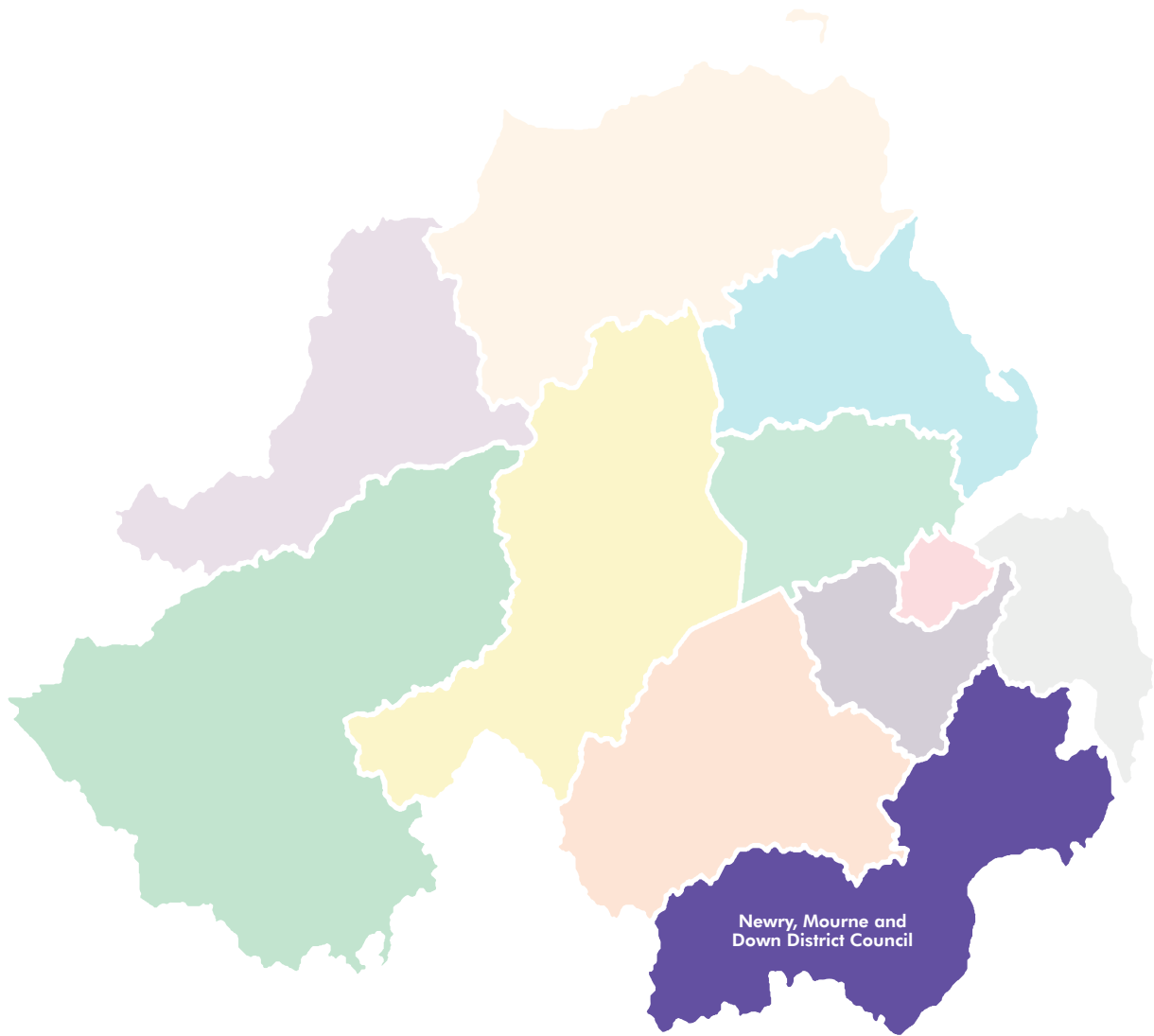




Northern Ireland Audit Office

# Annual Audit Letter

## Newry, Mourne and Down District Council 2019-2020



**Pamela McCreedy**

Local Government Auditor  
Northern Ireland Audit Office  
February 2021

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## Key messages

### Audit of Financial Statements

- The 2019-20 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 2019-20.
- The latest National Fraud Initiative.
- The Local Government Auditor's Report for the year to 31 March 2020 was published on 15 December 2020.

### Outlook

- Brexit considerations.
- COVID-19 considerations.
- IFRS 16 Leases.

# 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 2019-20 Statement of Accounts and my work on proper arrangements for 2019-20 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. The Code of Audit Practice is due to be updated in 2021.
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 are a range of various other matters which can be reported by exception and 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, my 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 on 28 August 2020. Following the audit, the Statement of Accounts were approved by the Council and certified by me on 21 December 2020, within the statutory deadline of 31 December 2020. 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 2020, 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 2019-20, of the financial position of the Council as at 31 March 2020, 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 Audit Committee.
  6. My report noted significant control weaknesses over procurement and contract management and made recommendations to address these issues.

# Audit of Financial Statements

## Key Statistics

Income/Expenditure /assets/liabilities	2019-20 £	2018-19 £	Variance £
<b>Total Income</b>	<b>74,965,394</b>	<b>72,703,000</b>	<b>↑ 2,262,394</b>
<b>Total Expenditure</b>	<b>-85,927,186</b>	<b>-85,813,315</b>	<b>↑ 113,871</b>
<b>Net Expenditure chargeable to the General Fund (reflects adjustments between Accounting Basis and Funding Basis)</b>	<b>-160,636</b>	<b>582,188</b>	<b>↑ 742,824</b>

<b>Capital Expenditure in year</b>	<b>7,781,544</b>	<b>17,277,813</b>	<b>↓ 9,496,269</b>
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Capital/Reserves/Staff Costs	2019-20	2018-19	Variance
<b>Useable Reserves</b>	<b>12,456,478</b>	<b>13,484,614</b>	<b>↓ 1,028,136</b>
<b>Long Term Assets</b>	<b>189,534,438</b>	<b>185,424,219</b>	<b>↑ 4,110,219</b>
<b>Loans Outstanding</b>	<b>-74,844,567</b>	<b>-69,750,776</b>	<b>↑ 5,093,791</b>

Staff	2019-20	2018-19	Variance
<b>Staff numbers (FTE)</b>	<b>1,030</b>	<b>1,026</b>	<b>↑ 4</b>

<b>Staff Costs (including Agency costs)</b>	<b>35,900,300</b>	<b>33,123,718</b>	<b>↑ 2,776,582</b>
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<b>Staff Absence Total</b>	<b>15.8 days</b>	<b>14.7 days</b>	<b>↑ 1.1 days</b>
– short term	4.1 days	3.7 days	↑ 0.4 days
– long term	11.7 days	11.0 days	↑ 0.7 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. I have however noted a number of weaknesses around procurement and contract management and that there are currently a number of different sets of terms and conditions that apply to staff members at the Council.

# 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 2019-20;
  - 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 outsourced Internal Audit Function that conducted a review on the effectiveness of the systems of internal controls in place during 2019-20. The findings of this work were presented to the Council's Audit Committee for review and considered by me as part of the audit process.

## 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 Audit Committee.
7. The 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 2020, the average number of day's sick absence in the Council was 15.8 days per full time employee as compared to 14.7 days in 2018-19. The Council has told me that the increase of 1.1 days was due to a year on year increase in sickness absence, with the biggest increase being days lost to long-term sickness. In March 2020, agreement was reached with the recognised Trade Unions, to implement a new Managing Attendance Policy and Procedure for all employees, effective 1 April 2020.
2. The Local Government Auditor produced a good practice guide on Managing Attendance in Central and Local Government on 23 November 2020. The report provides an overview of sickness absence across central and local government in Northern Ireland and sets out key principles for managing attendance that are consistent across the public sector.

### Local Government Auditor's Report – 2020

3. The annual Local Government Auditor's Report was published on 15 December 2020. The report summarises my perspective on financial audits and performance improvement work in the year to 31 March 2020.
4. The Report highlights areas of strength and areas for improvement within local councils. It also considers important issues that may affect councils 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. Under the current legislation each year, councils are required to produce an Annual Improvement Plan for the year ahead and a self-assessment report for the year just past. The Local Government Auditor is required to audit the prior year self-assessment report and the incoming Annual Improvement plan and assess whether the Council is likely to have complied with the legislation.

7. The onset of the Covid-19 pandemic led the Department to propose a reduction in the performance improvement work undertaken by councils, and consequently the improvement audit and assessment work to be carried out in 2020. Councils were still required to produce a self-assessment of their performance in 2019-20 but did not have to produce an Annual Improvement plan for 2020-21. Therefore the Local Government Auditor will only audit the 2019-20 self-assessment report this year and will not undertake an assessment. This work can only be completed once the legislation has been amended, which is being taken forward by the Department for Communities.
8. My Annual Improvement Report summarising the audit of the 2019-20 self-assessment report will be published in March 2021.

## WGA

9. 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 2019-20 where additional audit procedures were not required.
10. The Whole of Government Accounts annual return has been submitted for HM Treasury's consolidation process.

## NFI

11. 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.
12. The report on the results of NFI data matches for the reporting period April 2018 – March 2020 was published in June 2020. Over £5.5 million of actual and estimated fraud and error was detected or prevented through NFI data matching. The majority of cases related to fraud and error in the health service, temporary accommodation, rates and pensions.

## Audit Fee

13. The audit fee for the financial audit is in line with the estimate and the performance and assessment improvement audit fee has been decreased to reflect a reduced audit requirement in light of the pandemic.

# Outlook

## Brexit considerations

1. The United Kingdom left the EU on 31 January 2020, and completed the transition period on 31 December 2020. 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. Councils' readiness for exiting the European Union is considered at the monthly SOLACE meetings to ensure that all councils are taking a proactive approach. Council officers are working with colleagues across the 11 councils to ensure that areas of risk are identified and appropriate measures are in place to manage these risks where possible. It is vital the Council continues to prepare for potential impacts as far as possible.

## Covid-19 considerations

2. The Covid-19 pandemic has had a significant impact on society and on the economy. Councils have had to adapt quickly to ensure continued provision of their key critical services such as waste collection and disposal, community support, and registrations of deaths and burial services. Additionally, Councils will have suffered losses in income from the closure of their income-generating facilities and services such as leisure centres.
3. In May 2020, the Minister for Communities in Northern Ireland announced that the Executive was allocating £20.3 million to councils to assist them with their financial pressures up to the end of June 2020 as a result of Covid-19. This funding was to allow councils to continue to provide essential services. An additional £40 million was announced in September 2020 to support the operation of all 11 councils. In October 2020, the Executive allocated a further £15 million to councils to ensure that they continued to positively contribute to the response to, and recovery from Covid-19.
4. The pandemic is likely to have a long-term and ongoing impact on the economy and public sector finances, however the full extent is not known at this stage. Even with central government support, there will be continuing challenges for councils to deliver a balanced budget within the current environment. It is important that the Council endeavours to monitor and maintain financial resilience.
5. A report by the Comptroller and Auditor General was published on 2 September 2020<sup>1</sup> on the NI Executive's response to the COVID-19 pandemic including support for Councils.

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1 'Overview of the Northern Ireland Executive's Response to the COVID-19 Pandemic', published by the Northern Ireland Audit Office, 2 September 2020.

## IFRS 16 Leases Adoption

6. In preparation for the implementation of IFRS 16, which has been deferred until 1 April 2022, the Council are advised to continue 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.

## And Finally.....

7. 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.

