



Northern Ireland Audit Office

Annual Audit Letter

Lisburn and Castlereagh City Council 2018-19



Pamela McCreedy

Local Government Auditor
Northern Ireland Audit Office
December 2019

Contents

	Page
Key Messages	3
Introduction	4
Audit of Financial Statements	5
Work on economy, efficiency and effectiveness	7
Governance	8
Other areas of audit interest	10
Outlook	12

Key messages

Audit of Financial Statements

- The 2018-19 financial statements were certified without qualification as noted in my audit report. Key statistics from the accounts are outlined.

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 2018-19.
- The latest National Fraud Initiative.
- The Local Government Auditor's Report for the year to 31 March 2019 was published in June 2019.

Outlook

- Brexit considerations.
- IFRS 16 Leases.
- City Deals.

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 2018-19 Statement of Accounts and my work on proper arrangements for 2018-19 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 financial statements were signed by the Chief Financial Officer and submitted for audit before the statutory deadline of 30 June 2019. Following the audit, the Statement of Accounts were approved by the Council and certified by me within the statutory deadline of 30 September 2019. The Statement of Accounts are published on the Council's website.
3. On conclusion of the audit, the 2005 Order requires me to issue a certificate stating the audit is complete and to give an opinion on the statement of the accounts. The audit certificate and opinion are contained within the Statement of Accounts.

Audit Certificate and Opinion

4. For the year ended 31 March 2019, 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 2018-19, of the financial position of the Council as at 31 March 2019, 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 is presented separately to the Governance and Audit Committee.

Audit of Financial Statements

Key Statistics

	2018-19	2017-18	Variance
Population (figures used by DfC for rates purposes)	141,181	140,205	↑ 976

Income/Expenditure /assets/liabilities	2018-19 £	2017-18 £	Variance £	Per Person 2018-19 £	Per person 2017-18 £
Total Income	67,922,110	63,800,701	↑ 4,121,409	481	455
Costs for rates purposes (adjusted for accounting entries)	-76,451,335	-66,819,104	↑ 9,632,231	-542	-477

Capital Expenditure in year	-7,174,185	-3,769,858	↑ 3,404,327	51	27
Revenue expenditure funded from Capital under Statute	0	-116,711	↓ 116,711	0	1

Capital/Reserves/Staff Costs	2018-19	2017-18	Variance
Useable Reserves	26,793,985	26,822,482	↓ 28,497
Long Term Assets	148,648,007	142,630,480	↑ 6,017,527
Loans Outstanding	-27,032,294	-28,595,463	↓ 1,563,199

Staff	2018-19	2017-18	Variance
Staff numbers	802	812	↓ 10

Staff Costs	-26,310,910	-25,432,199	↑ 878,711
-------------	-------------	-------------	-----------

Staff Absence Total	13.3 days	16.7 days	↓ 3.4 days
– short term	2.1 days	2.5 days	↓ 0.4 days
– long term	11.2 days	14.2 days	↓ 3.0 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 2018-19;
 - 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 2018-19. The findings of this work feed into the Accounting Officer's Governance Statement and 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 2019, the average number of day's sick absence in the Council was 13.4 days per full time employee as compared to 16.7 days in 2017-18 a decrease of 3.4 days. The Council told me that due to increasing levels of absenteeism following RPA, there has been significant focus on this over a period of time including regular scrutiny by elected members through various committees. Lisburn & Castlereagh City Council maintains a strategic approach to absence management using proactive, preventative strategies and interventions.

Local Government Auditor's Report - 2019

2. The annual Local Government Auditor's Report was published in June 2019 and is available on the NIAO website. The report summarises my perspective on financial audits and performance improvement work in the financial year to 31 March 2019.
3. 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

4. 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.
5. 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 2018-19 Annual Improvement Plan and self-assessment report for 2017-18. The Local Government Auditor issued the Audit and Assessment Report resulting from this work on 30 November 2018. The Local Government Auditor did not undertake any special inspections or recommend any formal intervention by the Department.
6. My Annual Improvement Report summarising the review of the 2019-20 Annual Improvement Plan and self-assessment report for 2018-19 will be published in early 2020.

WGA

7. 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 2018-19 where additional audit procedures were not required.
8. The Whole of Government Accounts annual return has been submitted for HM Treasury's consolidation process.

NFI

9. 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.
10. The report on the results of NFI data matches for 2016-17 was published in June 2018. The amount of fraud and error detected, 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.
11. The 2018-19 data matching exercise is currently under way and the results are due to be published in June 2020.

Audit Fee

12. 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 considerations

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. As we approach the deadline for the UK leaving the EU, considerable uncertainty still remains. It is vital the Council continues to prepare for possible impacts as far as possible.

IFRS 16 Leases Adoption

2. In preparation for the implementation of IFRS 16, the 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. The Council should work closely with the Department to ensure a smooth transition towards the implementation of this new accounting standard.

City Deals

3. The Belfast Region City Deal is the first of its kind in Northern Ireland. 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 programme of inclusive growth, and create thousands of new and better jobs, accessible to people from all communities.
4. The outline business case for the Belfast Region City Deal was approved by the Secretary of State in March 2019. The participant councils (including Lisburn and Castlereagh City Council) are still refining the list of potential projects to form part of the City Deal submission.

And Finally.....

5. 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.