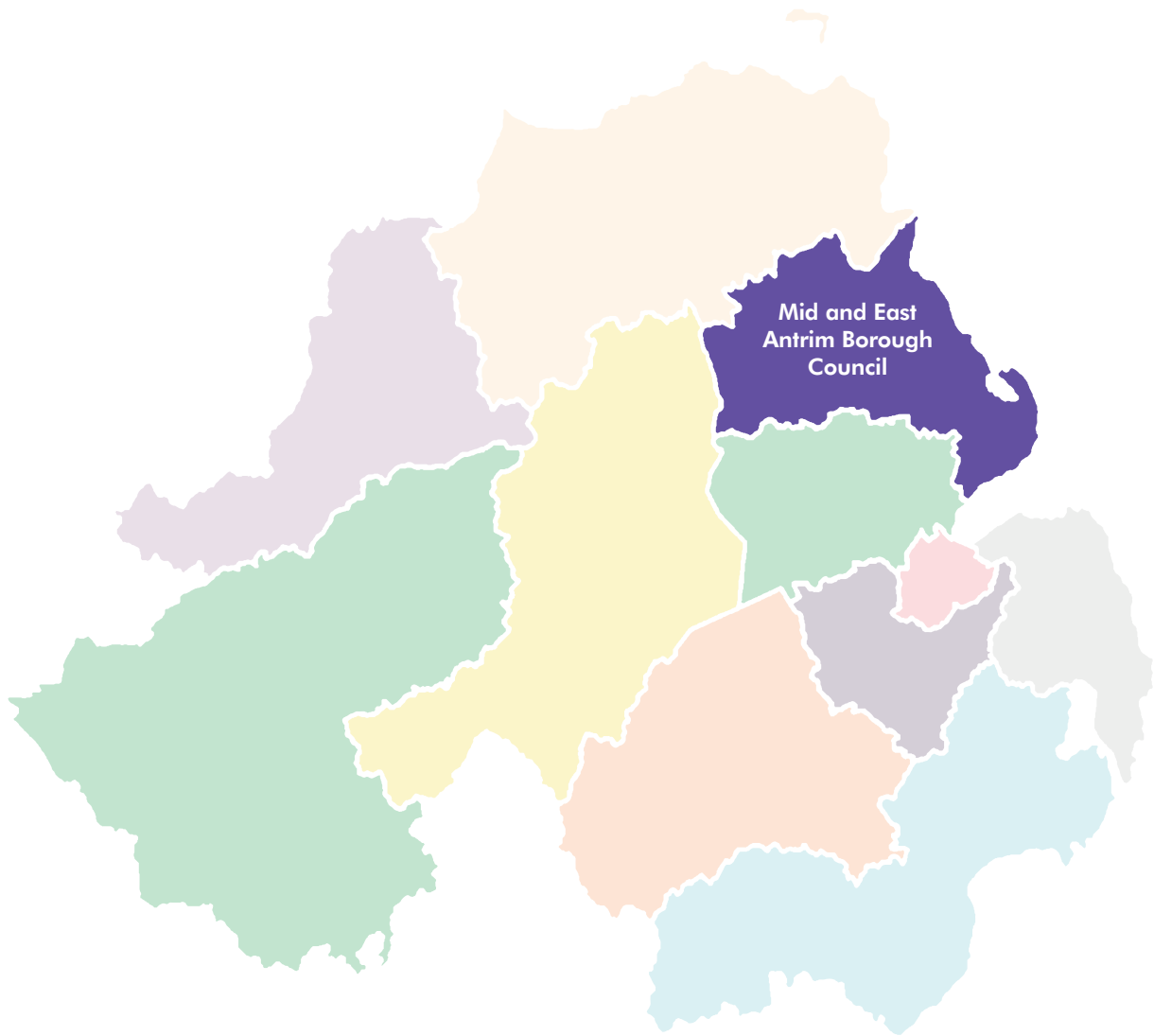




Northern Ireland Audit Office

Annual Audit Letter

Mid and East Antrim Borough Council 2017-18



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Local Government Auditor
Northern Ireland Audit Office
November 2018

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Key messages

Audit of Financial Statements

- The 2017-18 financial statements were certified without qualification as noted in my audit report. Key statistics from the accounts are outlined at Page 7.

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 2017-18.
- 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 in September 2018.

Outlook

- Brexit preparation.
- Local Elections approaching.
- 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 financial statements were signed by the Chief Financial Officer and submitted for audit before the statutory deadline of 30 June 2018. Following the audit, the Statement of Accounts were approved by the Council and certified by me within the statutory deadline of 30 September 2018. 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 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 is presented separately to the Audit & Scrutiny Committee and includes comments on:

- **North Antrim Annual Business and Community Dinner**

The Council purchased a table at a cost of £1,500 for the North Antrim Annual Business and Community Dinner in September 2017 which was attended by invited guests from businesses and organisations within the Borough. The £1,500 was paid directly to the Tullyglass Hotel and was correctly recorded in the accounts so there are no concerns with the truth and fairness of the accounts in relation to this issue.

I also considered if there were any issues I should report on in relation to my additional statutory powers and duties. In considering this I look at the significance of the subject matter, whether

Audit of Financial Statements

there is wider public interest in the issue raised and the costs of dealing with the matter bearing in mind that these are borne by the taxpayer.

On that basis and as the Electoral Commission is also investigating the matter, I do not intend to take any further action at this stage, largely because of the likely costs that would be incurred if I was to do so compared to the relatively small amount of money involved.

I did however recommend that:

- in future if an event is to be approved by Councillors then it is important that the most accurate and up to date information is provided including costs;
 - The Council should consider amending its policy on attendance at Gala dinner and events to clarify the position on attending this type of business event, especially where the event is perceived as having a particular networking benefit; and
 - Before agreeing to attend future events, the possibility that costs may include an element of political funding should be considered.
- **Payments made to senior staff in the legacy Larne Borough Council**

I have previously raised concerns relating to payments made to the former Chief Executive and a member of senior staff in the legacy Larne Borough Council. I was pleased to note that this year payments are being recouped and full recovery of the amount involved is expected to be made in 2018-19.

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. Although the format adopted for all Councils complies with the requirements of the Code, improvements could be made to give the reader further information on expenditure incurred for services provided.

Key Statistics

	2017-18 £	2016-17 £	Variance
Population (figures used by DfC for rates purposes)	137,145	136,642	↑ 503

Income/Expenditure /assets/liabilities	2017-18 £	2016-17 £	Variance £	Per Person 2017-18 £	Per person 2016-17 £
Total Income	63,070,333	61,455,528	↑ 1,614,805	460	448
Total Costs	-67,207,211	-68,002,457	↓ 795,246	- 490	-496
Net surplus (deficit) on provision of services	-4,136,878	-6,546,929	↓ 2,410,051	-30	-48
Adjustments/transfers for accounting entries	4,260,672	6,700,460	↓ 2,439,788	31	49
Increase/(decrease) in General Fund Reserve	123,794	153,531	↓ 29,737	1	1

Capital Expenditure in year	-5,596,049	-4,912,667	↑ 683,382	-41	-36
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Capital/Reserves/Staff Costs	2017-18	2016-17	Variance
Useable Reserves	15,627,873	14,690,663	↑ 937,210
Long Term Assets	214,358,638	204,459,657	↑ 9,898,981
Loans Outstanding	-62,859,321	-61,289,068	↑ 1,570,253

Staff	2017-18	2016-17	Variance
Staff numbers	764	752	↑ 12

Staff Costs	-23,842,145	-22,462,606	↑ 1,379,539
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Staff Absence Total	17.08 days	18.32 days	↓ 1.24 days
– short term	3.12 days	3.64 days	↓ 0.52 days
– long term	13.96 days	14.68 days	↓ 0.72 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 a contracted out 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 were presented to the Council's Audit and Scrutiny Committee for review and considered by me as part of the audit process.

Audit and Scrutiny 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 and Scrutiny Committee.
7. The Audit and Scrutiny 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 17.08 days per full time employee as compared to 18.32 days in 2016-17. The Council has told me that the decrease of 1.24 days was mainly due to reduction in long term sick leave.

Local Government Auditor's Report - 2018

2. The annual Local Government Auditor's Report was published in 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 financial year to 31 March 2018.
3. 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

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 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.
6. 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

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 2017-18 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 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 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 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 and planning.

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 the Council is part of the consortium which has recently been awarded £350 million 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 year programme of inclusive growth, and create 20,000 new and better jobs, accessible to people from all communities.

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.