

Issued by the Local Government Auditor
5th February 2010



Dungannon and South Tyrone 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.

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 28th October 2009. 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 22nd June 2009 and the Chairman of the Corporate Services Committee approved the accounts on 24th June 2009 which was within the statutory guidelines which requires this to be completed by 30 June. Following minor adjustments arising from the audit, the accounts were authorised for issue by the Chief Financial Officer on 27th October 2009.

Financial standing

- 4 The Council continues to have adequate financial management arrangements overall.
- 5 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.

- 6 The district fund balance at £1,231k represents 10.1% of the net operating expenditure. As such the Council's financial standing would appear to be satisfactory. 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).
- 7 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.
- 8 The "final penny product" finalisation repayment adjustment for the year of £283898 was reflected in the year end accounts. 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

- 9 The overall financial position remains stable. The Council decreased by £173k the District Fund in 2008-09, leaving the District Fund balance at £1,231k as at March 2009. The decrease was largely due to a finalisation adjustment for district rates.
- 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 2010-11 estimates and the accounts for 2009-10 and 2010-11 should include consideration of such topics as the outworking of single status, revenue contributions to capital in relation to any unfinanced capital expenditure and the early departure of staff not transferring to the new Council. I would also consider that Councils take into account the need for the 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.
- 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 :

| Funds | Balance at 31 March 2009 |
|---|---------------------------------|
| Tullyvar Reserves and Loan Balance – re Tullyvar landfill site jointly owned by this Council and Omagh District Council | £ 3,539,615 |
| Renewal & Repairs Fund | £ 121,252 |

Capital Programme

- 13 The Council has Fixed Assets totalling £31.85m with loans outstanding of £4.16m. As at 31 March 2009 the Council still had to fund £10k of its Fixed Assets and it plans to do this via loans.
- 14 The Statement of Accounts reports a future capital programme, approved and contracted for, totalling £281k. I understand that the Council plans to fund this programme via loans and revenue contributions. As the Council moves towards RPA in May 2011 this leaves two financial years (2009-10 and 2010-11) in which to fully account for the financing of capital expenditure not met from grants or 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.

The Annual Governance Statement was approved by the Chairman on behalf of the Corporate Services Committee on 24 June 2009 and the Chief Executive on 22 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 23 to 25 of this Audit Letter includes matters I considered.

Internal Audit

- 16 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 in June 2009.

Revaluation of Land and Buildings – 2008-09 Accounts

- 17 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 were examined as part of the audit and no material issues were identified.

Transition to International Financial Reporting Standards (IFRS)

- 18 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.
- 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. 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 will be 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

- 20 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.”

- 21 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.
- 22 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.
- 23 The Council noted the following in its Governance Statement as significant governance issues
- Contract management – The Internal Auditors annual assurance statement issued a ‘limited assurance’ on this topic, stating significant control issues which are being addressed in 2009-10.
 - Requirement for review of Fraud and Whistleblowing policy
 - Need to provide update training / awareness on Fraud and Whistleblowing policy targeting key locations
 - Requirement for a treasury management policy
 - Need to expand business continuity to take account of pandemic flu given current alert status.
- 24 I will review progress on the above during my forthcoming audit.

- 25 I noted the following additional issues from the corporate governance and VFM arrangements review:
- a. The development of a formal Business Continuity Plan, which was due to take place during each of the last two years is in the process of being compiled.
 - b. Standing Orders were circulated to members during 2007-08 but not formally approved at that stage.
 - c. The Finance Manager is progressing the work to co-ordinate all financial procedures into one file. It is an on-going project.
 - d. There is no system of direct notification to members or officers of the Council's policy for hospitality and receipt of gifts.
 - e. Declarations of interests are currently provided by members on a voluntary basis. Annual declarations of interests should be obtained from all members and senior officers.
 - f. The attendance record of councillors is available in hard copy and it is planned to place this on the website during 2009/10.
 - g. The Audit Committee does not have any non executive members at present but a business case is being prepared on this issue.
 - h. The IT strategy is currently being reviewed taking account of Deloitte's RPA IT strategy.
 - i. The corporate risk register does not include an assessment of the risks relating to the reliability and accuracy of information produced.

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 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.
- 27 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 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 2009 which will be included in the Chief Local Government Auditor's 2008-09 report.
- 29 The 2008-09 absenteeism figure for the Council is 13.73 days. This represents an increase of 1.81 days on the previous year.
- 30 Dungannon and South Tyrone District Council's three-year absenteeism rate has increased by 1.33 days from 12.15 days in 2003-06 to 13.48 days in 2006-09 and is 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. The Council's allowance for the year was 18,066 tonnes and the volume of waste disposed of to landfill was 14,517 tonnes.
- 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 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

- 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 complete any full EQIAs but did do equality screening with consultation and amendments.

Other Audit Work

Joint Committee

- 37 The Council is a member of the SWaMP2008 Joint Committee which is established for the purposes of managing waste . During the year the Council advanced £18,275 towards funding the expenditure of the Joint Committee.
- 38 The Joint Committee is a partnership of eight 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 £552k.
- 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.
- 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. It is anticipated that a statement of accounts for the Joint Committee will be prepared for 2009-10.
- 41 The Council also has a joint committee with Omagh District Council in respect of the Tullyvar Landfill Site. The Council's share of reserves stood at £3,540k at 31 March 2009.

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 2008-09 DPP audit, comprising gross expenditure of £143,284, was completed in June 2009.

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.

Looking Ahead

- 45 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.
- 46 It is currently anticipated that a new council, incorporating Magherafelt District Council and Cookstown District Council will 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.

Conclusion

- 47 This Audit Letter has been discussed and agreed with the Chief Executive and the Director of Finance.
- 48 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

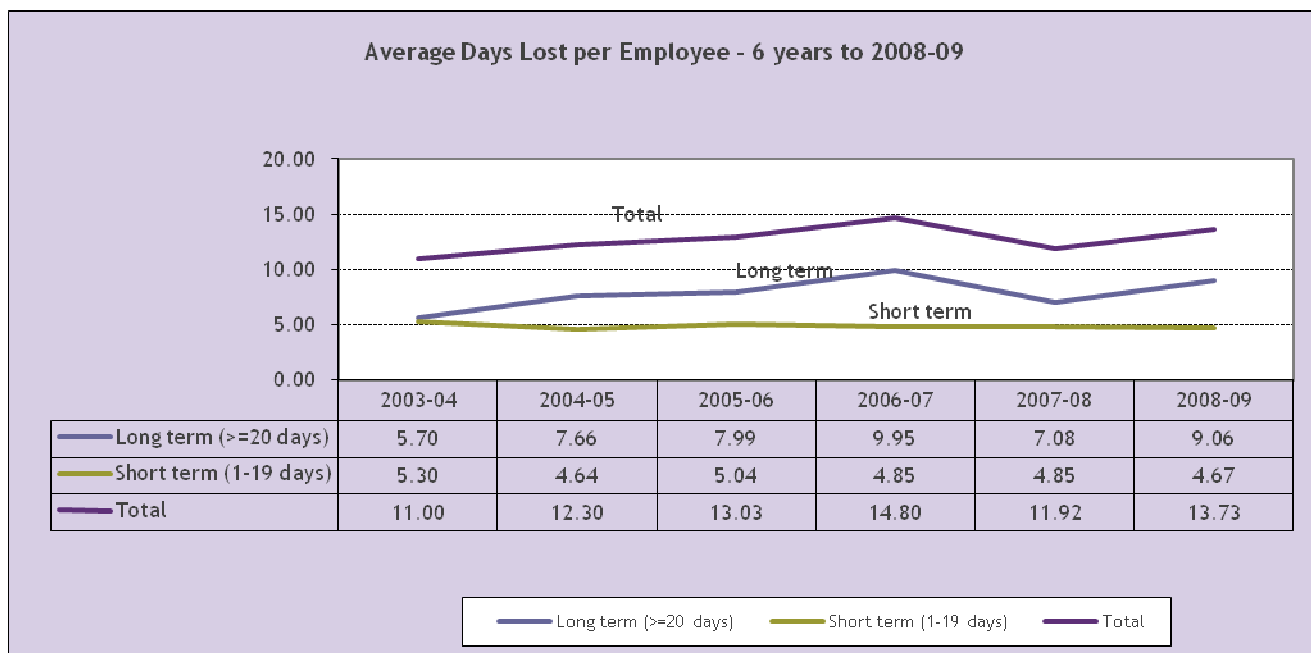
Local Government Auditor

5th February 2010

Dungannon & South Tyrone District 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*

| | Dungannon | NI Councils | Variance | Variance % |
|--------------------------------------|-----------|-------------|----------|------------|
| Average total days lost per employee | 13.73 | 12.43 | 1.30 | 10% |

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

| | Dungannon | NI Councils | Variance | Variance % |
|--------------------------------------|-----------|-------------|----------|------------|
| Average total days lost per employee | 13.48 | 13.31 | 0.17 | 1% |

* The Northern Ireland Council position is derived from figures as at 4th November 2009. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2008-09.

