



Annual Audit Letter

Issued by the Local Government Auditor
December 2011



Strabane District Council

Year to 31 March 2011

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 2011, 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 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.

Contents

- Audit of Accounts
- Council Performance
- Other Audit Work
- Looking Ahead
- Conclusion
- Annex A

Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 31st October 2011. 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 herself 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 24th June 2011 and members of the Audit Committee approved the accounts on 24th June 2011 which was within the statutory guidelines which requires this to be completed by 30 June. Following a material adjustment the accounts were authorised for issue by the Interim Chief Financial Officer on 27th October 2011.
- 4 The most significant adjustment to the accounts made as a result of our audit findings was the reclassification of £968k from the capital adjustment account to the revaluation reserve. This adjustment did not affect the result for the year.
- 5 At the conclusion of our audit we issue a Report to Those Charged with Governance on the audit results to management noting the most significant audit issues making recommendations and seeking comments.

Financial standing

- 6 The Council continues to have adequate financial management arrangements overall.
- 7 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.
- 8 The District Fund balance at £1,537k represents 18.98% 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 2011 is 12.71%, based on the accounts audited.

District fund spending and balances

- 9 The overall financial position remains stable. The Council increased by £104k the District Fund in 2010-11, leaving the District Fund balance at £1,537k as at March 2011. The increase was largely due to the year-end finalisation payment of district rates.
- 10 The District Fund surplus should be viewed in the context of unfunded capital expenditure noted at paragraph 13 and the Local Government Finance Act (Northern Ireland) 2011, which will be in effect for the 2012-13 accounts.
- 11 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2011
Capital Fund	£1,445,105
Renewal & Repairs Fund	£368,700
Capital Receipts Reserve	£382,050

- 12 Part of the Capital Fund account is earmarked to meet some of the expected future costs of building a new Depot.

Capital Programme

- 13 The Council has Fixed Assets totalling £15.6m with loans outstanding of £2.3m. As at 31 March 2011 the Council's Fixed Assets are fully funded.
- 14 The Statement of Accounts reports a future capital programme totalling £0.6m. I understand that the Council plans to fund this programme via revenue contributions and capital grants.

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 Chairman on behalf of the Council on 24th June 2011 and the Chief Executive on 24th June 2011. 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 paragraph 23 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 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 24th June 2011.

Transition to International Financial Reporting Standards (IFRS)

- 18 The IFRS - based Code of Practice on Local Authority Accounting applied to 2010-11 Local Authority accounts from 1 April 2010. As was the case in Central Government, Councils were required to re-state their final UK Financial Reporting Standard based accounts (i.e. 2009-10) on an IFRS basis and have this subject to audit review. DOE required re-stated accounts to be prepared by 7 January 2011 and we undertook our audit review in January / February. The accounts for year ended 31 March 2011 were prepared on the basis of International Financial Reporting Standards.

Council Performance

Scope of my audit

- 19 My audit is conducted in accordance with a Code of Audit Practice (the Code). 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.”

- 20 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.
- 21 A review of the Council’s corporate governance statement for 2010-11 was carried out as a separate exercise this year. This was principally on an exception basis using issues highlighted in the 2009-10 Audit letter and on matters arising from the review. The Statement was also reviewed against the pro-forma LG 04/08.
- 22 The Local Government Auditor’s Corporate Performance and Financial Management Arrangements Questionnaire 2010-11 was issued to councils in November 2010. As finance teams were engaged in preparing IFRS 2009-10 accounts, Councils were not asked to return the questionnaire but it could be completed for internal purposes.

- 23 The Council noted the following in its Governance Statement as significant governance issues:
- 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 and involvement from the Equality Commission for Northern Ireland.
 - An issue has arisen post year-end which Council is currently investigating.
- 24 I noted no significant issues from the corporate governance arrangements review.

Absenteeism

- 25 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 2009-10 and published in December 2010. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2009-10 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.
- 26 In the past the Chief Local Government Auditor had requested each council to submit an absenteeism data collection questionnaire, usually by the end of June, as a basis for a stand-alone report. We did not require that information to be submitted for 2010-11. However we still expect councils to collate the data to the same standard and timeframe as part of their own important monitoring and management procedures. In turn, we will examine the data during our audit fieldwork. We still consider absenteeism and productivity gains to be a critically important matter, especially in the current economic environment. Therefore we may in the future undertake further detailed studies of the topic and would consult with you in line with legislative requirements.
- 27 The 2010-11 absenteeism figure for the Council is 11.16 days. This represents a decrease of 0.07 days on the previous year. The trend over the years 2005-06 to 2010-11 is shown in Annex A.

Waste Minimisation and Recycling

- 28 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.

- 29 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).
- 30 The Council needs to continue to give careful consideration to the risk of incurring penalties under the scheme.

Payment of invoices

- 31 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.
- 32 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 19 days (the average for Northern Ireland councils was 28 days).

Other Audit Work

Joint Committee – Waste Management

- 33 The Council is a member of the NWRWVG Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £11,583 towards funding the expenditure of the Joint Committee.
- 34 The Joint Committee is a partnership of 7 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 £828k and the Committee's Accounts state that they have no ongoing programme of capital works.
- 35 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

- 36 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 and INTERREG IVA (with Derry City Council and Omagh District Council)
 - ARC North West Rural Development (with Derry City Council, Limavady Borough Council and Omagh District Council).
- 37 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)

- 38 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.
- 39 The 2010-11 DPP audit, comprising expenditure of £130,455, was completed in May 2011.

Grant Claims

- 40 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

Prudential Code

- 41 A major development in the financial powers available to Councils is the introduction of the Local Government Finance Act (Northern Ireland) 2011, which will be in effect for the 2012-13 accounts. This modernises the legislative framework for local government finance, with a focus on greater freedom for councils. The Act covers budgeting, reserves and funds, borrowing powers and capital receipts and expenditure. The key change is that it gives councils more freedom to manage their finances without the need to obtain consent from the Department of the Environment. More emphasis will therefore be placed on the Chief Financial Officers' assessment of affordability by applying the principles and requirements of the Prudential Code.

Conclusion

- 42 The factual accuracy of this Audit Letter has been agreed with the Interim Chief Executive and Head of Finance.
- 43 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

Local Government Auditor

December 2011

Strabane District Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2010-11 for total days lost per employee.

