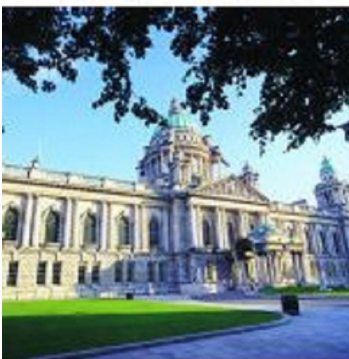


Issued by the Local Government Auditor
27 November 2008



Ballymena 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 19th June 2008. Members of the Finance, Estate and ICT Committee approved the accounts on 25th June 2008 which was within statutory guidelines. Following several adjustments from the audit the accounts were authorised for issue by the Acting Chief Financial Officer on 28th October 2008.
- 3 One material amendment (see paragraph 7) and a number of minor narrative and financial adjustments were made as a result of our audit findings.

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 £1,884k represents 11.6% of the net operating expenditure. The average for the 26 Councils is 12.9% (based on the accounts presented for audit). While the Council's financial standing would appear to be satisfactory, this District Fund position does not provide a full picture in that, as outlined in paragraph 9, currently some capital expenditure has been funded by short term overdraft monies instead of long term loans.
- 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 of additional funds for the year £394k was notified to the Council after the completion of the accounts and was adjusted for before audit certification as the amount was 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 increased by £1,280k resulting in a District Fund balance of £1,884k at 31 March 2008.
- 9 In addition, the Council has the following earmarked reserves :

Funds	Balance at 31 March 2008
Capital Fund	£500,000
Renewal & Repairs Fund	£1,759,683
Capital Receipts Reserve	£919,944
Short term loan repayment reserve	£1,646,167

At the year end the only reserve with matching monies was the Repairs and Renewals Fund. Had there been matching monies for all the reserves the bank overdraft would have been increased to £4109k. Clearly the Council has funded some of its capital expenditure as a temporary measure by bank overdraft instead of long term loans. In our view these reserves should be matched by deposits of same value.

- 10 The Capital Fund account exists to meet expected future costs.

Capital Programme

- 11 The Council has Fixed Assets totalling £76.5m with loans outstanding of £30.3m. The Statement of Accounts reports a future capital programme totalling £682k in the course of, or planned for, delivery. I understand that the Council plans to fund this programme via loans and capital grants.

Annual Governance Statement

- 12 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.

- 13 The Annual Governance Statement was approved by the Chairman of the Finance, Estate and ICT Committee, and by the 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 19 to 20 of this Audit Letter includes matters I considered.

Internal Audit

- 14 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 Sub-Committee.

Revaluation of Land and Buildings – 2008/2009 Accounts

- 15 The Council last instructed the District Valuer to revalue the council's land and buildings as at 1 April 2006. The next valuation is due on or before 1 April 2011.

Transition to International Financial Reporting Standards (IFRS)

- 16 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

17 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.”

18 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.

19 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.

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

- Prepare Corporate Strategy for 2008-2011.
- Present performance reports to Council in a standard format including agreed performance indicators.
- Update Financial Control Code and complete missing sections
- Update Terms of Reference of the Audit Sub-Committee
- Use an external provider to audit the risk management procedures and risk registers in existence.
- Extend the risk management procedures to operational level.
- Training of Directors and Members.
- Ensuring compliance of 3rd party organisations with governance standards.
- Follow-up Internal Audit reports with less than substantial assurance to ensure that recommendations have been implemented

- 21 I noted the following additional issues from the corporate governance and VFM arrangements review:
- The development of departmental risk management procedures, including the compilation of a departmental risk register, in a number of departments was not completed by the target date of December 2007
 - The Council does not have fully documented Business Continuity Plans in place.
 - There is currently no formal hospitality policy in place within the Council.
 - The council's policy on whistle blowing indicates that staff can raise their concerns with two of the council's senior officers. However, it does not inform staff that they have the option to contact external or internal audit, or the PSNI.
 - There has been no Corporate Plan in place for 2006-07 and 2007-08.
 - 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.
 - The Council's formal pricing policy is incomplete.

Absenteeism

- 22 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.
- 23 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.
- 24 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.
- 25 The 2007-08 absenteeism figure for the Council is 13.34 days. This represents an increase of 1.11 days on the previous year.
- 26 Whilst Ballymena Borough Council's absenteeism rate has increased by 4.36 days to 12.87 days from 2002-05 to 2005-08 it is still lower than the Northern Ireland average for this latter three year period.

Other Audit Work

Joint Committee

- 27 The Council is a member of the Arc21 Joint Committee which is established for the purposes of waste management. During the year the Council advanced £1,413,206 towards funding the expenditure of the Joint Committee (largely landfill costs).
- 28 The Arc21 Joint Committee is a partnership of eleven 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 £23.5 million and the Committee's Accounts identify longer term capital expenditure in the region of £300 million.
- 29 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.
- 30 The Council is in the process of setting up a Joint Committee for the purpose of participation in 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.

Group Committees

- 31 Ballymena Borough Council is the employer council both for the Northern Group Health Committee [NGHC] and North Eastern Group Building Control Committee [NEGBCC].

	Total Group Income	Total Group Expenditure	Council contribution
NGHC	2,213,723	2,308,941	96,375
NEGBCC	393,236	344,486	67,409

Additionally the Council provides a range of support services to the North East Partnership under a service level agreement.

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 £134,013, was completed in June 2008. The net cost of this service to the council was £36,177.

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 Acting Chief Executive and Acting Finance Director.
- 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

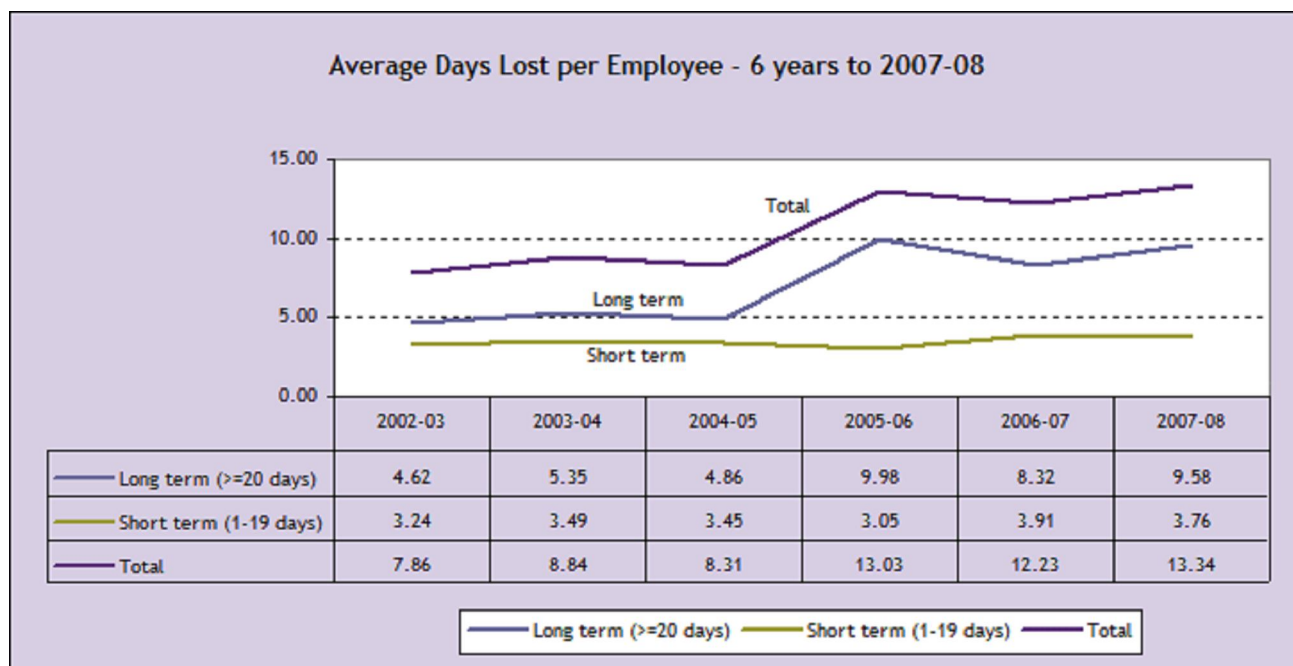
27th November 2008

ANNEX A

Ballymena Borough Council Absenteeism

Annual Absenteeism

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



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

	Ballymena	NI Councils	Variance	Variance %
Average total days lost per employee	13.34	13.70	-0.36	-3%

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

	Ballymena	NI Councils	Variance	Variance %
Average total days lost per employee	12.87	13.75	-0.88	-6%

* 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.