out an annual exercise seeking declarations of interest; and
- The Council should test its draft disaster recovery plan across the council, in areas other than Finance.

## **Absenteeism**

- 27 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.
- 28 A 2009-10 absenteeism study is due to be published in November/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.
- 29 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.
- 30 The 2009-10 absenteeism figure for the Council is 11.23 days. This represents a decrease of 0.07 days on the previous year.
- 31 Strabane District Council's three-year absenteeism rate has decreased by 0.41 days from 11.83 days in 2004-07 to 11.42 days in 2007-10 and it is still lower than the Northern Ireland average for this latter three year period.

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

- 32 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.
- 33 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).
- 34 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***

- 35 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.
- 36 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 24 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***

- 37 The Council has an established Equality Scheme and Policy and has developed a process for undertaking equality screening and undertaking equality impact assessments of its policies where there is an identified negative differential impact on any of the S75 groups. During the financial year Strabane District Council carried out equality screening of policies on 21/10/2009 and 10/11/2009. The project group concluded that none of the policies screened had an adverse equality impact and therefore did not require an EQIA. This outcome was duly consulted on. Council also has provided a report on compliance of its duties to the Equality Commission in the 2009/10 financial year.

## Other Audit Work

### Joint Committee – Waste Management

- 38 The Council is a member of the North West Regional Waste Management Group Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £11,333 towards funding the expenditure of the Joint Committee.
- 39 A 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.
- 40 For 2009-10 the funding of the North West Regional Waste Management Group is included in the statement of accounts of Derry City Council but it is anticipated that separate accounts will be prepared for 2010-11.

### Joint Committee – Rural Development / Peace III

- 41 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 West Peace III Partnership (with Derry City Council and Omagh District Council)
  - Assisting Rural Communities Northwest (with Derry City Council, Limavady Borough Council and Omagh District Council).
45. 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)

- 46 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.
- 47 The 2009-10 DPP audit, comprising expenditure of £130,756, was completed in May 2010.

## Grant Claims

- 48 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

- 49 This Audit Letter has been discussed and agreed with the Chief Executive and Head of Finance.
- 50 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.

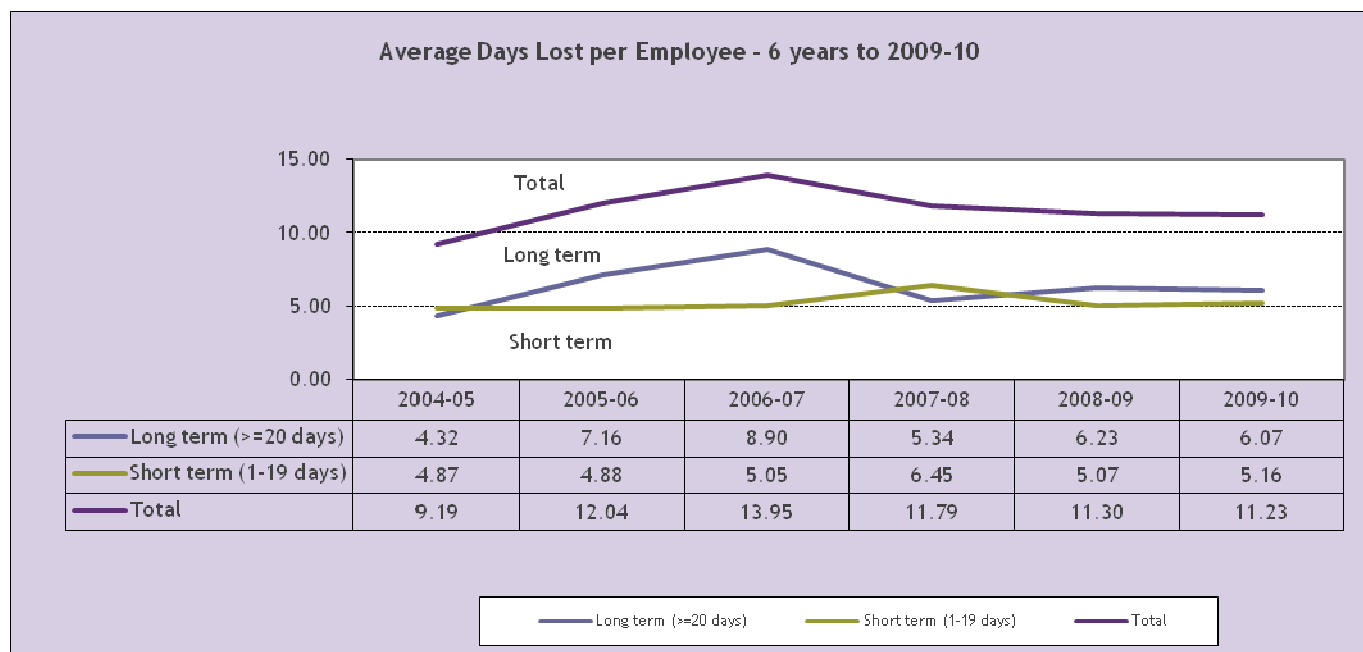
John Buchanan

Local Government Auditor

## Strabane District 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\*

	Strabane	NI Councils	Variance	Variance %
Average total days lost per employee	11.23	12.39	-1.16	-9%

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

	Strabane	NI Councils	Variance	Variance %
Average total days lost per employee	11.42	12.83	-1.41	-11%

\* The Northern Ireland Council position is derived from figures as at 14 October 2010. Final Figures are included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2009-10.