NIAO
Northern Ireland Audit Office

Annual Audit Letter

Issued by the Local Government Auditor
19th January 2009

Coleraine Borough Council

Year to 31 March 2008

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).

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 his 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 I reported my audit opinion on the Statement of Accounts on 30th October 2008. I gave an unqualified opinion on your accounts.

Matters arising from the final accounts audit

2 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 Acting Chief Financial Officer on 30th June 2008. Members of the Audit Committee approved the accounts on 30th June 2008 which was within statutory guidelines. Following minor adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 24th October 2008.

3 A number of minor narrative and financial adjustments were made as a result of our audit findings during our audit.

Financial standing

4 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 at the start of the year.

5 The district fund balance at £1.01m represents 6.4% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit). As such, while the balance is below average, the Council's financial standing would appear to be satisfactory. However in light of capital expenditure still to be financed and the net current liabilities shown in the Balance Sheet at £4.3m a review of the funding position will be considered as part of the next audit.

6 It should be noted that the Council's accounts do not reflect debtors of unpaid rates at 31 March 2008. 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.

7 The "penny product" finalisation additional funds adjustment for the year [£113k] was notified to the Council after the completion of the accounts but has not been adjusted for before certification as the amount is not considered material. 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

8 The overall financial position remains stable. In 2007-08, the District Fund decreased by £19k resulting in a District Fund balance of £1.01m at 31 March 2008.

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

Funds	**Balance at 31 March 2008**
Renewal & Repairs Fund	£965,196
Sinking Fund (in respect of future loan repayments)	£769,778

10 The Sinking Fund is gradually being built up to repay £7m of interest only maturity loans. The latest date for repayment of these loans is 2058. At 31 March 2011 the Council estimates that the sinking fund balance should be £1290k.

Capital Programme

11 The Council has Fixed Assets totalling £70.4m with loans outstanding of £27.8m. Furthermore the fixed asset funding note in the financial statements, highlights a current fixed asset funding deficit of over £950k , which we are advised will be funded through additional borrowings.

12 The Statement of Accounts reports a future capital programme totalling £1.25m in the course of or planned for delivery. I understand that the Council plans to fund this programme via loans, capital grants, and revenue funding.

Annual Governance Statement

13 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.

14 The Annual Governance Statement was approved on 30 June 2008 both by the Chairman of the Audit Committee and the then Acting Chief Executive. My opinion on the accounts includes reference to 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 21 to 23 of this Audit Letter includes matters I considered.

Internal Audit

15 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 and reviewed the effectiveness of its system of internal audit with the findings of the review being considered by the Audit Committee on 30 June 2008.

Revaluation of Land and Buildings – 2008/2009 Accounts

16 The Council has instructed Land and Property Services to revalue the Council's land and buildings at 1 April 2008 for the 2008/2009 accounts. The accounting for these revaluations will be examined as part of next year's audit.

Transition to International Financial Reporting Standards (IFRS)

17 In central government, International Financial Reporting Standards (IFRS) applies to 2009/10 accounts. The Central Government 2008/2009 accounts will be prepared on a normal Financial Reporting Standard basis in June 2009 then again on a shadow IFRS basis in September 2009 which audit will check before the end of December 2009.

For Local Government, the Chartered Institute of Public Finance Accountancy (CIPFA) website outlines the latest position regarding the development of the 'IFRS - based Code of Practice on Local Authority Accounting' which will apply to local authority accounts from 1 April 2010. Councils will need to start considering the implications of the transition to IFRSs.

Council Performance

Scope of my audit

18 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."*

19 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 a Council 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.

20 A review of the council's corporate governance and VFM arrangements for 2007-08 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.

21 The Council noted the following in its Governance Statement as significant governance issues

- Operation of controls in relation to debtors and creditors systems
- Absence of requirement for Members and Officers to declare interests.
- Completion of a draft Internal Audit Manual.

22 The Council plans to address the above issues during 2008-09.

23 I noted the following additional issues from the corporate performance and management arrangements review:

- The review of Standing Orders, planned for 2008, did not take place as a result of the on-going impasse over the appointment of a new Chief Executive.
- The Corporate Plan covers the period 2005-2008. To date, no firm steps have been taken to update the plan in light of the delays in the appointment of a new Chief Executive.
- The Council should consider adopting best practice with regard to the operation of an Audit Committee by appointing one or more independent non-executive members.

  (note: since our review was prepared a new Chief Executive has been appointed).

Absenteeism

24 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 2006-07. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2006-07 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.

25 In his 2007-08 report, due to be published in January 2009, the Chief Local Government Auditor will analyse absenteeism for each council over the three year period to March 2008 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.

26 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.

27 The 2007-08 absenteeism figure for the Council is 14.46 days. This represents a decrease of 1.29 days on the previous year.

28 Coleraine Borough Council's absenteeism rate has increased by 2.48 days to 14.89 days from 2002-05 to 2005-08 and is currently 8% higher than the Northern Ireland average for this latter three year period.

Other Audit Work

Joint Committee

29 Coleraine Borough Council is a member of the North West Regional Waste Management Group (NWRWMG) which was established for strategic waste management purposes.

30 The NWRWMG 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. The NWRWMG was set up as a joint committee from May 2008 for the purpose of procuring waste infrastructure for the treatment of residual waste.

31 The Council has agreed to participate in a Joint Committee for the purpose of delivering certain programmes funded by the European Union. Peace III funding available from the Special EU Programmes Body and Rural Development funding available from the Department of Agriculture and Rural Development will be delivered through the Joint Committee structure through to 2013.

District Policing Partnership (DPPs)

32 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.

33 The 2007-08 DPP audit, comprising expenditure of £132,539, was completed in June 2008. The net cost of this service to the council was £33,135.

Grant Claims

34 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

35 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.

36 This will present many challenges to the Council not only in managing the transition process but also in maintaining effective delivery of services in the interim.

Conclusion

37 This Audit Letter has been discussed and agreed with the Chief Executive and Director of Corporate Services.

38 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

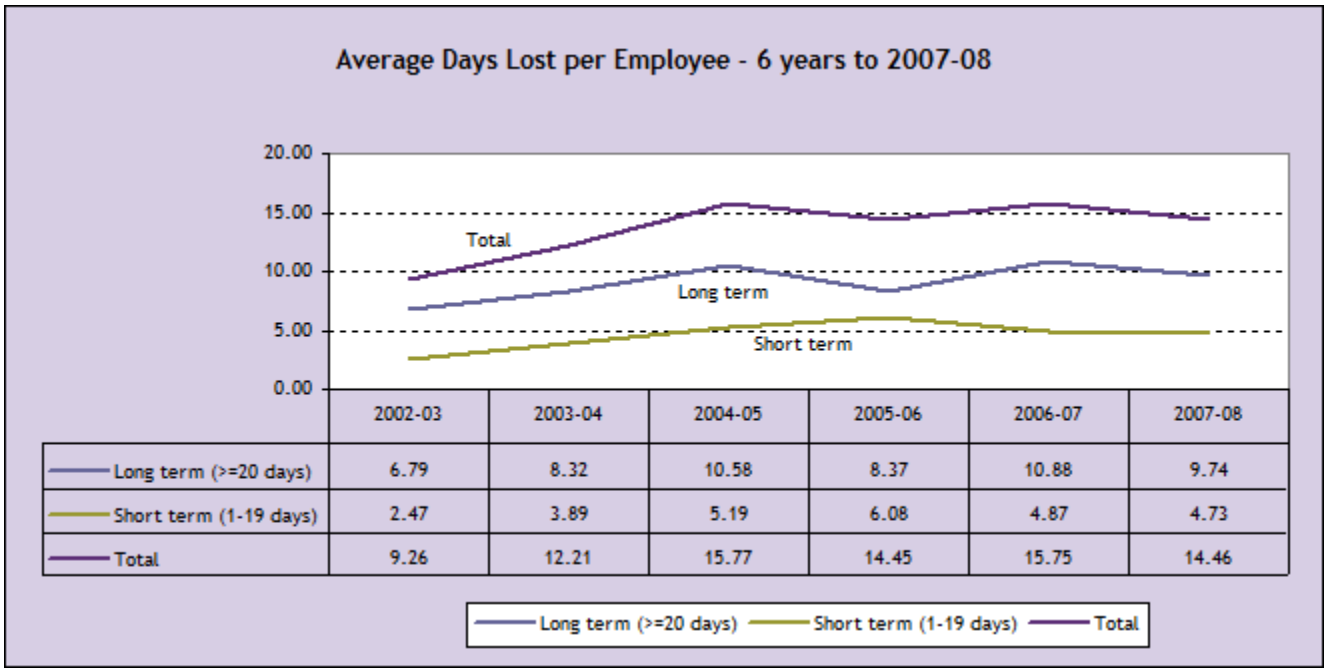
19th January 2009

ANNEX A

Coleraine Borough Council Absenteeism

Annual Absenteeism

The chart below tracks absenteeism for the 6 years to 2007-08 for total days lost per employee.



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Long term (>=20 days)	6.79	8.32	10.58	8.37	10.88	9.74
Short term (1-19 days)	2.47	3.89	5.19	6.08	4.87	4.73
Total	9.26	12.21	15.77	14.45	15.75	14.46

2007-08 absenteeism compared to Northern Ireland councils as a whole*

	Coleraine	NI Councils	Variance	Variance %
Average total days lost per employee	14.46	13.70	0.76	6%

3-year absenteeism (2005-08) compared to Northern Ireland councils as a whole*

	Coleraine	NI Councils	Variance	Variance %
Average total days lost per employee	14.89	13.75	1.14	8%

* The Northern Ireland Council position is derived from figures as at 10th November 2008. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2007-08.