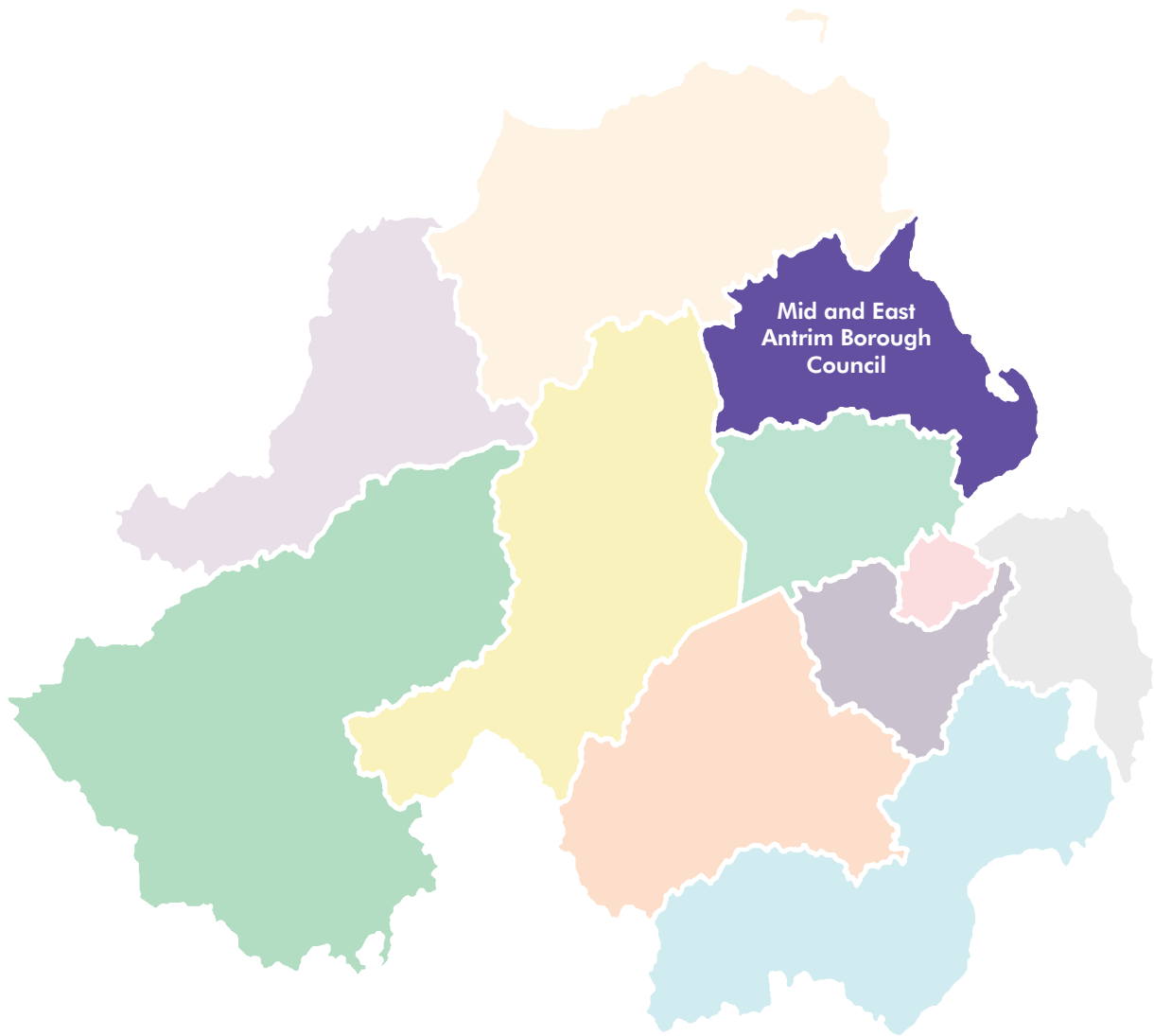




Northern Ireland Audit Office

Annual Audit Letter

Mid & East Antrim Borough Council 2015-16



Louise Mason

Local Government Auditor
Northern Ireland Audit Office

Contents

	Page
Key Messages	3
Introduction	4
Audit of Financial Statements	5
Audit work on economy, efficiency and effectiveness	9
Governance	10
Other areas of audit interest	12

Key Messages

Audit of Financial Statements

- The 2015-16 financial statements were certified without qualification as outlined in the my audit report.
- Appropriate balances were brought forward from the legacy councils.

Audit 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 and government standards.

Other areas of audit interest

- The Whole of Government Accounts annual return was submitted for HM Treasury's consolidation process.
- The latest National Fraud Initiative report has been published (July 16).
- The audit work was completed within the estimated fee quoted.

Introduction

1. The results of my statutory responsibilities for 2015-16 are summarised in this report. 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 way in which audit functions under the legislation 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.
2. Management have specific responsibilities regarding the production of financial statements. They are also expected to have effective governance arrangements in place to deliver the corporate objectives. The publication of the financial statements is an essential means to account for the stewardship and use of public money each year.
3. 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 expenditure and income for the year;
 - the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction;
 - other information published together with the audited financial statements is consistent with the financial statements; and
 - the part of the remuneration report to be audited has been properly prepared in accordance with the Department for Communities' (formerly Department of the Environment) directions.
4. There is a range of various 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 audit work on the Council's arrangements for securing economy, efficiency and effectiveness of resources and performance improvement.
5. 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 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 '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 2016. Following the audit, the accounts were certified by me on 30 September 2016 and published on the website of the Council.
3. On conclusion of the audit, the 2005 Order requires me to issue a certificate stating that 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.
4. 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 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. A key issue included in the report was:

Payments to senior staff at the Legacy Larne Borough Council

6. In my 2014-15 audit of the legacy Larne Borough Council accounts, I included a comment in my Annual Audit Letter relating to payments made to senior staff in the Council, immediately before it ceased to exist. The payments included amounts to the former Larne Borough Council Chief Executive and another senior member of staff in the Council, both of whom would not normally have a contractual entitlement to payments in respect of time off in lieu (TOIL). The new Mid and East Antrim Borough Council arranged to have an investigation carried out by an external consultant and a report was produced.

Audit Opinion

4. For the year ended 31 March 2016, 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 2015-16, of the financial position of the Council as at 31 March 2016

7. This investigation considered a number of sources of information and invited the views of the parties most closely involved.
8. The investigation reported that in March 2015, in the last days of its existence, Larne Borough Council made payments to three members of staff in respect of compensation for accumulated TOIL for additional hours worked beyond the standard working week. Two of the three beneficiaries of these payments were the former Larne Borough Council Chief Executive (£15,317 in respect of 345.5 additional hours) and another former senior member of staff (£12,623 for 393 additional hours). The third beneficiary was a manager who received £2,943 but whose grade meant that it was appropriate to receive a payment in respect of accumulated TOIL.
9. The contract of the former Chief Executive included a provision on working hours, stating that the 'postholder will be required as and when necessary to attend evening meetings and work in excess of the normal hours in performance of the duties and responsibilities of the post – the remuneration reflects this aspect of the post'. There was a similar clause in the contract of the other senior member of staff stating 'You will be required to attend meetings, both public and private outside normal working hours. This will result in some unsocial working hours and the salary for the post recognises this'. In addition, the former Chief Executive was already in receipt of an honorarium which was intended to compensate for additional work arising from the Review of Public Administration (RPA). The other senior member of staff also received an honorarium payment in respect of work associated with RPA in March 2015.
10. I asked the former Chief Executive and the former senior member of staff for their comments and they both told me that, in their opinion, the working hours they had to undertake in Larne Borough Council were excessive, involving huge amounts of additional work in evenings, particularly around attendance at evening meetings. They both felt that the hours they claimed in March 2015 were only a fraction of the additional hours worked over several years and were additional to the extra time requirements of RPA. In particular, the former senior member of staff pointed out that her contract only stated a requirement to work 'some unsocial working hours' whereas in her opinion she had been working excessive unsocial hours for several years. She had been seeking entitlement to TOIL for a number of years and had kept detailed records of all additional hours worked which she claimed were well in excess of the actual amount claimed.
11. The Chief Executive has, however, now told me that she had been unaware of her specific conditions relating to the hours of the post and eligibility for TOIL and that she had felt that this eligibility had been included in an earlier contract she had with the Council. As such she has offered in principle to repay the

amount she received to Mid and East Antrim Council. She also pointed out that in March 2015 she had much reduced staff numbers in the former Larne council, no Human Resources support to help her in dealing with this issue and stated that if she had been made aware at any stage of the precise issue regarding her terms and conditions she would not have accepted the payment.

12. The issue of a payment for TOIL hours was first raised at a Larne Borough Council Policy and Resources Committee meeting on 9 March 2015. Members were told that legal advice had confirmed that it was within Larne Borough Council's remit to make payments for the current financial year. The request was then further discussed and approved at Larne Borough Council's meeting on 16 March 2015. However Mid and East Antrim Council's investigation found that Larne Borough Council's meeting was not provided with sufficient information in relation to several highly relevant and material considerations when it reached a decision on this matter.
13. Key omissions identified by the Mid and East Antrim Borough Council investigation included:
 - No information relating to the numbers of staff or the grades of post(s) involved;
 - No information on the terms of the contracts of employment for those who were being paid for additional hours;
 - No potential costs of the options being discussed were provided. Given that the decision was to "authorise payments to all officers", this amounted to a blanket approval of unknown costs;
 - Although legal opinion was referred to, council members were not provided with any legal advice in writing. Indeed, the solicitors of the former Larne Borough Council have since confirmed that no written advice was issued on this particular matter, although they did provide a handwritten note of a telephone conversation on this issue on 9 March 2015; and
 - While the Chief Executive did refer to a potential personal interest, the degree of self-interest was not explicitly made known to members.
14. The Chief Executive of the new Mid and East Antrim Borough Council contacted Larne Borough Council before its final meeting on 23 March 2015 asking members not to proceed with a decision on these payments. At this meeting, in response to a specific question, an Officer of the council incorrectly said that there were no stipulations regarding TOIL in the contracts of employment of the individuals to be paid. At the meeting Larne Borough Council decided to defer all new decisions on TOIL payments but to honour the decision already made by the Council on 16th March 2015 in respect of those staff members who had already made applications. This decision triggered the final processing of three such payments; two of which were to

the Chief Executive and the other senior member of staff.

15. The Mid and East Antrim Borough Council's investigation into this issue was completed in February 2016 and concluded that, in its opinion based on all the evidence provided, "the decision reached on this matter was not based on a proper consideration of facts and consequently the payments were inappropriate, irregular and improper".
16. I am concerned that these payments were made without proper consideration of all the facts prior to the closure of the former Larne Borough Council. I understand that the new Mid and East Antrim Borough Council has already received legal advice on this matter. The former Chief Executive has stated that in principle she intends to repay the payments received and I recommend that this is pursued by the Council. I will follow up on the progress of this matter in due course.

Audit 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 proper arrangements in place 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 and 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 safe guard assets, deliver objectives and generate value for money; and
 - A framework in place to manage the work force to effectively support the achievement of strategic priorities.

4. On the basis of my review this year, I am satisfied the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources.

Performance Improvement

5. The Council has a general duty to make arrangements to secure continuous improvement in the exercise of its functions and to set improvement objectives for each financial year. Councils are now required to gather information to assess improvements in the services it provides and to issue a report annually on its performance against indicators set themselves or that have been set by the Department for Communities.
6. It is my responsibility under statute to review the performance improvement plans, and the arrangements made to deliver on those plans, for each financial year.
7. As the 2015-16 financial year was the first cycle of this process, there were limited requirements for Councils and the audit process was aligned accordingly. However, from the next financial year, the results of performance improvement audit work will be published on the NIAO website.

Governance

Key Principles

1. The Good Governance Standard for Public Services sets out the key principles of good governance which:

- focus on the organisation's purpose and on outcomes for citizens and service users;
- perform effectively in clearly defined functions and roles;
- promote values for the whole organisation and demonstrating the values of good governance through behaviour;
- take informed, transparent decisions and manage risk;
- develop the capacity and capability of the governing body to be effective; and
- engage stakeholders and make accountability real.

4.

- is misleading or inconsistent with other information I am aware of from my audit.

My review did not highlight any inconsistencies. The Council's Annual Governance Statement included the following issues:

- In the latter part of 2014/15 a significant issue arose in relation to payments made for time in lieu to certain senior staff in the legacy Larne Borough Council. During 2015/16 Mid and East Antrim Borough Council commissioned an investigation into the payments. The conclusion of the report outlines that, based on evidence available, the decision to pay the time in lieu was not based on proper consideration of facts and was therefore inappropriate, irregular and improper. (See pages 5-8)
- The external audit process identified a number of issues in relation to a procurement exercise conducted by the Council.
- A limited assurance was received from internal audit in relation to a review of Procurement and Contract Management.
- An advisory review by internal audit of the Council's IT function identified a number of weaknesses in the transition process from the three legacy councils.
- The council is investigating the potential data handling implications around the non return of IT assets at the former legacy councils.

Annual Governance Statement

2. The 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 Statement.

3. I am required to report if the Annual Governance Statement

- does not comply with proper practices specified by the Department for Communities; or

Internal Audit

5. The Local Government (Accounts and Audit) Regulations (NI) 2015 requires councils to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control 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 system of internal audit during 2015-16. The findings of the review were considered by the Council's Audit Committee.

Audit Committee

6. 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.
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

WGA

1. 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. The Council is within the band of organisations in 2015-16 where additional audit procedures were not required.
2. The Whole of Government Accounts annual return has been submitted for HM Treasury's consolidation process.

NFI

3. The Council participates in the National Fraud Initiative, a UK wide data matching exercise designed to highlight savings for the public sector as a whole.
4. The latest report was published in July 2016 and is available on the NIAO website.

Absenteeism

5. For the twelve months to the end of March 2016, the average number of day's sick absence in the Council was 15.22 days per full time employee.

Audit Fee

6. The estimated audit fee is disclosed in note 4 of the financial statements. The final audit cost is in line with the estimate.

Outlook

7. This financial year has been particularly challenging for Councils and it is the first reporting period in the new eleven council configuration. In addition to restructuring, Councils have taken on several functions from central government, such as new planning powers, off-street car parking, local economic development and heritage responsibilities.
8. It was also envisaged that Councils would have urban regeneration and community development powers from 2016-17. However, the mechanisms to enable this transfer have not been put in place and Northern Ireland Executive approval will be required.