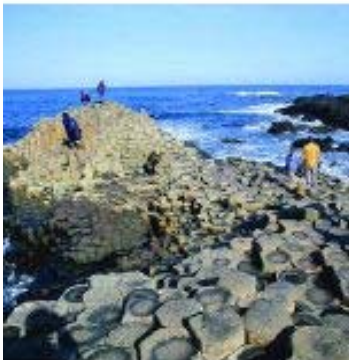


Issued by the Local Government Auditor



Down District Council 2014-15

To the Members of
Newry, Mourne and Down
District Council

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1. Introduction

I have been designated the Local Government Auditor for Down District Council by the Department of the Environment with the consent of the Comptroller and Auditor General for Northern Ireland.

As an auditor independent of the audited body, I seek to examine that the body has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for.

This report provides a summary of the findings from my 2014-15 audit. The audited body no longer exists due to the implementation of Local Government Reform from 1 April 2015 so the report is issued to the Members of Newry, Mourne and Down District Council which is the relevant successor council.

Local Government Reform

Under the Local Government Act (Northern Ireland) 2014 (The Act) the number of local councils in Northern Ireland reduced from twenty six to eleven on 1 April 2015. Down District Council was amalgamated together with Newry and Mourne District Council into Newry, Mourne and Down District Council.

The Act now forms the legislative framework for Northern Ireland's eleven councils. This includes how decisions are made, how positions of responsibility are shared across political parties, how improvements in the delivery of council functions can be achieved to reflect the needs of local communities, and how effectively and efficiently council services are delivered to people. It provides for statutory governance in councils and introduces a new ethical standards framework which includes a mandatory code of conduct for councillors.

Every aspect of the governance, management and provision of local government services has been impacted. The new councils have now taken the lead in community planning and are expected to deliver high quality services in an effective and efficient manner under a new performance improvement framework. Powers such as planning have transferred from central government to the new councils. The Act also sets out arrangements for the transfer of staff, assets and liabilities to the new councils.

The Local Government (Transitional, Supplementary, Incidental Provisions and Modifications) Regulations (Northern Ireland) 2014 made transitional provision with respect to local government reorganisation including positions of responsibility within the new council for the winding up and final accounts of existing councils.

Newry, Mourne and Down District Council struck the 2015-16 rates and approved business and financial plans in advance of 1 April 2015. As Newry, Mourne and Down District Council was operational to a limited extent during the 'shadow' period, I am required to audit the accounts of this body for the 2014-15 period. This is the subject of a separate letter to the Audit Committee.

As well as additional audit work required in relation to the new councils operating in shadow form and the audit of statutory transition committees in the transitional year of 2014-15, the Act provides that I will undertake improvement audits and assessments each year for each of the new councils. These will specifically entail:

- undertaking improvement audits, to review whether councils have discharged their duties for publishing improvement planning and performance information;
- carrying out improvement assessments, to determine whether councils are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
- reporting on improvement audit and assessment work.

In preparation for this extra work I have been engaging with relevant external stakeholders. I have established a team to manage and develop a best practice audit approach and methodology which will enable my staff to carry out their work with independence, integrity and objectivity, in accordance with the key principles set out in my 'Code of Audit Practice'.

2. Financial Statements

Summary of Audit Findings

Down District Council

The accounts of Down District Council must be prepared in accordance with International Financial Accounting Standards as interpreted for Local Government in the 'The Code of Practice on Local Authority Accounting in the United Kingdom'. This code sets out the accounting treatment and disclosures for all normal transactions of local authorities.

The financial statements were signed by the Chief Financial Officer of Newry, Mourne and Down District Council on 30 June 2015. This is within the statutory timeframe of 30th June. Following the audit, the accounts were revised and re-signed on 28 October 2015 and published on the website of Newry, Mourne and Down District Council on 30 October 2015 in accordance with the regulations.

For the year ended 31 March 2015 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 2014-15, of the financial position of Down District Council as at 31 March 2015 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) 2006 and the Department of the Environment directions issued thereunder.

At the end of the audit I issued a Report to those charged with Governance, addressed to the Chief Executive of Newry, Mourne and Down District Council, on the results of the audit, noting the most significant issues, making recommendations and seeking comments. This report is presented separately to your Audit Committee.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Down District Council shows that during the year ended 31 March 2015 the Council spent £28.3 million on the provision of services. It also received income of £5.7 million.

The major items of expenditure were

- Recreation and sport £8,415,589;
- Tourism £3,023,423;
- Waste collection £3,818,472; and
- Waste disposal £2,842,088.

The major areas of income were

- Recreation and sport £1,437,993;
- Tourism £709,282; and
- Waste collection £519,248.

At 31 March 2015 Down District Council had net non-current assets of £74 million. The majority of these non-current assets are in the land and buildings category. Total loans outstanding were £29.1 million.

At 31 March 2015 Down District Council had usable reserves of £4,621,390 as set out in the table below.

Usable Reserve	£
General Fund	3,366,277
Capital Fund	1,255,113
Total	4,621,390

Legislation¹ placed a duty on the Chief Financial Officer to make arrangements for the proper administration of Down District Council's financial affairs, including the submission to the Council of a report on the adequacy of any proposed financial reserves. The Chartered Institute of Public Finance and Accountancy (CIPFA) and its Local Authority Accounting Panel (LAAP), which includes representatives from UK local authorities and audit institutions, provide guidance on finance and accounting issues relevant to councils. Specific guidance on financing capital expenditure and the

¹ The Local Government Finance Act (Northern Ireland) 2011

establishment and maintenance of local authority reserves and balances is included in both the CIPFA Prudential Code² and a recent LAAP Bulletin³.

² The Prudential Code for Capital Finance in Local Authorities (2011 Edition)

³ LAAP Bulletin 99 *Local Authority Reserves and Balances*, July 2014

3. Governance

The Good Governance Standard for Public Services⁴ sets out the following key principles of good governance. Good governance means

- focusing on the organisation’s purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

Annual Governance Statement

Down District Council is required 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 Statement⁵.

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 2014-15;
- does not comply with proper practices specified by the Department of the Environment; or
- is misleading or inconsistent with other information I am aware of from my audit.

I have no inconsistencies to report as a result of my review.

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

- **Reform of Local Government** – From 1 April 2015, under the Reform of Local Government (RLG), the number of Councils in Northern Ireland reduced from the 26 to 11 new Councils, established under the Local Government Act (Northern Ireland) 1972 as amended by the Local Government (Boundaries) Act (Northern Ireland) 2008. From that date the Northern Ireland Executive agreed to transfer some functions currently carried out by NI Government Departments and gave some new responsibilities to the 11 new Councils. The aim was for the new councils to be stringer, more efficient and to deliver more effective services.

The new councils came into existence on 26 May 2014, operating in shadow form until they took over full responsibility for local government on 1 April 2015 when the 26 existing councils ceased to exist. The final accounts for Down District Council are therefore for the

⁴ The Good Governance Standard for Public Services, OPM and CIPFA, 2004

⁵ Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08

2014-15 financial year. The Local Government (Transitional, Supplementary, Incidental Provisions and Modifications) Regulations (Northern Ireland) 2014 made transitional provision with respect to local government reorganisation including positions of responsibility within the new council for the winding up and final accounts of the previous councils.

The Local Government Act (Northern Ireland) 2014 introduced the legislative framework for Northern Ireland's 11 new councils and made transitional provisions to provide for the transfer of staff, assets and liabilities from the current 26 councils to the 11 new councils, and from departments transferring functions to the new councils.

- **Financial Pressures** – As in previous years the Local Government sector will be subject to financial pressure over the coming year and on into the medium and longer term. In developing a financial plan out to 2020-21, the Council sought to ensure that it responded strategically to these pressures.
- **Treasury Management** – The Council continues to recognise that the impact of both Local Government Reform, an extensive capital programme and reduction in the near future of key funding streams will require significant further development of its Treasury Management System. The key risks being interest rate, liquidity and refinancing.
- **Capital Programme** – The Council's Capital Programme was updated in February 2014. This programme has now been consolidated into an overall capital programme for the new Council. A combined capital programme will be required to meet the full requirements of the Finance Act and the Prudential Code. There is a need to significantly improve a number of capital planning and delivery processes.
- **Single Status** – Substantial progress was made in the year towards the full completion of the Single Status Implementation Agreement. The Single Status Provision was reversed with a Single Status Reserve being created. The level of the Single Status Reserve was reviewed before December 2014.
- **Residual Waste** – One of the key risks facing the Council (and any future merged Council) is to ensure the selection of an affordable and VFM waste disposal solution. The new Council will have to recognise the importance of making an optimal decision with regard to its long term residual waste treatment needs in respect of the legacy Council of Down and the need to ensure a robust decision making process is put in place. This strategy will of course need to ensure that Drumnakelly Landfill site is satisfactorily filled, capped and maintained.
- **Governance Issues** – There is an issue that the Council may not receive the full grant income for the delivery of the Green Tourism Programme.

Internal Audit

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires 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. Down District Council had an in-house Head of Internal Audit and in addition, contracted out a number of internal audits to a private sector firm. A review of the effectiveness of the system of internal audit should be carried out every

five years and I note that the last review was carried out during 2012-13 by the Council and the findings of the review were considered by the Audit Committee.

Audit Committee

It is essential that Members exercise effective scrutiny of the internal control processes and procedures in place within the Council. One way that Members carry out this function is through the Audit Committee. This Committee, which included two independent members, met three times in the year and the agenda items included:

- Review of the corporate risk register;
- Consideration of reports from Council Officers;
- Consideration of the Internal Audit Plan and all Internal Audit reports and recommendations; and
- Consideration of the NIAO Audit Strategy and subsequent outputs from the audit including the Report to those charged with governance and Annual Audit Letter.

4. Proper arrangements

Legislation requires me to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources⁶.

My review of Down District Council's arrangements for securing value for money can cover the following ten areas which are referred to in my Code of Audit Practice.

- a) **Financial Planning.** Planning finances effectively to deliver strategic priorities and secure sound financial health.
- b) **Financial Performance.** Having a sound understanding of costs and performance and achieving efficiencies in activities.
- c) **Financial Reporting.** Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people.
- d) **Procurement.** Commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money.
- e) **Data to support decision making and manage performance.** Producing relevant and reliable data and information to support decision making and manage performance.
- f) **Good governance.** Promoting and demonstrating the principles and values of good governance.
- g) **Risk.** Managing risks and maintaining a sound system of internal control.
- h) **Natural Resources.** Making effective use of natural resources.
- i) **Asset Management.** Managing assets effectively to help deliver strategic priorities and service needs.
- j) **Workforce Management.** Planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

For 2014-15, I examined the areas of Financial Planning and procurement based on my risk assessment of the Council.

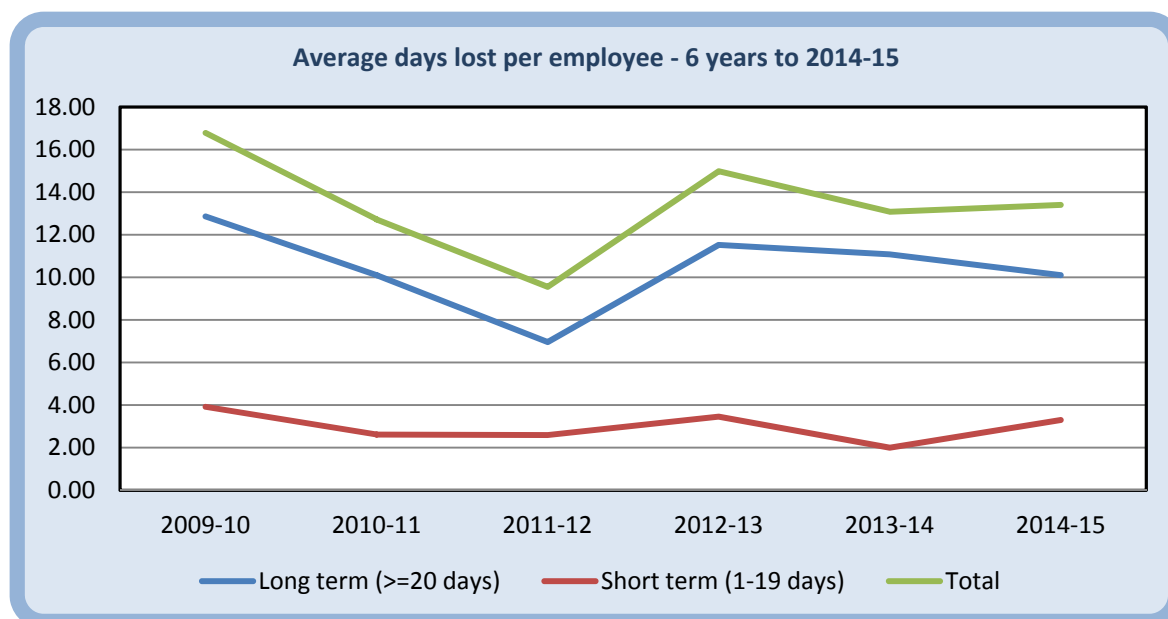
Except for the Council not complying with relevant legislation on the approval of a policy on Minimum Revenue Provisions or with DOE guidance on Investments I am satisfied that Down District Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.

⁶ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The total absenteeism figure for Down District Council for 2014-15 is 13.4 days. This represents a slight increase of 0.32 days on the previous year. Whilst long term days have decreased in the year from 11.08 days to 10.1 days, I note that short term days have increased from 2 days to 3.3 days and the Council told me the reason for this increase is due to an increase in short term absences for a number of employees. The trend over the years 2009-10 to 2014-15 is shown below.



Joint Committees

Down District Council was a member of:

- Arc21 Joint Committee which was established for the purposes of managing waste. During the year Down District Council advanced £103,433 towards funding the expenditure of the Joint Committee. Arc21 financial statements were certified by me on 29 October 2015 with an unqualified opinion; and
- the Down Rural Area Programme Joint Committee which is the delivery mechanism for the Northern Ireland Rural Development Programme 2007-13. These financial statements were certified by me on 23 October 2015 with an unqualified audit opinion; and
- the North Down, Ards and Down Peace III Joint Committee under which Peace III and INTERREG IVA funding is available from the Special EU Programmes Body. These financial statements were certified by me on 23 October 2015 with an unqualified audit opinion.

Separate annual audit letters are issued to each Joint Committee.

6. Closing Remarks

This letter concerning the 2014-15 audit of Down District Council is addressed to the Members of Newry, Mourne and Down District Council and prepared for the sole use of the latter. No responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

The factual accuracy of this Audit Letter has been agreed with the Chief Executive of Newry, Mourne and Down District Council.

Both Down District Council and subsequently Newry, Mourne and Down District Council facilitated the audit in a positive and constructive way. I would like to take this opportunity to express our appreciation for the assistance and co-operation provided.

This letter will be presented to the Newry, Mourne and Down District Council Audit Committee by my staff. I have also asked the Chief Executive to provide a copy to all Members of the Council.

Louise Mason

Local Government Auditor

05 January 2016