



CAUSEWAY COAST AND GLENS BOROUGH COUNCIL

2019-20 Interim Report to Those Charged with Governance



7 December 2020

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We have prepared this report for Causeway Coast and Glens Borough Council's sole use. You must not disclose it to any third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.

1. Key Messages

This report summarises the key matters arising to date from our audit of the 2019-20 Causeway Coast and Glens Borough Council's financial statements which we report to the Audit Committee, as representatives of those charged with governance. We would like to thank the Financial Accountant and the Finance Team for their assistance during the audit process.

Status of the Audit

The audit is on-going. On 30th November 2020 the Minister for Communities directed the Local Government Auditor to hold an extraordinary audit of Causeway Coast and Glens Borough Council, concentrating on land disposals and easements and related asset management policies and procedures. The Local Government Auditor has decided that certification of the 2019-20 financial statements will not take place by 31st December 2020 as planned, pending our assessment of the Minister's request.

Audit Findings

During the audit we reviewed internal controls; accounting systems; and procedures to the extent considered necessary for the effective performance of the audit. To date, we have identified eight priority one¹ recommendations in relation to the internal control environment.

Audit Adjustments

The net effect of audit adjustments on the Comprehensive Income and Expenditure Statement and Balance Sheet was £78,000. Uncorrected misstatements would increase spend and decrease net assets by a further £9,000. A full list of adjustments, including client adjustments, is provided on page 11.

Actions for the Audit Committee

The Audit Committee should note the findings and the unadjusted misstatements set out in this report.

¹ A priority one recommendation is defined as, "significant issues for the attention of senior management which may have the potential to result in material weakness in internal control."

2. Audit Findings

This section outlines the findings arising from our audit to date. Our findings are defined as:

- Priority 1 – significant issues for the attention of senior management which may have the potential to result in material weakness in internal control.
- Priority 2 – important issues to be addressed by management in their areas of responsibility.
- Priority 3 – issues of a more minor nature which represent best practice.

Other issues of a more minor nature have been discussed with the Financial Accountant.

Finding	Priority Rating	Recommendation
<p>1. Draft Annual Financial Statements and backup documentation</p> <p>The Council formally submitted draft Annual Financial Statements to the Department for Communities (DfC) and the Northern Ireland Audit Office (NIAO) on 7th August 2020. However, a revised set of accounts, which included client adjustments, was subsequently passed to the audit team on 30th August 2020, prior to the audit commencing. There was little evidence that either draft of the accounts had been reviewed prior to submission. As a result a significant number of amendments were required to the accounts, in terms of narrative changes and financial adjustments.</p> <p>Significant issues, which are to be adjusted in the final accounts, included:</p> <ul style="list-style-type: none"> • Creditors and debtors were both overstated by £1.2m as the general ledger had been kept open for April 2020 payments. Certain payments made in the month were incorrectly disclosed as prepayments in the 2019-20 draft accounts. • Future capital commitments were materially understated as they did not include any commitments in respect of Assets under Construction. 	1	<p>The Council should ensure that the Finance team is suitably resourced to enable a thorough review of the accounts before they are submitted to audit.</p> <p>The Council should ensure that its procedures are updated to prevent recurrence of the issues identified during the 2019-20 audit.</p>

<p>Whilst acknowledging the impact of the Covid-19 pandemic and reduced resources in the senior Finance team, there were significant delays in the provision of audit information. For example, information requested in March 2020 was not provided until August and later.</p> <p>In addition, Council staff were unable to provide a suitable explanation and documentary evidence of how the £40k accrual for legal expenses included in the accounts had been derived. Documentation issues were also identified in relation to Procurement and Prompt Payments (see points 7 and 13 below).</p>		<p>Council staff should be reminded that all audit requests should be dealt with in a prompt manner.</p> <p>Sufficient documentary evidence should be obtained and retained for all accounting entries and transactions.</p>
<p>2. Agency Costs</p> <p>In previous years' audits we noted that the Council has significant spend in relation to Agency staff. In 2019-20, these costs accounted for 33% of the total wage bill compared with 31% in 2018-19.</p> <p>Council agreed with our recommendation in the 2018-19 Report to those Charged with Governance (RTTCWG) that it should identify its permanent staff requirement and commence recruitment as appropriate. We note Agency staff costs had increased by 7% from £7.3m in 2018-19 to £7.8m in 2019-20.</p>	1	<p>Council should identify its permanent staff requirement and commence recruitment as appropriate as soon as possible.</p>
<p>3. Land Registration</p> <p>In the 2018-19 RTTCWG we advised that 80% of the land and property owned by the Council had yet to be registered with Land and Property Services (LPS).</p> <p>We note an additional staff member has been recruited to address this issue, appropriately, however 50% of the Council's land and property has still not been registered.</p>	1	<p>Council should ensure that all land and property owned is registered with LPS as soon as possible.</p>
<p>4. Leases</p> <p>Our review of leases identified that:</p> <ul style="list-style-type: none"> • two rent reviews were outstanding; • three leases had expired at year-end; and 	1	<p>Council should ensure all rent reviews and leases renewals are dealt with as soon as they are due.</p>

<ul style="list-style-type: none"> • a further six leases due to expire after the financial year-end, had not been renewed. <p>Similar issues were identified in the 2018-19 RTTCWG and the Council agreed to allocate sufficient resources to ensure that rent reviews and leases renewals were dealt with as soon as they are due.</p>		
<p>5. Management accounts and budgeting</p> <p>As reported in prior years, the variance analysis produced as part of the monthly management accounts process is very limited.</p> <p>In addition, we noted that the management accounts continue to be produced on a net balance basis, and do not disclose income and expenditure separately for locations. In response to the 2018-19 RTTCWG the Council indicated that a fundamental requirement identified for the proposed new finance system was the ability of preparing management accounts which report income and expenditure separately.</p> <p>We noted from a review of the budget setting process that it is very informal and that there is limited documentary evidence of the discussions held with heads of service/directors or of final budgets being formally agreed.</p>	1	<p>Council should ensure that a detailed variance analysis is submitted with each month's management accounts.</p> <p>In advance of the purchase of a new system, the Council should explore whether it is possible to prepare management accounts which identify income and expenditure separately.</p> <p>Council should strengthen the documentation surrounding its budget setting process, ensuring it a more robust and transparent process.</p>
<p>6. Proper Arrangements</p> <p>Our review of the Proper Arrangements questionnaire completed by the Council identified the following issues:</p> <ul style="list-style-type: none"> • The contracts' register has not been updated since April 2019 and only includes contracts arising from publicly advertised procurement. We also noted that there was no member of staff responsible for procurement in 2019-20, as the Procurement Officer was on secondment until March 2020. 	1	<p>Council should ensure that the contracts register is kept up-to-date and includes all contracts, regardless of the method of procurement. In addition, the Council should ensure that appropriately qualified staff are in post at all times to deal with procurement.</p>

<ul style="list-style-type: none"> • The business continuity plan has not been fully tested for finance or payroll to ensure that these functions can operate from an alternative site should the Coleraine office be unavailable. • A number of Council strategies, policies and codes are out of date or absent: <ul style="list-style-type: none"> – The Corporate Strategy 2015-19 expired on 31st March 2019. Staff advised that preparation of an updated plan was paused and re-worked due to the Covid-19 pandemic. A paper to develop the Corporate Strategy was taken to the CPR Committee on 25th August 2020. – The Whistle blowing policy was last updated in 2015 and the named contact is no longer with the Council. – The Council does not currently have an approved scheme of budget delegation in place. We understand that a draft scheme was taken to the Governance working group in June 2019. • Council’s information security arrangements are not ISO 27001 accredited. The Council advised that it complies with ISO27001 for certain aspects and that the allocation of additional staff time and budget is required for the full security systems to be in place. 		<p>Council should ensure that the business continuity plan for finance and payroll is tested fully as soon as possible.</p> <p>Council should ensure that all outstanding strategies, policies and codes are developed and approved as soon as possible. The Council should also ensure that policies are reviewed on a regular basis and updated as necessary.</p> <p>Council should ensure that its information security arrangements are ISO 27001 compliant and seek accreditation.</p>
<p>7. Procurement</p> <p>In the 2018-19 RTTCWG, we advised that the contract for the hire of vehicles had expired and that whilst an EU procurement process had taken place, the Council had not awarded a contract. In response, the Council advised that a tender was being finalised prior to advertising. However, the Council has yet to advertise this tender and is currently using a contract which expired in March 2018.</p>	<p>1</p>	<p>Council should ensure that a tendering process for the hire of vehicles is completed as soon as possible.</p>

<p>A new bank contract was taken out in 2019-20 for two years with Bank of Ireland. Whilst we note that the contract was approved by the Council, there was no tendering for the contract and a Direct Award Contract was not completed.</p> <p>Further procurement issues were noted during audit testing of Expenditure and Property, Plant and Equipment:</p> <ul style="list-style-type: none"> • The Council was unable to provide tender documentation for the purchase of a transit van costing £21,500. • While the Council was able to provide tenders received for the purchase of bin lorries costing £466,500, it was unable to provide the tender evaluation documentation. • The Council was unable to provide evidence that the required number of quotations had been obtained for a further eight items of expenditure selected for examination by the audit team. 		<p>The Council should ensure that all procurement is completed in accordance with the Council's guidance and that all procurement documentation is retained.</p>
<p>8. Heritage Assets</p> <p>In the 2018-19 RTTCWG we advised that although heritage assets within museums had been revalued in year, civic regalia and artefacts had not been. In addition, Council was unable to confirm the completeness of the heritage asset listing.</p> <p>Although Council advised that a valuation of civic regalia and artefacts would take place in 2019-20, this did not happen.</p>	<p>1</p>	<p>Council should ensure that a valuation is obtained for all civic regalia and artefacts held in Town Halls and Civic Centres, as soon as possible to ensure the completeness and accuracy of the asset register.</p>
<p>9. VAT</p> <p>In February and March 2020, Council received payments of static caravan site charges and marina fees for 2020-21, which included VAT at 20%.</p> <p>The HMRC rules require VAT to be reported in the period in which a payment is received, when this occurs prior to invoicing. However,</p>	<p>2</p>	<p>Council's accounting treatment of VAT should be reviewed and revised as necessary to comply with HMRC guidance, with clarification sought from HMRC as necessary.</p>

<p>the VAT received of £271k in respect of the advance payments was not included in the Council's VAT return for quarter ending 31st March 2020 or paid to HMRC.</p> <p>Subsequently a partial refund was provided to customers due to Covid-19 closures. However, this should not have prevented the VAT being paid to HMRC in the first instance, with any subsequent refund dealt with when it occurred, and VAT reclaimed as appropriate at that point.</p> <p>Whilst it does not impact upon the 2019-20 financial statements, we also noted that the Council has applied the reduced 5% VAT rate which did not come into effect until 15 July 2020 to caravan site charges from 1 April 2020.</p> <p>The Council advised us that application of the new 5% VAT rate was based on (most verbally) advice from a consultant currently working at the Council. The consultant advised the NIAO that the discussions with the Council did not represent formal VAT advice.</p> <p>Furthermore, two of the four quarterly VAT returns for 2019/20 appear to have been submitted after the return due date (by eight days on each occasion).</p>		<p>Any tax advice received from advisers that will be relied on by Council should be received in writing and retained for future inspection.</p> <p>VAT returns should be submitted in accordance with HRMC's deadlines.</p>
<p>10. Grant schemes monitoring</p> <p>During the course of the audit we noted that there has been inadequate monitoring and accounting for capital and revenue grant schemes.</p> <p>Our testing identified £128k of ineligible expenditure which had been included as grant schemes debtors. The 2019-20 accounts submitted for audit are to be adjusted for these debtors.</p> <p>Furthermore, funding received in respect of the EU Peace IV scheme has not been matched with the expenditure incurred and claims submitted. Consequently, a breakdown of the amounts still to be reimbursed is not</p>	2	<p>Council should undertake a review of funding for all grant schemes, to ensure that funding received is matched with the corresponding expenditure and any disallowed costs are identified.</p>

<p>available. Until this task is completed, there is a risk that the debtor recorded in the 2019-20 accounts includes expenditure which will be disallowed.</p>		
<p>11. Corporate Risk Register</p> <p>The Corporate Risk Register presented at Audit Committee meeting does not comply with best practice. For example, risk descriptions are missing or not fully articulated; the risk appetite for each risk is not specified; there are inconsistencies in risk scores; and the migrating actions included in the register are a mixture of current controls and actions to be taken to reduce the risk and target dates for the latter are not specified.</p>	3	<p>Council should review and amend the Corporate Risk Register to ensure that it complies with best practice.</p>
<p>12. Journals</p> <p>During the testing of financial journals we noted that the same person can raise and post a journal.</p> <p>We noted that Council keeps a register of all journals. However, there is no evidence of senior management reviewing a sample of journals.</p>	3	<p>Council should ensure that where staff resourcing does not allow for adequate segregation of duties, a sample of journals posted is reviewed each month to ensure that they are accurate and appropriate.</p>
<p>13. Prompt Payments</p> <p>In 2019-20, 79% of invoices were paid within 30 days compared with 82% in 2018-19.</p> <p>Council had not retained the Quarter 1 report from the Total system showing the number of invoices paid within 10 and 30 days.</p>	3	<p>Council should remind staff of the importance of authorising invoices and forwarding to Finance on a timely basis to allow prompt payment to suppliers.</p> <p>Council should also ensure that reports in support of prompt payment performance are retained for audit purposes.</p>

Audit Adjustments

Adjusted misstatements

During the audit process we identified the following misstatements above our clearly trivial threshold of £11,000. These misstatements have been adjusted and the net effect on the Comprehensive Income and Expenditure Statement and Balance Sheet was £78,000.

Area	Issue	CIES		BS	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
Trade Creditors	Overstatement of prepayments and creditors in respect of April 2020 payments for 2020-21 costs.			1,213	
Prepayments					1,213
Infrastructure additions	Reversal of salary costs capitalised to infrastructure				152
Capital projects salaries		152			
Buildings	Reclassification of Killyrammer Community Centre to surplus assets				104
Buildings Revaluation					107
Land					6
Land Revaluation					144
Revaluation Reserve				251	
CAA - Revaluation Increase to CIES				46	
General Fund - T/fer CAA					46
Surplus - PPE				110	
Legal expenses	Prior year legal fees accrual		102		

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Accruals	not fully reversed			102	
Short term provisions	Reversal of provision to reserves			84	
Earmarked reserves					84
Revenue grant income (CIES)	Revitalise Coleraine & Revitalise Ballymoney grant	79			
Revenue Grants debtor	receivables written back				79
Public Sector Creditors	Overstatement of Public Sector Debtors and Creditors in respect of NILGA 2020-21 Annual Subscription.			54	
VAT					9
Public Sector Debtors					45
Capital Grants Received in Advance	Village Renewal grant debtor overstated			49	
Capital Grants due (debtor)					49
Revenue Grants due from public sector (ST debtor)	Understated income & debtor in respect of 2019-20 Rural Development grant funding received post year end.			43	
Revenue Grants Income			43		
District Rates Debtors	District rates - finalisation - amended from previously reported by DfC		8		
				8	
TOTAL		231	153	1,960	2,038
NET EFFECT		78			78

Client adjustments

In addition, to the adjustments identified as a result of our audit procedures, the following adjustments were made by the Council following submission of the accounts on 7th August 2020.

Area	Issue	CIES		BS	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
Leisure income	Client adjustments – adjustments required mainly due to Peace IV, severance adjustments and accumulated absences.		6		
Environmental income			5		
Planning income			1		
Leisure expenditure			6		
Environmental expenditure			10		
Corporate policy expenditure		22			
Planning expenditure			6		
Finance & investment expenditure		28			
Surplus on revaluation		1			
PPE					10
Short term debtors				11	
Cash					5
Short term creditors					27
CAA					6

Crosstagherty Landfill Provision	Client adjustment – works to cap Crosstagherty Landfill			1,458	
Crosstagherty Landfill Closure Plan ongoing					938
Crosstagherty Landfill Site Closure 2020					520
Crosstagherty Landfill Interest Cost				12	21
Crosstagherty Landfill Provision Release		21	12		
Building Maintenance Ballymoney	Client Adjustment – VAT unaccounted for in Sales Receipt re Cockpit Brae Lighting	6			
VAT Control					6
Profit on Sale of FA	Client Adjustment – Moyle civic amenity site – insurance proceeds		4		
Moyle Civic Amenity Sites – Insurance Proceeds			4		
Debtor – Insurance Proceeds Due				8	
General Fund - T/fer CAA				4	
CAA – Profit on sale of FA					4
VAT – Input VAT	Client Adjustment – VAT on grants payments –				94
Debtors – Other				94	

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	being reclaimed				
Land – T/fer @ Cost (Drumaduff)	Client Adjustment – Asset Transfer			12	
Drumaduff Asset WIP T/fer @ Cost					12
TOTAL		78	54	1,609	1,633
NET EFFECT		24			24

Unadjusted misstatements

The table below lists unadjusted misstatements which exceed our clearly trivial threshold of £11,000. Uncorrected misstatements would increase expenditure and reduce net assets by a further £9,000.

Area	Issue	CIES		BS	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
Trade Creditors	Overstatement of prepayments and creditors in respect of April 2020 payments for 2020-21 costs			61	
VAT					31
Prepayments					30
Trade Creditors	Cut-off error in respect of HP notebook computers			15	
VAT					2
Vehicles, Plant & Equipment Additions					13
Bad debt expense (CIES)	Provision for bad debts understated	12			
ST Debtors – Impairment loss – Trade receivables					12

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Staff Costs	Accumulated employee absences accrual understated	17			
Employee creditors					17
Accumulated absences reserve				17	
General Fund					17
Trade Creditors	Vehicle purchased 23 March 2020 but not included in 2019-20 accounts				23
VAT				4	
Vehicles, Plant & Equipment Additions				19	
Receipts in advance (Short Term Creditors)	No output VAT accounted for on receipts in advance of static caravan income and marina fees			271	
VAT (Short Term Debtors)					271
Trade Creditors	Overstatement of prepayments and creditors in respect of April 2020 payments of 2020-21 fuel costs			12	
VAT					2
Prepayments					10
Accruals	UU Riverside Theatre funding over-accrued			20	
Supplies & Services (CIES)			20		
TOTAL		29	20	419	428
NET EFFECT		9			9