

# CAUSEWAY COAST AND GLENS BOROUGH COUNCIL

## 2017/18 Audit Strategy



Date: February 2018

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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.*

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## 1. Key Messages

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### Background

The Local Government Auditor is the independent external auditor of the Causeway Coast and Glens Borough Council ("the Council") Statement of Accounts under the Local Government (Northern Ireland) Order 2005. In addition to the audit of the financial statements, the Local Government Auditor has a statutory duty to be satisfied the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Purpose

The purpose of this document is to highlight to the Chief Financial Officer and the Audit Committee of the Council:

- how we, on behalf of the Local Government Auditor (LGA), plan to audit the financial statements for the year ending 31 March 2018, including how we will be addressing significant risks of material misstatement to transactions and balances;
- how we, on behalf of the LGA, plan to audit the proper arrangements in place for securing economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2018;
- matters of interest and developments in financial reporting and legislation;
- the planned timetable, fees and audit team; and
- matters which we are required to communicate to you under International Standards on Auditing (ISAs), including the scope of the audit, our respective responsibilities, and how we maintain independence and objectivity.

### Significant Audit Risks

We plan our audit of the financial statements to respond to the risks of material misstatement to transactions and balances and the risk regarding the legality of the Council's expenditure. We have not identified any significant audit risks at the planning stage which would impact on our audit approach.

### Proper Arrangements

We will issue the Questionnaire we have used in previous years to Council. We will review the questionnaire responses and perform additional work in areas considered to be higher risk. The main financial audit work will also feed into the risk assessment and conclusions of arrangements in place.

Conclusions regarding proper arrangements will be noted in the Annual Audit Letter and any recommendations for improvement will be included in the Report to those Charged with Governance.

### Performance Improvement

The scope of this work is communicated to Councils separately in line with the timetable set out in the relevant legislation.

### Materiality

When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements. The overall account materiality is £1,055,280. Materiality will be reassessed during the audit.

### Audit team and fee

Colette Kane will be responsible for the overall audit. The full engagement team is presented in section 4.

Our audit fee for this year is estimated to be £53,000.

#### **Actions for the Audit Committee**

The Audit Committee should discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete;
- Whether management has plans in place to address the risks identified by NIAO and whether these plans are adequate;
- Our proposed audit response to address these risks; and
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team.

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## 2. Materiality

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Basis for overall materiality calculation	• 2016-17 Gross expenditure of £70 million
Overall account materiality (1.5%)	• £1.1 million
Error reporting threshold	• We report to you all misstatements, whether adjusted or unadjusted, above £11,000

A matter is material if its omission or misstatement would reasonably influence the decisions of the users of the financial statements. The assessment of what is material is a matter for the auditor's professional judgement and includes consideration of both the amount and the nature of misstatement.

The concept of materiality recognises that absolute accuracy in financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute assurance that the financial statements are free from material misstatement or irregularity. We apply this concept in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

We also consider materiality qualitatively. In areas where users are particularly sensitive to inaccuracy or omission, we may treat misstatements as material even below the principal threshold(s). These areas include:

- the remuneration report;
- movements on reserves;
- the legality of expenditure; and
- our audit fee

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## 3. Our Audit Approach

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The NIAO audit approach is risk-based, informed by an understanding of the operations of the Council and an assessment of the risks associated with the financial statements and the legality of underlying transactions. For all significant audit areas, we will use a variety of audit techniques, including analytical procedures and sampling of transactions. We will review other accounting systems and management controls operated by the Council only to the extent we consider necessary for the effective performance of the audit.

### Independence

- We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities/public interest entities. We have fulfilled our ethical responsibilities in accordance with these requirements and have developed important safeguards and procedures in order to ensure our independence and objectivity.  
**NIAO quality standards and independence can be found at** <https://www.niauditoffice.gov.uk/publications/niao-quality-standards-and-independence> .

### Management of Personal Data

- During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit.

### Using the work of Internal Audit

- We liaise closely with internal audit throughout the audit process and seek to take assurance from their work where their objectives cover areas of joint interest.

## Scope of the audit

The scope of our audit and respective responsibilities can be found at

<https://www.niauditoffice.gov.uk/publications/scope-financial-audit-respective-responsibilities-and-other-matters>

The Code of Audit Practice issued by the Local Government Auditor extends to not only the audit of financial statements but also to aspects of financial and corporate arrangements to secure the economic, efficient and effective use of resources. The Code can also be viewed on the NIAO website at <https://www.niauditoffice.gov.uk/publications/code-audit-practice-2016>.

## Respective Responsibilities in the preparation of the financial statements

In line with Auditing Standards we are required to agree the respective responsibilities of the Local Government Auditor, the Council's Chief Financial Officer and the NIAO. These responsibilities are set out in the Statement of Responsibilities of Local Government Auditors and Local Government Bodies issued by the Local Government Auditor. The Statement of Responsibilities can be viewed on the NIAO website at

<https://www.niauditoffice.gov.uk/publication/statement-responsibilities-local-government-auditor-and-local-government-bodies>.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Proper Arrangements in place to secure economy, efficiency and effectiveness

Under the Code of Audit Practice we are also required to perform an initial assessment of significant risks to the conclusion on proper arrangements in place to secure economy efficiency and effectiveness in the use of its resources. Our initial assessment does not indicate any areas of audit risk.

## Performance Improvement

The Local Government (Northern Ireland) Act 2014 prescribes responsibilities for the Local Government Auditor regarding the audit and assessment of performance improvement arrangements in Councils. The scope of this work is communicated to Councils separately in line with the timetable set out in the legislation.

## Significant Audit Risks

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration. We have not identified any significant risk of material misstatement as part of our planning work.

Under ISA 240, there is a presumed significant risk of material misstatement owing to fraud arising from management override of controls. We will address this risk through our testing of journals, estimates and through a review of any significant or unusual transactions in the year.

There is also a presumed risk of fraud in revenue recognition, albeit rebuttable. We do not believe the risk of fraud in revenue recognition is material to the financial statements. We will review the areas where we consider there could potentially be a risk of fraud in revenue recognition. This will include identifying which income streams are received in the form of cash, the controls in place over cash and cyclical audit testing of some of the main income areas.

## Other risk factors

We have identified two risk factors. We do not consider these to represent a significant risk of material misstatement in the financial statements but are matters which we will continue to monitor and respond to as appropriate throughout the audit. These areas include:

**'Telling the Story'**: there is a change to the presentation of the accounts in 2017-18 and this is covered in more detail below. The changes will require the accounts to be restated with a note describing the effect of the changes and the reasons for them. Where prior period adjustments are anticipated, we recommend the opening position is restated and audited before the year end. The restated accounts would therefore form part of our interim audit work. Overall, this approach reduces the burden for both council and audit staff following the year end. It also allows sufficient time to resolve issues that arise in the process.

**Management Accounts** – At the time of audit planning only two quarter end management accounts have been produced in 2017-18. Some issues continue in respect of the timeliness of the management accounts and the lack of detail explaining variances / activity levels and changes to forecast spend. We will review the process for producing management accounts and progress made in improving the process during the audit.



## Further matters of interest

There have been some changes to financial reporting guidance which affect the preparation of your financial statements and will impact on our audit plan. These are detailed below:

### 1. Presentation of the accounts - 'Telling the Story':

- **Narrative Report** - Chapter 3 of the Code of Practice on Local Authority Accounting in the UK [the 'Code'] states that, "the Narrative Report should provide a commentary on how the authority (including the Group Accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies". This is a change in focus from previous Codes. The Code lists the following elements to consider:
    - a) Organisational overview and external environment
    - b) Governance
    - c) Organisational model
    - d) Risks and opportunities
    - e) Strategy and resource allocation
    - f) Performance
    - g) Outlook
    - h) Basis of preparation.
  - **Comprehensive Income and Expenditure Statement** is to be presented in the same format as the organisational structure, including corporate support services. Each service segment shall include the appropriate charges of use of its non-current assets and accrued employee benefit. However, overheads should not be apportioned over these service segments. Previously, the Income and Expenditure Statement was presented in line with the Service Reporting Code of Practice (SeRCoP) where apportionment was required.
  - **Expenditure and Funding Analysis** is aimed at providing a reconciliation of the net expenditure in the Comprehensive Income and Expenditure Statement (CIES) to the net expenditure chargeable under statutory provisions i.e. adjustments are made to remove accounting entries that are not chargeable in respect of rates collection. The Expenditure and Funding Analysis should be presented in the same way as the CIES i.e. by organisational structure segments and should replace the previous Note 3.
  - **Movement in Reserves** should present amounts held for capital purposes separately from those held for revenue purposes.
2. **Proportionate Restatement** – it is expected that the use of indices by Councils to revalue assets will no longer be permitted. Instead a full valuation of land and building assets is to be performed each year by an expert property valuer (whether via physical inspection or a desk valuation).
3. **Website publication of Members' Allowances** – the spreadsheet of Members' Allowances that a council plans to publish on its website should be submitted for audit along with the draft accounts in June. The figures in the published spreadsheet should clearly reconcile to the figures in the Remuneration Report.

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## 4. Audit Timetable, Fees and Staffing

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### Timetable

The timetable comprises an interim visit commencing on 29 January 2018 for 2 weeks and a final visit commencing 16 July 2018 with certification planned for 28 September. This timetable has been agreed with management.

Interim audit testing commences	•29th January 2018
Electronic version of draft financial statements provided to NIAO	•29th June 2018
Final audit testing commences	•16th July 2018
Provisional Report issued for management response	•14th September 2018
Audit Committee Meeting	•19th September 2018 (TBC)
Council Meeting to approve final accounts	•TBC
Signed financial statements and Letter of Representation provided to NIAO	•21st September 2018
Financial Statements certified by LGA	•by 28th September 2018
Final Report to those charged with Governance issued	•19th October 2018
Annual Audit Letter	•19th October 2018

## Submission of Accounts

The Council is required to submit its account to the Department for Communities by 29 June following the year end. The Department then forwards on a hard copy of the accounts to NIAO for audit. It would assist the audit process hugely if an electronic version of the accounts, along with the excel spreadsheet underpinning them, were forwarded to NIAO at the same time as being sent to the Department.

## Public Notice

The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requires the Council to give notice, by publication on its website, of the date from which the accounts and other documents are available for public inspection and the date from which the exercise of rights under Article 17 and 18 of the Order may be exercised. In the current audit timeframe, notice should be placed on websites in early July. The LGA usually writes to councils closer to the time to remind them of this requirement as the audit of the accounts cannot be certified as being completed until the notice period has been executed in full.

## Objections

The 2005 Order allows objections to be raised from interested parties concerning the Council's accounts. We will hear and carefully consider representations by, and objections from, any such interested parties. In conducting our audit we will consider the lawfulness of items of account, the conduct of members and officers, instances where it appears a loss may have arisen and other statutory duties required of the Local Government Auditor.

## Fees

The audit fee for the Council's Statement of Accounts is estimated to be £53,000.

Completion of our audit in line with the timetable and fee is dependent upon:

- The Council delivering on or before 29 June 2018 a complete Statement of Accounts of sufficient quality that have been subject to appropriate internal review.
- The Council delivering good quality supporting documentation and evidence, within the agreed timetable; and
- Appropriate client staff being available during the audit.

## Staffing

