



Northern Ireland Audit Office

Annual Audit Letter

Lisburn and Castlereagh City Council 2017-18



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November 2018

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Key messages

Audit of Financial Statements

- As noted in my audit report, the 2017-18 financial statements were certified without qualification. Key statistics from the accounts are outlined in this letter.

Work on economy, efficiency and effectiveness

- The Council has in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

Governance

- The governance statement reflects compliance with relevant guidance standards.

Other areas of audit interest

- Absenteeism figures for the Council for 2017-18 were 16.7 days per employee.
- The latest National Fraud Initiative report, using 2016-17 data, was published in June 2018.
- The Local Government Auditor's Report for the year to 31 March 2018 was published on 4 September 2018.

Outlook

The Council should be preparing for:

- Brexit;
- Local Elections; and
- IFRS 16 (Leases) adoption.

Introduction

1. As Local Government Auditor, I have a statutory responsibility to provide an opinion on the Council's financial statements. The results of my audit of the 2017-18 Statement of Accounts and my work on proper arrangements for 2017-18 are summarised in this report.
2. The legislative role for the Local Government Auditor is contained in the Local Government (Northern Ireland) Order 2005 and the Local Government (Northern Ireland) Act 2014. In addition, the Code of Audit Practice, published in March 2016, prescribes the ways in which statutory audit functions are to be carried out. The Code of Audit Practice is supported further by a Statement of Responsibilities of Local Government Auditors and Local Government Bodies. Both of these documents are published on the NIAO website.
3. Management have specific responsibilities regarding the production of financial statements and are expected to have effective governance arrangements in place to deliver the Council's corporate objectives. The publication of the financial statements is an essential means to account for the stewardship and use of public money each year.
4. As external auditor, it is my responsibility to form an opinion on whether:
 - the financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year then ended;
 - the financial statements have been prepared in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other directions thereunder;
 - the parts of the remuneration report to be audited have been properly prepared in accordance with the Department for Communities' directions; and
 - the information given in the Narrative Report is consistent with the financial statements.
5. There is a range of various other matters which can be reported by exception and they are outlined in the Code of Audit Practice. One of these items relates to the information published with the audited financial statements, such as the governance statement. I report if the governance statement is not consistent with the information gathered during the audit including that gained from carrying out work on the Council's arrangements for securing economy, efficiency and effectiveness of resources, and our work on performance improvement.
6. This report is solely based upon those matters that have come to my attention as a result of normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or all improvements that could be made.

Audit of Financial Statements

Statement of Accounts

1. The accounts should be prepared in accordance with International Financial Accounting Standards as interpreted for Local Government in the, 'Code of Practice on Local Authority Accounting in the United Kingdom'.
2. The Statement of Accounts were signed by the Chief Financial Officer and submitted for audit on 29 June 2018 which was before the statutory deadline of 30 June 2018.
3. On conclusion of the audit, the Statement of Accounts were approved by the Council on 26 September 2018. The 2005 Order requires me to issue an audit certificate stating the audit is complete and to give an opinion on the statement of the accounts before the statutory deadline of 30 September 2018. The audit certificate and opinion was issued on 27 September 2018 which was before the statutory deadline. It is contained within the certified Statement of Accounts which have now been published on the Council's website.

Audit Certificate and Opinion

4. For the year ended 31 March 2018, I gave the following unqualified opinion on the financial statements.

In my opinion:

- the financial statements give a true and fair view, in accordance with relevant legal and statutory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, of the financial position of the Council as at 31 March 2018, and its income and expenditure for the year then ended; and
 - the financial statements have been properly prepared in accordance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and the Department for Communities' directions issued thereunder.
5. At the end of the audit I issue a Report to those charged with Governance, addressed to the Chief Executive of the Council, on the results of the audit, noting the most significant issues, making recommendations and seeking comments. That report was presented to the Governance & Audit Committee on 26 September 2018.

Audit of Financial Statements

Telling the Story

6. The 2017-18 Statement of Accounts complied with the new, "Telling the Story" format. This involved re-analysing the 2016-17 Comprehensive Income and Expenditure Statement presentation to match the new analysis of income and expenditure for each of the Council's statutory committees. The change in presentation is aimed at assisting the users' understanding of the accounts and to potentially facilitate better decision making. A key aspect of the format is to record income and expenditure in line with the management accounts classifications.

Key Statistics

	2017-18 £	2016-17 £	Variance
Population (figures used by DfC for rates purposes)	140,205	138,627	↑ 1,578

Income/Expenditure /assets/liabilities	2017-18 £	2016-17 £	Variance £	Per Person 2017-18 £	Per person 2016-17 £
Total Income	63,800,701	59,020,765	↓ 4,779,936	455	426
Total Costs	-66,819,104	-61,427,892	↑ 5,391,212	-477	-443
Net surplus (deficit) on provision of services	-3,018,403	-2,407,127	↑ 611,276	-22	-17
Adjustments/transfers for accounting entries	5,585,754	3,920,228	↑ 1,665,526	40	28
Increase/(decrease) in General Fund Reserve	2,567,351	1,513,101	↑ 1,054,250	18	11

Capital Expenditure in year	-3,769,858	-2,993,197	↑ 776,661	-27	-22
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Capital/Reserves/Staff Costs	2017-18	2016-17	Variance
Useable Reserves	26,822,482	23,956,924	↑ 2,865,558
Long Term Assets	142,630,480	137,736,803	↑ 4,893,677
Loans Outstanding	28,595,463	30,363,651	↓ 1,768,188

Staff	2017-18	2016-17	Variance
Staff numbers	812	793	↑ 19

Staff Costs	-25,432,199	-25,310,989	↑ 121,210
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Staff Absence Total	16.7 days	15 days	↑ 1.7 days
– short term	2.5 days	2.15 days	↑ 0.35 days
– long term	14.2 days	12.85 days	↑ 1.35 days

Work on economy, efficiency and effectiveness

Proper Arrangements

1. The Local Government (Northern Ireland) Order 2005 requires me to be satisfied that the Council has in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources.
2. Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives, while safeguarding and securing value for money from the public funds and other resources at their disposal.
3. My review of the Council's arrangements for securing value for money covered a wide range of areas including:
 - Strategic priorities, financial strategies and policies;
 - Financial reporting systems and sound financial internal controls;
 - Procurement strategies and policies to deliver sustainable outcomes and value for money;
 - Promoting a good governance environment including managing risks and systems of internal control;
 - Asset management strategies and policies to safeguard assets, deliver objectives and generate value for money; and
 - A framework to manage the workforce to effectively support the achievement of strategic priorities.
4. On the basis of my review this year, I am satisfied the Council has in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

Governance

Key Principles

1. The "Delivering Good Governance in Local Government: Framework," issued by CIPFA includes seven key principles, as follows:
 - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
 - Ensuring openness and comprehensive stakeholder engagement;
 - Defining outcomes in terms of sustainable economic, social and environmental benefits;
 - Determining the interventions necessary to optimise the achievement of the intended outcomes;
 - Developing the entity's capacity, including the capacity of its leadership and the individuals within it;
 - Managing risks and performance through robust internal control and strong public financial management; and
 - Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Annual Governance Statement

2. The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requires the Council 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 to then approve an Annual Governance Statement.
3. I am required to report if the Annual Governance Statement:
 - does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18;
 - does not comply with proper practices specified by the Department for Communities'; or
 - is misleading or inconsistent with other information I am aware of from my audit.
4. My review did not highlight any inconsistencies.

Internal Audit

5. The 2015 Regulations also require councils to undertake an adequate and effective internal audit of its accounting records and of its systems of risk management, internal controls and governance processes using current internal auditing standards. The Council has an in-house Internal Audit function that conducted a review on the effectiveness of the systems of internal controls in place during 2017-18. The findings of this work fed into the Accounting Officer's Governance Statement and was considered by me as part of the audit process

Governance and Audit Committee

6. It is essential that Members exercise effective scrutiny of the internal controls processes and procedures in place within the Council. One way that Members carry out this function is through the Governance and Audit Committee.
7. The Governance and Audit Committee is also invited to review my audit reports and my staff attend meetings to present audit findings.

Other areas of audit interest

Absenteeism

1. For the twelve months to the end of March 2018, the average number of day's sick absence in the Council was 16.7 days per full time employee as compared to 15 days in 2016-17. The Council has told me that the increase of 1.7 days per person was mainly due to long term absences.
2. The Council continues to take a number of measures to address this matter and in addition to those already in place, a number of new approaches have recently been undertaken in this regard. Some of the more significant of these include:
 - A Council working group has been established which comprises of representatives from various units in the Council and in particular areas where there are high absence levels. The HR unit is also continuing to focus on the Directorates that have the highest absence levels in the Council. Meetings have been held to develop action plans to target these areas.
 - There is a dedicated HR representative in post to deal with long and short term sickness absence.
 - A HR/Trade Union Working group has been established.
 - The Council now leads a public sector subgroup for managing attendance which enables the Council to benchmark with external organisations. The Northern Ireland Fire and Rescue Service (NIFRS) and the Northern Ireland Housing Executive (NIHE) are represented on the group.
 - A new Occupational Health provider was appointed in January 2018.
 - Policy training for all new line managers and all employees is in progress.
 - Finally, Health Champions have been appointed to the Council.

Local Government Auditor's Report - 2018

3. The annual Local Government Auditor's Report was published on 4 September 2018 and is available on the NIAO website. The report summarises my perspective on financial audits for the year to 31 March 2017 and performance improvement work in the year to 31 March 2018.
4. The Report highlights areas of strength and areas for improvement within local councils. It also considers important issues that may affect council's in the medium term. The Council and its members should consider this report in the context of its own activities for any improvements that could be made.

Improvement audit and assessment

5. Under the Local Government (Northern Ireland) Act 2014 the Council has a statutory duty to make arrangements to secure continuous improvement in the exercise of its functions and to set improvement objectives for each financial year.
6. With the phased introduction of the performance improvement framework, 2017-18 was the first time the Council was required to publish a self-assessment of its prior year improvement performance. The improvement audit and assessment work included a review of 2017-18 Annual Improvement Plan and self-assessment report for 2016-17. The Local Government Auditor issued the Audit and Assessment Report resulting from this work on 30 November 2017. A summary of this work was published in the Council's Annual Improvement Report in March 2018, and is available on the NIAO website. The Local Government Auditor did not undertake any special inspections or recommend any formal intervention by the Department.
7. My Annual Improvement Report summarising the review of the 2018-19 Annual Improvement Plan and self-assessment report for 2017-18 will be published in early 2019.

WGA

8. Whole of Government Accounts (WGA) are consolidated financial statements for the whole of the UK public sector. The National Audit Office audits these accounts and sets the overall audit approach. As such the Council is within the band of organisations in 2017-18 where additional audit procedures were not required.
9. The Whole of Government Accounts annual return has been submitted for HM Treasury's consolidation process.

NFI

10. The Council participates in the National Fraud Initiative, a UK wide data matching exercise undertaken every two years that is designed to highlight savings for the public sector as a whole.
11. The report on the results of NFI data matches for 2016-17 was published in June 2018. The amount of fraud and error detected in participating bodies, plus forward savings where appropriate, was almost £1.9m. The majority of cases related to fraud and error in rates, pensions, trade creditors and private supported care home residents.
12. The 2018-19 data matching exercise is currently under way and the results are due to be published in 2020.

Audit Fee

13. The estimated audit fee is disclosed in note 5 of the financial statements. The final audit cost is in line with the estimate.

Outlook

Brexit Preparations

1. Northern Ireland may be particularly impacted by the out-workings of Brexit. Issues may include funding of Council programmes, cross border trade, tourism, imports and exports, employment, local supplies and local business. Considerable uncertainty remains so it is important that the Council continues to prepare for possible impacts.

Local Elections

2. Local elections are due to be held in May 2019. The Council should consider implementing measures to support continuity in key committees, particularly those involved in finance, planning and governance and audit.

IFRS 16 Leases Adoption

3. In preparation for the implementation of IFRS 16 Council are advised to commence work on assessing the impact of this new standard on the financial statements. The new leasing standard removes the current distinction between operating and finance leases. IFRS 16 essentially requires leases with a term of over 12 months to be capitalised rather than expensed, unless the underlying asset is of low value. This means that lease costs will be funded from a capital budget and included in the Minimum Revenue Provision and Capital Financing Requirement calculations. Council should work closely with the Department to ensure a smooth transition towards the implementation of this new accounting standard.

City Deal

4. I note that the Council is part of a consortium (Belfast Region City Deal) which has applied for City Deal. City Deal is a co-investment from the UK government, local government, the universities and the private sector that is designed to deliver a step change in the region's economic fortunes, help achieve a 10 to 15 year programme of inclusive growth and create 20,000 new and better jobs, accessible to people from all communities.
5. The Belfast Region City Deal partners welcomed news of £350 million investment from Treasury announced by Chancellor Philip Hammond in the Autumn Budget, 29 October 2018. As part of the deal, the NI Executive is expected to add at least a further £350 million with Councils contributing over £100 million and the university sector £50 million.

And Finally.....

6. I would like to thank the Council for its continued co-operation during the audit. My staff and I look forward to working with Council during the year in preparation for next year's audit.