

Issued by the Local Government Auditor



Newry & Mourne District
Council

2014-15

To the Members of
Newry, Mourne and Down
District Council

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Contents

1.	Introduction	3
	Local Government Reform	3
2.	Financial Statements	5
	Summary of Audit Findings	5
	Financial Performance.....	6
3.	Governance.....	7
	Annual Governance Statement	7
	Internal Audit.....	9
	Audit Committee	9
4.	Proper arrangements.....	10
5.	Other Audit Work	11
	Absenteeism	11
	Joint Committees.....	11
6.	Closing Remarks.....	12

1. Introduction

I have been designated the Local Government Auditor for Newry & Mourne 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 & 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. Newry & Mourne District Council was amalgamated together with Down District into Newry, Mourne & 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 & Down District Council struck the 2015-16 rates and approved business and financial plans in advance of 1 April 2015. As Newry, Mourne & 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

Newry & Mourne District Council

The accounts of Newry & Mourne 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 & Down District Council on 25th June 2015. This is within the statutory timeframe of 30th June. Following the audit, the accounts were re-signed on 28th October and published on the website of Newry, Mourne & Down District Council 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 Newry & Mourne 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 & Down District Council, on the results of the audit, noting the most significant issues, making recommendations and seeking comments. That report will be presented separately to your Audit Committee.

The Newry, Mourne and Down District Council Statutory Transition Committee

The Newry, Mourne and Down District Council Statutory Transition Committee (STC), consisting of 6 members from each of Newry & Mourne and Down District Councils, was formed through regulation to ensure that the Newry & Mourne and Down District Council was able to adopt its full range of powers and functions from 1 April 2015. The STC was set up to gather information, consider and advise on matters relevant to moving to the new Council, to prepare a draft budget and to prepare a draft corporate and business plan. The other regulatory role of the STC was to appoint a clerk of the new Council, as well as any other staff it deemed appropriate. Under regulation the STC ceased to exist on 19 June 2014, following the election held in May 2014 to determine the Members of the new Council.

The STC was a statutory local government body and I therefore had responsibility to audit its financial statements, in accordance with the Local Government (Northern Ireland) Order 2005 and

the Local Government Code of Audit Practice. I gave an unqualified opinion on the 2014-15 financial statements of the Newry, Mourne and Down STC.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Newry & Mourne District Council shows that during the year ended 31 March 2015 the Council spent £36.1m on the provision of services. It also received income of £34.8m.

The major items of expenditure were

- Staff Costs of £14.5m ;
- Depreciation of £3.4m

The major areas of income were

- Revenue Grants of £2.6m;
- District Rates of £25.9m

At 31 March 2015 Newry & Mourne District Council had net non-current assets of £66m. The majority of these non-current assets are in the Land & Buildings category. Total loans outstanding were £27.7m.

At 31 March 2015 Newry & Mourne District Council had usable reserves of £3.5m as set out in the table below.

Usable Reserve	£3,556,916
General Fund	3,556,916
Total	3,556,916

Legislation¹ placed a duty on the Chief Financial Officer to make arrangements for the proper administration of Newry & Mourne 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 establishment and maintenance of local authority reserves and balances is included in both the CIPFA Prudential Code² and a recent LAAP Bulletin³.

¹ The Local Government Finance Act (Northern Ireland) 2011

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

Newry & Mourne 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.

- Arising out of a fraud in respect of ‘waste’ in 2011/2012 and previously reported as a governance issue in prior years there remains outstanding a robust solution to monitor vehicle movements. It is considered the only solution that will significantly reduce the risk is the introduction of a telemetry system on vehicles. The new Council of Newry, Mourne and Down has been made aware of this matter.
- During the financial year 2014/2015 there have been two whistle blowing incidents both of which related to absence from work. Investigation showed both reports had substance. This resulted in a number of disciplinary actions and two employees being dismissed.

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

- The National Fraud Initiative (NFI) data matching exercise – issued January 2015 produced 477 matches. NFI raised 21 payroll issues and 456 accounts payable issues. These matches will be systematically investigated taking account of the colour indicators flagged by the NFI in respect of the level of risk.
- In January 2015 a theft took place at a Council owned bowling facility. A number of high value items of grounds maintenance equipment (replacement cost £19,000) were stolen. Since this theft new security measures have been implemented to prevent re-occurrence.
- A legal services procurement matter continues to be considered by the Ombudsman.
- An item in respect of a grant from the Department of Agriculture and Rural Development has been investigated. At this stage it is too early to state the likely level of any loss to the Council as the final decision is outside of the Councils control.
- The audit reports produced by Internal Audit have highlighted areas where improvements need to be made. Actions required to address these control weaknesses have been prioritised giving due regard to the risk assessment and to proper and proportional allocations of resources.
- During the year Internal Audit issued 29 Internal Audit reports, with 12 of these reports remaining in draft due to a failure of reply from Council staff. These reports resulted in 5 substantial assurances, 17 satisfactory assurances and 4 with limited assurance.
- The 4 limited assurances apply to Information Technology, Fleet Management, Procurement and Cash handling at a town hall. In all cases the senior managers of the services have been sent the reports and the reports have also been passed onto the incoming ‘internal auditors’. It should be noted some of the services have been adversely affected by the local government reorganisation with ‘key staff’ off sick. In two of the situations outlined a new manager is in place due to reorganisation and/or severance. There has been no loss to the Council in any case although there is a danger if the situation were to persist of reputational damage.
- Absenteeism for 2014/15 (4.9%) has shown a small increase relative to 2013/14 (4.7%). The new Council will need to continue to be proactive in seeking to manage absence.
- The outcome of this year’s financial results, a deficit of £3,036 after using £520,000 to finance capital spend. This has resulted in a decrease in the balance in the General Fund of £3,036 resulting in a balance of £3,556,916. When the Council agreed a budget for 2014/15 a deficit budget of £1,050,000 was agreed.

Newry and Mourne District Council has now been combined with Down District Council and Ballyward which is part of the Banbridge District Council from 01 April 2015. Therefore matters raised in this Corporate Governance Statement will become the responsibility of the new Newry, Mourne and Down District Council.

Local Government Reform

From 1 April 2015, under the Reform of Local Government (RLG), the number of Councils in Northern Ireland reduced from the 26 existing 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 has agreed to transfer some functions currently carried out by NI Government Departments and give some new responsibilities to the 11 new Councils. The new councils will be stronger, more efficient and will deliver more effective services.

The new councils came into existence on 26th May 2014, operating in shadow form until they take over full responsibility for local government on 1st April 2015 when the 26 existing councils cease to exist. The final accounts for Newry and Mourne District Council will therefore be for the 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 existing councils.

The Local Government Act (Northern Ireland) 2014 introduced the legislative framework for Northern Ireland's 11 new councils and has 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.

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. The Newry & Mourne District Council had contracted out their Internal Audit. A review of the effectiveness of the system of internal audit was carried out during 2014-15 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. The Audit Committee of Newry & Mourne District Council met 4 times in the year and the agenda items included

- NIAO audit reports;
- internal audit reports;
- risk register review; and
- other relevant business.

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 Newry & Mourne 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.

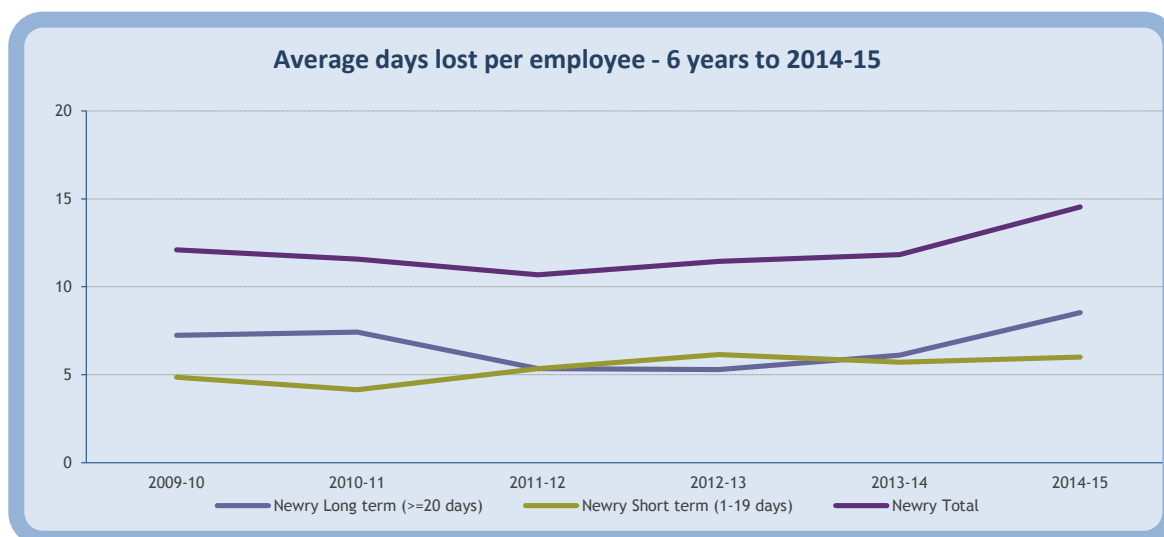
On the basis of my work I am satisfied that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources. I have made some recommendations to the Council and they are included in my Report to those charged with Governance.

⁶ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The 2014-15 absenteeism figure for Newry & Mourne District Council is 14.54 days. This represents an increase of 2.7 days on the previous year. The Council has told me that this is due to some serious long term ill health problems. The trend over the years 2009-10 to 2014-15 is shown below.



Joint Committees

The Newry & Mourne District Council was a member of:

- the SWaMP Joint Committee which was established for the purposes of managing waste. During the year Newry & Mourne District Council advanced £55,082 towards funding the expenditure of the Joint Committee; and
- the Southern Organisation for Action in Rural areas (SOAR) Rural Development Joint Committee which is the delivery mechanism for the Northern Ireland Rural Development Programme 2007-13; and
- the Southern Partnership Peace III Joint Committee under which Peace III and INTERREG IVA funding is available from the Special EU Programmes Body.

Separate accounts have been prepared by the Joint Committees and are audited by me. Separate annual audit letters are issued to each Joint Committee.

6. Closing Remarks

This letter concerning the 2014-15 audit of Newry & Mourne District Council is addressed to the Members of Newry, Mourne & 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 & Down District Council.

Both Newry & Mourne District Council and subsequently Newry, Mourne & 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 & 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
15 December 2015