



## Northern Ireland Audit Office

Our purpose ...

Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

- Integrity
- Equality
- Openness
- Innovation

To make a difference for the people of Northern Ireland.

The Local Government (Northern Ireland) Order 2005 (the Order) provides that the Department of the Environment (DOE) may, with the consent of the Comptroller and Auditor General, designate persons who are members of staff of the Northern Ireland Audit Office (NIAO) as Local Government Auditors. Once designated, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the DOE and the Comptroller and Auditor General.

Louise Mason, Assistant Auditor General is the designated Local Government Auditor.

For further information please contact:

Colette Kane  
Director  
Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

Tel: 02890 251064

Email: [colette.kane@niauditoffice.gsi.gov.uk](mailto:colette.kane@niauditoffice.gsi.gov.uk)

## BALLYMONEY BOROUGH COUNCIL AUDIT OF 2014-2015 FINANCIAL STATEMENTS

### AUDIT STRATEGY

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### 1 Introduction

- 1.1. The Local Government Auditor is the independent external auditor of the financial statements of Ballymoney Borough Council (the Council) under the Local Government (Northern Ireland) Order 2005 (the Order). Our audit is designed to allow the Local Government Auditor to give an opinion on whether:
- the financial statements are ‘true and fair’, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting (the Code);
  - the information given in certain sections of the Statement of Accounts is consistent with the financial statements; and
  - a number of further matters on which she reports by exception, including whether or not adequate accounting records have been maintained or if the Annual Governance Statement does not reflect Department of the Environment guidance or compliance with the Code.
- 1.2. The purpose of this document is to highlight to the Chief Financial Officer and Audit Committee of the Council:
- how we plan to audit the financial statements for the year ending 31 March 2015, including how we will be addressing significant risks of material misstatement to transactions and balances;
  - the planned timetable, fees and audit team; and
  - matters which we are required to communicate to you under International Standards on Auditing (UK and Ireland) (ISAs), including the scope of the audit, our respective responsibilities, and how we maintain independence and objectivity (**Annex 1**).

#### Actions for those charged with governance

- 1.3. Those charged with governance are invited to consider and discuss:
- whether our assessment of the potential risks of material misstatement to the financial statements is complete;
  - whether management’s responses to these risks are adequate;
  - our proposed audit plan 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.
- 1.4. Those charged with governance, in order to comply with best practice, should also review the accounting policies adopted by the organisation and consider whether they remain appropriate to the organisation’s circumstances and comply with the Code and relevant guidance issued by Department of the Environment.

### 2 Our Audit approach

- 2.1. Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the business.
- 2.2. This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.

#### Use of Contractors

- 2.3. The NIAO has appointed KPMG to undertake the detailed work to support the Local Government Auditor's opinion. On a day-to-day basis the audit will be managed by KPMG and all audit work completed by KPMG staff, under the direction of the NIAO. The responsibility for recommending the form of audit opinion to the Local Government Auditor shall be retained by the NIAO.

#### Outline of our general audit approach

- 2.4. The NIAO audit approach is risk-based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements and the regularity of underlying transactions.
- 2.5. Our initial assessment of the Council's operations and control environment has not identified any areas of significant risk requiring a specific audit response. We have included in section 3 below risk factors which are specific areas we will test during our audit.
- 2.6. For all significant audit areas, we will use a variety of audit techniques, including analytical procedures and sampling of transactions.
- 2.7. The prior year audit identified significant misstatements. These are set out in **Annex 3** alongside management's response for addressing these issues in producing this year's financial statements
- 2.8. 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. As a result, our review may not detect all weaknesses that exist or all improvements that could be made. Where we do uncover any significant deficiency weaknesses we will report these to you, with our recommendations for improvements.

#### Reliance on others

- 2.9. We continue to consider the work of Internal Audit and may seek to take assurance from their work where their objectives cover areas of joint interest. We also carry out a review of the Internal Audit structure and function in accordance with ISA 610: *Using the work of internal auditors*.

#### Materiality

- 2.10. The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.
- 2.11. For the purposes of determining whether the financial statements are free from material misstatement or irregularity we consider whether:

- the magnitude of misstatement; or
- the nature and cause of misstatements (e.g. because of the sensitivity of specific disclosure or regularity requirements)

would influence the users of the accounts.

- 2.12. In line with generally accepted practice, we have set our quantitative materiality threshold as approximately 1.5% of prior year net operating expenditure, which equates to £104k.
- 2.13. Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include the remuneration report disclosures; the losses and special payments note; and our audit fee.
- 2.14. We apply the concept of materiality in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

### Error Reporting Threshold

- 2.15. For reporting purposes, we will treat any misstatements below £5k as “trivial” and therefore not requiring consideration by the Audit Committee.
- 2.16. Please note that this is a separate threshold to our consideration of materiality as described above. It is materiality, not the error reporting threshold, which is used in forming our audit opinion.

### 3 Significant Risks

#### Risks of material misstatement in the financial statements

- 3.1. As part of our work to develop the audit plan, we considered if there were any significant risks of material misstatement. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration. We did not identify any significant risks of material misstatement in the current year. However, we noted a number of other risk factors as set out below.
- 3.2. 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.
- 3.3. 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.
- 3.4. We have also identified the following other 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.
  - **Local Government Reform** - The Local Government Act (Northern Ireland) 2014 (The Act) has provided for the reduction in the number of local councils from twenty six to eleven. On 1 April 2015 Ballymoney Borough Council will cease to operate and the new Causeway Coast and Glens District Council will come into operation. There is a risk the reorganisation could impact upon the operation of internal controls. In particular, we have concerns over the accuracy and completeness of the transfer of data from the legacy financial systems to the new Causeway Coast and Glens District Council's financial systems. This could create difficulties in identifying and classifying liabilities between the old council and the new council. Further, a voluntary severance scheme is in place and the terms and conditions of this scheme may impact on the Council's financial statements, such as provisions for redundancies and adjustments to the Council's pension liability.
  - **Procurement** - The rules and regulations governing how goods/services are procured are complex. There is a risk these rules are misinterpreted resulting in legal challenge from unsuccessful bidders, fines imposed by EU authorities and poor value for money. It is also important that any lessons learned are highlighted on a timely basis by completing post project appraisals. We consider the following areas to be of particular risk:
    - Roll forward of existing contracts;
    - Variations on existing contracts; and
    - Single tender contracts.
  - **Provision for landfill site costs** - We note the council has a substantial accrual in place for the closure and aftercare costs of its landfill site. Whilst we do not expect any significant changes in the scope of the work to be performed, we note the accounting requirements to update this estimate are complex. Significant estimations include the length of aftercare period and discounting of these liabilities over the aftercare period agreed with the Department of Environment. We will continue to monitor the assumptions used in this estimate and the associated accounting treatment.

### 4 Audit timetable, staffing and fees

#### Timetable and fees

4.1 The Council is required to comply with the legislative timetable for producing and publishing audited accounts.

4.2 Key target dates are:

<b>Event</b>	<b>Date Agreed</b>
The Council provides a draft of the year end financial statements to NIAO for audit.	26 June 2015
Audit testing to commence.	3 August 2015
Appointed Date for exercise of rights under Article 17 and 18 of the Order	4 September 2015 (to be confirmed)
NIAO clearance on draft financial statements, subject to completion of post accounting period review.	October 2015
Provisional Report to those charged with Governance (with draft audit opinion) issued for management responses.	October 2015
The Council provides signed Financial Statements and Letter of Representation to the Local Government Auditor.	October 2015
Financial Statements certified by the Local Government Auditor	By 31 October 2015
Final Report to those charged with Governance issued	By 30 November 2015
Annual Audit Letter issued	By 31 December 2015

4.3 The estimated audit fee for the Council's Statement of Accounts is £22,100.

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

- The Council delivering by 26 June 2015 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

4.5 The following NIAO and KPMG staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>NIAO Staff</b>		
<b>Local Government Auditor</b>	Louise Mason	Responsible for certification of the accounts and other statutory duties of the Local Government Auditor.
<b>Engagement Director</b>	Collette Kane	Review of key issues on behalf of NIAO.
<b>Audit Managers</b>	Alfred Knox Laura Murphy	Monitoring KPMG performance and review of KPMG files.
<b>KPMG Staff</b>		
<b>Audit Engagement Partner</b>	John Poole 028 9089 3854 <a href="mailto:john.poole@kpmg.ie">john.poole@kpmg.ie</a>	Formation of the overall opinion and providing draft shadow audit certificate.
<b>Audit Associate Director</b>	Colin Dowds 028 9089 3713 <a href="mailto:colin.dowds@kpmg.ie">colin.dowds@kpmg.ie</a>	To act as the main point of contact with the Head of Finance bringing all critical audit issues to John's attention and importantly, being the key point of reference for NIAO. Further, to undertake an in depth review of all work carried out by the audit team.

### Scope of the audit

1. Our audit of the financial statements will be carried out in accordance with International Standards on Auditing (UK & Ireland) (ISAs) issued by the Financial Reporting Council (FRC), taking into account Practice Note 10 (Revised): *Audit of Financial Statements in Public Sector Bodies in the United Kingdom (Revised)*. These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process.
2. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the position at 31 March 2015 and the activities reported for the year then ended.
3. In addition we have a professional responsibility to report if the financial statements do not comply in any material respect with the Code and the Accounts Direction and other relevant guidance issued by the Department of the Environment. We therefore review the quality, effectiveness and transparency of the accounting practices and financial reporting. This includes consideration of the appropriateness of accounting policies, accounting estimates and judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period.
4. As part of our audit we will review the information contained in the Statement of Accounts. Certain information given in the Statement of Accounts is subject to our audit opinion. Other information in the Statement of Accounts is reviewed only to the extent that we confirm that it is consistent with the financial statements and our understanding of the business. We also review the overall balance and clarity of information contained in the Statement of Accounts.
5. Legislation requires the Council to advertise 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. We will hear and carefully consider representations by, and objections from, interested parties concerning the Council's accounts. In conducting our audit, when appropriate, 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 our other statutory duties as Local Government Auditor.
6. The Code of Audit Practice issued by the Chief 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.
7. We will provide the Council with a Report to those Charged with Governance containing observations and recommendations on significant matters that have arisen in the course of the audit. After the completion of the audit we will issue an Annual Audit Letter to the Council.

### Governance Statement

8. We will also review the Annual Governance Statement to ensure it complies with the Code and Department of the Environment guidance and that the statement fairly reflects our understanding of the state of internal control systems within the entity during the year.

### Respective Responsibilities

9. 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 Chief Local Government Auditor.

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

### Preparation of the financial statements

11. The primary responsibility for the preparation of the financial statements and the legality of financial transactions lies with the Council and the Chief Financial Officer.
12. The financial statements should be prepared in accordance with the Accounts Direction issued by the Department of the Environment and the Code.

### Legal requirements under Accounts and Audit Regulations

13. The main requirements under the Local Government (Accounts and Audit) Regulations (NI) 2006 include:
  - the accounts have to be approved by a committee of the Council or by members of the Council as a whole prior to the deadline of the 30th June following the end of the financial year;
  - the Local Government Auditor for the purpose of the exercise of rights under Article 17(1) and Article 18(1) of the Order will appoint a date on or after which those rights may be exercised and will notify the council of the date.
  - public notification by way of advertisement of the date on which the accounts and other documents will be made available for inspection needs to be done no later than 14 days before the commencement of the period of public inspection;
  - the Council must make the accounts and other documents mentioned in Article 17 of the Order available for public inspection for 20 working days before the date appointed by the local government auditor;
  - the Council is required to publish the Statement of Accounts with any certificate, opinion or report issued, given or made by the Local Government Auditor under Article 10 of the Order prior to the 31st October immediately following the end of the financial year. It is the Council's responsibility to ensure that publication on its website properly presents this financial information. If no opinion has been given by the Local Government Auditor at the time of publication then this needs to be disclosed along with an explanation of the fact;
  - except with the consent of the Local Government Auditor, accounts and other documents shall not be altered after the date on which they are first made available for inspection;
  - the Council must publish the fact that the audit has been concluded as soon as it is reasonable to do so and that the accounts are available for inspection; and
  - the Council must also publish the Annual Audit Letter from the Local Government Auditor as soon as it is reasonably possible to do so following receipt of that letter.
14. Additional requirements under the Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 include:

- the Council must ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk;
- the Council shall conduct a review at least once in a financial year of the effectiveness of its system of internal control. The findings of the review must be considered by either a committee of Council or the by members of the Council as a whole, who will then approve the Annual Governance Statement, prepared in accordance with proper practices in relation to internal control and publish it within the Statement of Accounts;
- the Council must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control; and
- the Council must, at least once in each financial year, conduct a review of the effectiveness of its system of internal audit. The findings of the review as referred to above will be considered as part of the consideration of the system of internal control.

### Supporting Records

16. All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the draft financial statements. Any amendments made to the trial balances after the close of books should be discussed with NIAO staff and supported by an approved journal and any other underlying documentation. Further adjustments may be required as a result of our audit findings.
17. We will require access to schedules and documentation which support the figures and disclosures within the financial statements, and we would expect the draft account to have been subject to appropriate management review prior to submission for audit. A list summarising the key items of audit information required and the dates that we need them for will be agreed with the finance team prior to each audit visit.
18. We will verify that the submitted financial statements and their supporting schedules have been subject to a detailed management review.

### Fraud

19. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. The Chief Financial Officer is responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.
20. Our audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.
21. We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:
  - Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;

## Annex 1: Scope of audit, respective responsibilities and other matters

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- Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management's communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud;
- Management's communication, if any, to its employees on its views about business practices and ethical behaviour; and
- Whether management has any knowledge of any actual, suspected or alleged fraud.

### Regularity and propriety

22. The Council can only do those things for which it has legal authority. If the Council acts otherwise its actions are ultra vires. Our approach to completing the regularity audit will be to obtain a sufficient understanding of the framework under which the Council operates and to ensure compliance as part of our audit testing.
23. In particular, this means gaining assurance that the Council's income and expenditure transactions are in accordance with appropriate authorities and that the accounting presentation and disclosure conforms to applicable statutory and other requirements. , We will also have regard to the concept of propriety in conducting our audit, which is concerned with the way in which public business should be conducted, concerning the avoidance of waste and extravagance.

### Communication of audit matters

24. ISA 260: *Communication with those charged with governance* provides guidance for communication during the audit cycle.
25. The principles of this ISA are embodied in the NIAO audit approach. These include the provision of this strategy document, wash-up meetings, after audit visits to communicate findings, and the provision of a Report to those Charged with Governance at the completion of the audit setting out observations and recommendations on significant matters which have arisen during the course of the audit.
26. In addition, the ISA states that '*the auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit*'. Significant difficulties would include delays in management providing required information, the unavailability of expected information and restrictions imposed on the auditor by management. We will consider if any issues we have in performing our audit represents significant difficulties. If we encounter significant difficulties we must report these to those charged with governance, documenting how they have been resolved.
27. ISA 265: *Communicating deficiencies in internal control to those charged with governance and management* places a responsibility on the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. We will report significant deficiencies in writing to those charged with governance and management.

### Whole of Government Accounts

28. The Council is required to prepare Whole of Government Accounts consolidation schedules for the year ending 31 March 2015 and submit them to the Department of the Environment. The consolidation schedules should be prepared in accordance with the issued instructions. The requirement for audit of the Council's consolidation schedules and extent of that audit is

determined each year in accordance with certain criteria set by us. An audit of the Council's consolidation schedules was not necessary in 2013-14 and continues not to be necessary for 2014-15.

### Personal Data

29. The processing of personal data for audit purposes will be completed in accordance with the requirements of the Data Protection Act 1998. We have procedures in place to ensure that the security of personal data is safeguarded at all stages of the audit process. We will notify you in the Executive Summary of the Report to those charged with Governance of action taken to return, retain or destroy any personal data processed for audit purposes.

### Assembly of certified audit files

30. International Standard on Quality Control (UK and Ireland) 1 (ISQC1): *Quality control for firms that perform audits* provides guidance on the assembly of completed audit files. We are dedicated to achieving quality throughout our audit process. ISQC1 suggests that 60 days is sufficient time to assemble the files and also states that firms should have "policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation".
31. As part of our office procedures we operate a structured approach to storing the completed audit files within 60 days of certification thereby demonstrating compliance with ISQC1 requirements (which are echoed in ISA 230: *Audit documentation*). Therefore we will request that management responses to our Report to those charged with Governance are agreed within 60 days of certification.

### Independence

32. The NIAO complies with relevant ethical requirements regarding independence and has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in **Annex 2** below: *NIAO quality standards and independence*. We will reconfirm our independence and objectivity for the year ended 31 March 2015 in our Report to those Charged with Governance.

### Audit quality

1. Auditing Standards require that we communicate at least annually with each body we audit on how we maintain our audit quality and our independence.
2. Quality is strongly embedded in the NIAO culture and manifests itself through:
  - Continued Professional Development (CPD) – all professional staff are expected to maintain a level of CPD each year across the range of professional, management and personal effectiveness training and development; and
  - specialist skills – our audit team can call as necessary on the NIAO in-house Audit Policy Branch.
3. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:
  - all planning decisions and fieldwork are reviewed by NIAO management and directorate;
  - all significant matters are dealt with promptly and will be raised with the Council management as necessary; and
  - progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing.
4. In addition, the NIAO has additional procedures for high risk audits, which include the review of key judgements by an NIAO Director who is fully independent of the audit team.
5. Each year the NIAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NIAO's financial audits comply with professional standards and internal policies.
6. To seek an external view, the other UK public audit agencies conduct external Quality Control Reviews on a sample of our post-certified audit files. The results of the Quality Control Reviews are regularly brought to the attention of all staff.

### Independence policies and safeguards

7. The NIAO is independent of government and differs from other professional audit bodies in that it has additional public service responsibilities.
8. All public sector bodies are required to observe high standards of probity in the management of their affairs, and the Committee on Standards in Public Life has identified seven key principles which should be followed: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The combination of professional ethics and public sector principles therefore places the NIAO in a unique position.
9. These principles underpin the work of the NIAO, in particular:
  - Accountability - everything done by those who work in the NIAO must be able to stand the test of assembly scrutiny, public judgements on propriety, and professional codes of conduct;
  - Probity - there should be an absolute standard of honesty and integrity in handling NIAO work and resources; and

- Objectivity and Impartiality - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.
10. We need to apply these values to retain our credibility with the Assembly, audited bodies and other stakeholders in our work and therefore a code of conduct is issued annually for all staff to complete a return confirming that they have complied with its provisions.

### Significant prior year misstatements

1. Detailed below are significant misstatements which were identified in the prior year audit and how management intend to address these issues in producing this year's financial statements:

**a) Pension adjustment – unfunded element excluded in error**

The unfunded element of the pension scheme was not taken into account when preparing the financial statements, resulting in an error in the pension liability and related accounts totalling £214k.

***Management's response for the current year***

*The unfunded element will be included in the 2014-2015 financial statements.*

**b) Trade debt provision included in liabilities**

The provision of £30k for unrecoverable trade debt was included in liabilities and was then transferred against the trade debt balance.

***Management's response for the current year***

*In 2014- 2015 the provision for irrecoverable debt will be included within the overall trade debt balance.*

**c) Error regarding Cloughmills land**

The land at Cloughmills Bio Park was not removed from surplus assets and therefore was double counted. This had a value at the year end of £90k.

***Management's response for the current year***

*This was due to an asset re-classification which has now been corrected.*

**d) Mis-calculation of buildings revaluation**

The revaluation of buildings at the year end was mis-calculated by management, resulting in an error of £291k in the revaluation adjustment.

***Management's response for the current year***

*This occurred as a result of a full revaluation of assets, which is not required in 2014-2015.*

**e) Errors when entering balances into the pro-forma accounts**

There were input errors when preparing the financial statements using the pro-forma accounts, resulting in an overstatement of gross expenditure of £862k, an overstatement of gross income of £652k and an understatement of the revaluation of fixed assets of £210k.

***Management's response for the current year***

*This relates largely to capital receipts and depreciation. Greater attention will be paid when completing the pro forma in 2014-2015.*

**f) Update to landfill scope**

Following the receipt of an update to the scope of works required at the landfill site, the provision was increased by £287k.

***Management's response for the current year***

*There are no known additional landfill closure costs as at March 2015. However, the closure plan is subject to approval by NIEA.*





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Louise Mason, Assistant Auditor General is the designated Local Government Auditor.

For further information please contact:

Tomas Wilkinson  
Director  
Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

Tel: 02890 251073

Email: [tomas.wilkinson@niauditoffice.gsi.gov.uk](mailto:tomas.wilkinson@niauditoffice.gsi.gov.uk)

## COLERAINE BOROUGH COUNCIL

### AUDIT OF 2014-2015 STATEMENT OF ACCOUNTS

#### AUDIT STRATEGY

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  - our proposed audit plan 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.
- 1.4. Those charged with governance, in order to comply with best practice, should also review the accounting policies adopted by the organisation and consider whether they remain appropriate to the organisation's circumstances and comply with the Code and relevant guidance issued by Department of the Environment.

## 2 Our Audit approach

- 2.1. Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the business.
- 2.2. This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.

### *Use of Contractors*

- 2.3. The NIAO has appointed RSM McClure Watters to undertake the detailed work to support the Local Government Auditor's opinion. On a day-to-day basis the audit will be managed by RSM McClure Watters and all audit work completed by RSM McClure Watters staff, under the direction of the NIAO. The responsibility for recommending the form of audit opinion to the Local Government Auditor shall be retained by the NIAO.

### *Outline of our general audit approach*

- 2.4. The NIAO audit approach is risk-based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements and the regularity of underlying transactions.
- 2.5. Our initial assessment of the Council's operations and control environment has identified areas of significant risk which require a specific audit response. These are listed below in section 3. Against each risk we have provided a preliminary audit response. On completion of our audit we will provide a further update on each of these risks in our Report to those charged with Governance.
- 2.6. For all significant audit areas, we will use a variety of audit techniques, including analytical procedures and sampling of transactions.
- 2.7. There were no significant misstatements identified in the 2013-14 financial statements that need addressed in producing this year's financial statements.
- 2.8. 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. As a result, our review may not detect all weaknesses that exist or all improvements that could be made. Where we do uncover any significant deficiency weaknesses we will report these to you, with our recommendations for improvements.

### *Reliance on others*

- 2.9. We continue to liaise closely with Internal Audit and seek to take assurance from their work where their objectives cover areas of joint interest. If appropriate, we will carry out a review of the Internal Audit structure and function in accordance with ISA 610: *Using the work of internal auditors*.

### *Materiality*

- 2.10. The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.
- 2.11. In determining whether the financial statements are free from material misstatement or irregularity we consider whether the following would influence the users of the accounts:
  - the magnitude of misstatement; or
  - the nature and cause of misstatements (e.g. because of the sensitivity of specific disclosure or regularity requirements).

- 2.12. In line with generally accepted practice, we have set our quantitative materiality threshold for the Council as approximately 2% of income.
- 2.13. Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include the remuneration report disclosures; the losses and special payments note and our audit fee.
- 2.14. We apply the concept of materiality in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

***Error Reporting Threshold***

- 2.15. For reporting purposes, we will treat any misstatements below £20,400 as “trivial” and therefore not requiring consideration by the Audit Committee.
- 2.16. Please note that this is a separate threshold to our consideration of materiality as described above. It is materiality, not the error reporting threshold, which is used in forming our audit opinion.

### 3 Significant Risks

#### Risks of material misstatement in the financial statements

- 3.1. As part of our work to develop the audit plan, we have identified the following significant risks of material misstatement. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.

Significant Risk	Audit Response
<p><b>Landfill Provision</b></p> <p>The landfill provision was reviewed in 2014. An under provision was noted and was adjusted in the financial statements.</p> <p>It was noted last year that the Council had not removed cell 6 volume figures when calculating the remaining capacity of the landfill site.</p> <p>We recommended the Council carefully re-examine the model used for calculating the landfill provision in the 2014-15 year and ensure all key assumptions remain appropriate and adequate.</p> <p>Given the under provision noted last year and the issues noted above there is a risk that the provision will not be accurately reflected in the 2014-15 financial statements.</p>	<p>A review of the landfill provision will be undertaken, focusing on the basis of the provision and the relevant supporting documentation.</p> <p>Both prior year issues will be discussed and any revision to the RPS report will be considered in relation to the adequacy of the landfill provision.</p>

- 3.2. 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.
- 3.3. 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.

#### Other risk factors

- 3.4. We have identified a number of other 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:
- **Local Government Reform** – prior to the merger of Coleraine Borough Council, Moyle District Council, Ballymoney Borough Council and Limavady Borough Council there may be significant staff changes which could potentially lead to control weaknesses. The Council should also consider if any provisions should be recognised in respect of severance costs, redundancy costs or other liabilities associated with the restructuring;
  - **Incompleteness of Land Assets on Fixed Asset Register** – There is a risk that the value of fixed assets recorded within the Council's financial statements could be understated due to land assets not being accounted for. We will review and ensure the Council continues to address the issue through mapping of sites and pursuing title deeds.

## 4 Audit timetable, staffing and fees

### Timetable and fees

4.1 The Council is required to comply with the legislative timetable for producing and publishing audited accounts.

4.2 Key target dates are:

Event	Date Agreed/ (Target Date)
The Council provides a draft of the year end financial statements to NIAO for audit.	26 June 2015
Audit testing to commence.	20 July 2015
Appointed Date for exercise of rights under Article 17 and 18 of the Order.	1 September 2015 (TBC)
NIAO clearance on draft financial statements, subject to completion of post accounting period review.	18 September 2015
Provisional Report to those charged with Governance (with draft audit opinion) issued for management responses.	18 September 2015
The Council provides signed Financial Statements and Letter of Representation to the Local Government Auditor.	12 October 2015
Financial Statements certified by the Local Government Auditor.	16 October 2015
Final Report to those charged with Governance issued.	13 November 2015
Annual Audit Letter issued.	13 November 2015

4.3 The estimated audit fee for the Council's Statement of Accounts is £20,000.

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

- The Council delivering by 26 June 2015 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

4.5 The following NIAO staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>Assignment Director</b>	Tomas Wilkinson ☎ 028 90251073	Overall responsibility for the audit. Will be consulted on audit planning and significant issues arising. Will report to the Comptroller and Auditor General in respect of the certification of the accounts.
<b>Assignment Manager</b>	Peter O'Sullivan ☎ 028 90251111	Will liaise with MDC and RSM McClure Watters to ensure delivery of the audit.

4.6 The following RSM McClure Watters staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>Audit Partner</b>	David Gray ☎ 028 90234343	Overall responsibility for the audit.
<b>Audit Director</b>	Michael Scoffield ☎ 028 90234343	Day to day management of the audit and the audit team.
<b>Audit Senior</b>	Mark Trimble ☎ 028 90234343	Detailed planning, conduct and supervision of the audit testing.
<b>Audit Junior</b>	Emer McCann ☎ 028 90234343	Audit testing.

### Scope of the audit

1. Our audit of the financial statements will be carried out in accordance with International Standards on Auditing (UK & Ireland) (ISAs) issued by the Auditing Practice Board (APB), taking into account Practice Note 10 (Revised): *Audit of Financial Statements in Public Sector Bodies in the United Kingdom (Revised)* ]. These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process.
2. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the position at 31 March 2015 and the activities reported for the year then ended.
3. In addition we have a professional responsibility to report if the financial statements do not comply in any material respect with the Code and the Accounts Direction and other relevant guidance issued by the Department of the Environment. We therefore review the quality, effectiveness and transparency of the accounting practices and financial reporting. This includes consideration of the appropriateness of accounting policies, accounting estimates and judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period.
4. As part of our audit we will review the information contained in the Statement of Accounts. Certain information given in the Statement of Accounts is subject to our audit opinion. Other information in the Statement of Accounts is reviewed only to the extent that we confirm that it is consistent with the financial statements and our understanding of the business. We also review the overall balance and clarity of information contained in the Statement of Accounts.
5. Legislation requires the Council to advertise 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. We will hear and carefully consider representations by, and objections from, interested parties concerning the Council's accounts. In conducting our audit, when appropriate, 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 our other statutory duties as Local Government Auditor.
6. The Code of Audit Practice issued by the Chief 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.
7. We will provide the Council with a Report to those Charged with Governance containing observations and recommendations on significant matters that have arisen in the course of the audit. After the completion of the audit we will issue an Annual Audit Letter to the Council.

### Governance Statement

8. We will also review the Annual Governance Statement to ensure it complies with the Code and Department of the Environment guidance and that the statement fairly reflects our understanding of the state of internal control systems within the entity during the year.



### Respective Responsibilities

9. 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 Chief Local Government Auditor.
10. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### Preparation of the financial statements

11. The primary responsibility for the preparation of the financial statements and the legality of financial transactions lies with the Council and the Chief Financial Officer.
12. The financial statements should be prepared in accordance with the Accounts Direction issued by the Department of the Environment and the Code.

### Legal requirements under Accounts and Audit Regulations

13. The main requirements under the Local Government (Accounts and Audit) Regulations (NI) 2006 include:
  - the accounts have to be approved by a committee of the Council or by members of the Council as a whole prior to the deadline of the 30th June following the end of the financial year;
  - the Local Government Auditor for the purpose of the exercise of rights under Article 17(1) and Article 18(1) of the Order will appoint a date on or after which those rights may be exercised and will notify the council of the date.
  - public notification by way of advertisement of the date on which the accounts and other documents will be made available for inspection needs to be done no later than 14 days before the commencement of the period of public inspection;
  - the Council must make the accounts and other documents mentioned in Article 17 of the Order available for public inspection for 20 working days before the date appointed by the local government auditor;
  - the Council is required to publish the Statement of Accounts with any certificate, opinion or report issued, given or made by the Local Government Auditor under Article 10 of the Order prior the 31st October immediately following the end of the financial year. It is the Council's responsibility to ensure that publication on its website properly presents this financial information. If no opinion has been given by the Local Government Auditor at the time of publication then this needs to be disclosed along with an explanation of the fact;
  - except with the consent of the Local Government Auditor, accounts and other documents shall not be altered after the date on which they are first made available for inspection;
  - the Council must publish the fact that the audit has been concluded as soon as it is reasonable to do so and that the accounts are available for inspection; and
  - the Council must also publish the Annual Audit Letter from the Local Government Auditor as soon as it is reasonably possible to do so following receipt of that letter.

### 15. Additional requirements under the Local Government (Accounts and Audit) (Amendment)

Regulations (NI) 2006 include:

- the Council must ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk;
- the Council shall conduct a review at least once in a financial year of the effectiveness of its system of internal control. The findings of the review must be considered by either a committee of Council or the by members of the Council as a whole, who will then approve the Annual Governance Statement, prepared in accordance with proper practices in relation to internal control and publish it within the Statement of Accounts;
- the Council must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control; and
- the Council must, at least once in each financial year, conduct a review of the effectiveness of its system of internal audit. The findings of the review as referred to above will be considered as part of the consideration of the system of internal control.

### Supporting Records

16. All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the draft financial statements. Any amendments made to the trial balances after the close of books should be discussed with NIAO staff and supported by an approved journal and any other underlying documentation. Further adjustments may be required as a result of our audit findings.
17. We will require access to schedules and documentation which support the figures and disclosures within the financial statements, and we would expect the draft account to have been subject to appropriate management review prior to submission for audit. A list summarising the key items of audit information required and the dates that we need them for will be agreed with the finance team prior to each audit visit.
18. We will verify that the submitted financial statements and their supporting schedules have been subject to a detailed management review.

### Fraud

19. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. The Chief Financial Officer is responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.
20. Our audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.
21. We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:
  - Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;

## Annex 1: Scope of the audit, respective responsibilities and other matters

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- Management’s process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management’s communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud;
- Management’s communication, if any, to its employees on its views about business practices and ethical behaviour; and
- Whether management has any knowledge of any actual, suspected or alleged fraud.

### Regularity and propriety

22. The Council can only do those things for which it has legal authority. If the Council acts otherwise its actions are ultra vires. Our approach to completing the regularity audit will be to obtain a sufficient understanding of the framework under which the Council operates and to ensure compliance as part of our audit testing.
23. In particular, this means gaining assurance that the Council’s income and expenditure transactions are in accordance with appropriate authorities and that the accounting presentation and disclosure conforms to applicable statutory and other requirements. , We will also have regard to the concept of propriety in conducting our audit, which is concerned with the way in which public business should be conducted, concerning the avoidance of waste and extravagance.

### Communication of audit matters

24. ISA 260: *Communication with those charged with governance* provides guidance for communication during the audit cycle.
25. The principles of this ISA are embodied in the NIAO audit approach. These include the provision of this strategy document, wash-up meetings, after audit visits to communicate findings, and the provision of a Report to those Charged with Governance at the completion of the audit setting out observations and recommendations on significant matters which have arisen during the course of the audit.
26. In addition, the ISA states that *‘the auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit’*. Significant difficulties would include delays in management providing required information, the unavailability of expected information and restrictions imposed on the auditor by management. We will consider if any issues we have in performing our audit represents significant difficulties. If we encounter significant difficulties we must report these to those charged with governance, documenting how they have been resolved.
27. ISA 265: *Communicating deficiencies in internal control to those charged with governance and management* places a responsibility on the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. We will report significant deficiencies in writing to those charged with governance and management.

### Whole of Government Accounts

28. The Council is required to prepare Whole of Government Accounts consolidation schedules for the year ending 31 March 2015 and submit them to the Department of the Environment. The consolidation schedules should be prepared in accordance with the issued instructions. The requirement for audit of the Council’s consolidation schedules and extent of that audit

## Annex 1: Scope of the audit, respective responsibilities and other matters

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is determined each year in accordance with certain criteria set by us. An audit of the Council's consolidation schedules was not necessary in 2013-14.

### Other Audit Work

29. In addition to the audit of the financial statements we also certify grant claims.
30. We also audit the North East Peace III and Rural Development Joint Committees respectively, of which the Council is a member of both.

### Personal Data

31. The processing of personal data for audit purposes will be completed in accordance with the requirements of the Data Protection Act 1998. We have procedures in place to ensure that the security of personal data is safeguarded at all stages of the audit process. We will notify you in the Executive Summary of the Report to those charged with Governance of action taken to return, retain or destroy any personal data processed for audit purposes.

### Assembly of certified audit files

32. International Standard on Quality Control (UK and Ireland) 1 (ISQC1): *Quality control for firms that perform audits* provides guidance on the assembly of completed audit files. We are dedicated to achieving quality throughout our audit process. ISQC1 suggests that 60 days is sufficient time to assemble the files and also states that firms should have "policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation".
33. As part of our office procedures we operate a structured approach to storing the completed audit files within 60 days of certification thereby demonstrating compliance with ISQC1 requirements (which are echoed in ISA 230: *Audit documentation*). Therefore we will request that management responses to our Report to those charged with Governance are agreed within 60 days of certification.

### Independence

34. The NIAO complies with relevant ethical requirements regarding independence and has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in **Annex 2** below: *NIAO quality standards and independence*. We will reconfirm our independence and objectivity for the year ended 31 March 2015 in our Report to those Charged with Governance.

### Audit quality

1. Auditing Standards require that we communicate at least annually with each body we audit on how we maintain our audit quality and our independence.
2. Quality is strongly embedded in the NIAO culture and manifests itself through:
  - Continued Professional Development (CPD) – all professional staff are expected to maintain a level of CPD each year across the range of professional, management and personal effectiveness training and development; and
  - specialist skills – our audit team can call as necessary on the NIAO in-house Audit Policy Branch.
3. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:
  - all planning decisions and fieldwork are reviewed by NIAO management and directorate;
  - all significant matters are dealt with promptly and will be raised with the Council management as necessary; and
  - progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing.
4. In addition, the NIAO has additional procedures for high risk audits, which include the review of key judgements by an NIAO Director who is fully independent of the audit team.
5. Each year the NIAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NIAO's financial audits comply with professional standards and internal policies.
6. To seek an external view, the other UK public audit agencies conduct external Quality Control Reviews on a sample of our post-certified audit files. The results of the Quality Control Reviews are regularly brought to the attention of all staff.

### Independence policies and safeguards

7. The NIAO is independent of government and differs from other professional audit bodies in that it has additional public service responsibilities.
8. All public sector bodies are required to observe high standards of probity in the management of their affairs, and the Committee on Standards in Public Life has identified seven key principles which should be followed: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The combination of professional ethics and public sector principles therefore places the NIAO in a unique position.
9. These principles underpin the work of the NIAO, in particular:
  - Accountability - everything done by those who work in the NIAO must be able to stand the test of assembly scrutiny, public judgements on propriety, and professional codes of conduct;
  - Probity - there should be an absolute standard of honesty and integrity in handling NIAO work and resources; and

## Annex 2: NIAO quality standards and independence

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- Objectivity and Impartiality - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.
10. We need to apply these values to retain our credibility with the Assembly, audited bodies and other stakeholders in our work and therefore a code of conduct is issued annually for all staff to complete a return confirming that they have complied with its provisions.

## **Annex 3: Prior Period Misstatements**

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### **Significant prior year misstatements**

There were no significant misstatements identified in the 2013-14 financial statements that need addressed in producing this year's financial statements.



## Northern Ireland Audit Office

Our purpose ...

Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

- Integrity
- Equality
- Openness
- Innovation

To make a difference for the people of Northern Ireland.

The Local Government (Northern Ireland) Order 2005 (the Order) provides that the Department of the Environment (DOE) may, with the consent of the Comptroller and Auditor General, designate persons who are members of staff of the Northern Ireland Audit Office (NIAO) as Local Government Auditors. Once designated, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the DOE and the Comptroller and Auditor General.

Louise Mason, Assistant Auditor General is the designated Local Government Auditor.

For further information please contact:

Collette Kane  
Director  
Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

Tel: 02890 251064

Email: [collette.kane@niauditoffice.gsi.gov.uk](mailto:collette.kane@niauditoffice.gsi.gov.uk)

## LIMAVADY BOROUGH COUNCIL & CAUSEWAY COAST AND GLENS STATUTORY TRANSITION COMMITTEE (STC)

### AUDIT OF 2014-2015 FINANCIAL STATEMENTS

#### AUDIT STRATEGY

#### Contents

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### 1 Introduction

- 1.1. The Local Government Auditor is the independent external auditor of the financial statements of Limavady Borough Council (the Council) under the Local Government (Northern Ireland) Order 2005 (the Order). Our audit is designed to allow the Local Government Auditor to give an opinion on whether:
- the financial statements are ‘true and fair’, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting (the Code);
  - the information given in certain sections of the Statement of Accounts is consistent with the financial statements; and
  - a number of further matters on which she reports by exception, including whether or not adequate accounting records have been maintained or if the Annual Governance Statement does not reflect Department of the Environment guidance or compliance with the Code.
- 1.2. The purpose of this document is to highlight to the Chief Financial Officer and Audit Committee of the Council:
- how we plan to audit the financial statements for the year ending 31 March 2015, including how we will be addressing significant risks of material misstatement to transactions and balances;
  - the planned timetable, fees and audit team; and
  - matters which we are required to communicate to you under International Standards on Auditing (UK and Ireland) (ISAs), including the scope of the audit, our respective responsibilities, and how we maintain independence and objectivity (**Annex 1**).

#### Actions for those charged with governance

- 1.3. Those charged with governance are invited to consider and discuss:
- whether our assessment of the potential risks of material misstatement to the financial statements is complete;
  - whether management’s responses to these risks are adequate;
  - our proposed audit plan 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.
- 1.4. Those charged with governance, in order to comply with best practice, should also review the accounting policies adopted by the organisation and consider whether they remain appropriate to the organisation’s circumstances and comply with the Code and relevant guidance issued by Department of the Environment.

### 2 Our Audit approach

- 2.1. Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the business.
- 2.2. This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.

#### Use of Contractors

- 2.3. The NIAO has appointed KPMG to undertake the detailed work to support the Local Government Auditor's opinion. On a day-to-day basis the audit will be managed by KPMG and all audit work completed by KPMG staff, under the direction of the NIAO. The responsibility for recommending the form of audit opinion to the Local Government Auditor shall be retained by the NIAO.

#### Outline of our general audit approach

- 2.4. The NIAO audit approach is risk-based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements and the regularity of underlying transactions.
- 2.5. Our initial assessment of the Council's operations and control environment has not identified any area of significant risk which would require a specific audit response. We have identified a number of risk factors which are listed below in section 3.
- 2.6. For all significant audit areas, we will use a variety of audit techniques, including analytical procedures and sampling of transactions.
- 2.7. 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. As a result, our review may not detect all weaknesses that exist or all improvements that could be made. Where we do uncover any significant deficiency weaknesses we will report these to you, with our recommendations for improvements.

#### Reliance on others

- 2.8. We continue to consider the work of Internal Audit and may seek to take assurance from their work where their objectives cover areas of joint interest. We also carry out a review of the Internal Audit structure and function in accordance with ISA 610: *Using the work of internal auditors*.

#### Materiality

- 2.9. The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.
- 2.10. For the purposes of determining whether the financial statements are free from material misstatement or irregularity we consider whether:
  - the magnitude of misstatement; or
  - the nature and cause of misstatements (e.g. because of the sensitivity of specific disclosure or regularity requirements)would influence the users of the accounts.

## Audit Strategy

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- 2.11. In line with generally accepted practice, we have set our quantitative materiality threshold as approximately 1.5% of prior year net operating expenditure, which equates to £170,000.
- 2.12. Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include the remuneration report disclosures; the losses and special payments note; and our audit fee.
- 2.13. We apply the concept of materiality in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

### Error Reporting Threshold

- 2.14. For reporting purposes, we will treat any misstatements below £8,000 as “trivial” and therefore not requiring consideration by the Audit Committee.
- 2.15. Please note that this is a separate threshold to our consideration of materiality as described above. It is materiality, not the error reporting threshold, which is used in forming our audit opinion.

### 3 Significant Risks

#### Risks of material misstatement in the financial statements

- 3.1. As part of our work to develop the audit plan, we considered if there were any significant risks of material misstatement. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration. We did not identify any significant risks of material misstatement in the current year. However, we noted a number of other risk factors as set out below.
- 3.2. 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.
- 3.3. 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.
- 3.4. We have also identified the following other 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.
  - **Local Government Reform** - The Local Government Act (Northern Ireland) 2014 (The Act) has provided for the reduction in the number of local councils from twenty six to eleven. On 1 April 2015 Limavady Borough Council will cease to operate and the new Causeway Coast and Glens District Council will come into operation. There is a risk the reorganisation could impact upon the operation of internal controls. In particular, we have concerns over the accuracy and completeness of the transfer of data from the legacy financial systems to the new Causeway Coast and Glens District Council's financial systems. This could create difficulties in identifying and classifying liabilities between the old council and the new council. Further, a voluntary severance scheme is in place and the terms and conditions of this scheme may impact on the Council's financial statements, such as provisions for redundancies and adjustments to the Council's pension liability.
  - **Procurement** - The rules and regulations governing how goods/services are procured are complex. There is a risk these rules are misinterpreted resulting in legal challenge from unsuccessful bidders, fines imposed by EU authorities and poor value for money. It is also important that any lessons learned are highlighted on a timely basis by completing post project appraisals. We consider the following areas to be of particular risk:
    - Roll forward of existing contracts;
    - Variations on existing contracts; and
    - Single tender contracts.
  - **Provision for landfill site costs** - We note the council has a substantial accrual in place for the closure and aftercare costs of its landfill site. Whilst we do not expect any significant changes in the scope of the work to be performed, we note the accounting requirements to update this estimate are complex. Significant estimations include the length of aftercare period and discounting of these liabilities over the aftercare period agreed with the Department of Environment. We will continue to monitor the assumptions used in this estimate and the associated accounting treatment.

### 4 Audit timetable, staffing and fees

#### Timetable and fees

4.1 The Council is required to comply with the legislative timetable for producing and publishing audited accounts.

4.2 Key target dates are:

<b>Event</b>	<b>Date Agreed</b>
The Council provides a draft of the year end financial statements to NIAO for audit.	30 June 2015
Audit testing to commence.	3 August 2015
Appointed Date for exercise of rights under Article 17 and 18 of the Order	4 September 2015 (to be confirmed)
NIAO clearance on draft financial statements, subject to completion of post accounting period review.	October 2015
Provisional Report to those charged with Governance (with draft audit opinion) issued for management responses.	October 2015
The Council provides signed Financial Statements and Letter of Representation to the Local Government Auditor.	October 2015
Financial Statements certified by the Local Government Auditor	By 31 October 2015
Final Report to those charged with Governance issued	By 30 November 2015
Annual Audit Letter issued	By 31 December 2015

4.3 The estimated audit fee for the Council's Statement of Accounts is £22,100.

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

- The Council delivering by 30 June 2015 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

4.5 The following NIAO and KPMG staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>NIAO Staff</b>		
<b>Local Government Auditor</b>	Louise Mason	Responsible for certification of the accounts and other statutory duties of the Local Government Auditor.
<b>Engagement Director</b>	Collette Kane	Review of key issues on behalf of NIAO.
<b>Audit Managers</b>	Alfred Knox Laura Murphy	Monitoring KPMG performance and review of KPMG files.
<b>KPMG Staff</b>		
<b>Audit Engagement Partner</b>	John Poole 028 9089 3854 <a href="mailto:john.poole@kpmg.ie">john.poole@kpmg.ie</a>	Formation of the overall opinion and providing draft shadow audit certificate.
<b>Audit Associate Director</b>	Colin Dowds 028 9089 3713 <a href="mailto:colin.dowds@kpmg.ie">colin.dowds@kpmg.ie</a>	To act as the main point of contact with the Head of Finance bringing all critical audit issues to John's attention and importantly, being the key point of reference for NIAO. Further, to undertake an in depth review of all work carried out by the audit team.

### Scope of the audit

1. Our audit of the financial statements will be carried out in accordance with International Standards on Auditing (UK & Ireland) (ISAs) issued by the Financial Reporting Council (FRC), taking into account Practice Note 10 (Revised): *Audit of Financial Statements in Public Sector Bodies in the United Kingdom (Revised)*. These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process.
2. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the position at 31 March 2015 and the activities reported for the year then ended.
3. In addition we have a professional responsibility to report if the financial statements do not comply in any material respect with the Code and the Accounts Direction and other relevant guidance issued by the Department of the Environment. We therefore review the quality, effectiveness and transparency of the accounting practices and financial reporting. This includes consideration of the appropriateness of accounting policies, accounting estimates and judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period.
4. As part of our audit we will review the information contained in the Statement of Accounts. Certain information given in the Statement of Accounts is subject to our audit opinion. Other information in the Statement of Accounts is reviewed only to the extent that we confirm that it is consistent with the financial statements and our understanding of the business. We also review the overall balance and clarity of information contained in the Statement of Accounts.
5. Legislation requires the Council to advertise 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. We will hear and carefully consider representations by, and objections from, interested parties concerning the Council's accounts. In conducting our audit, when appropriate, 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 our other statutory duties as Local Government Auditor.
6. The Code of Audit Practice issued by the Chief 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.
7. We will provide the Council with a Report to those Charged with Governance containing observations and recommendations on significant matters that have arisen in the course of the audit. After the completion of the audit we will issue an Annual Audit Letter to the Council.

### Governance Statement

8. We will also review the Annual Governance Statement to ensure it complies with the Code and Department of the Environment guidance and that the statement fairly reflects our understanding of the state of internal control systems within the entity during the year.

### Respective Responsibilities

9. 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 Chief Local Government Auditor.

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

### Preparation of the financial statements

11. The primary responsibility for the preparation of the financial statements and the legality of financial transactions lies with the Council and the Chief Financial Officer.
12. The financial statements should be prepared in accordance with the Accounts Direction issued by the Department of the Environment and the Code.

### Legal requirements under Accounts and Audit Regulations

13. The main requirements under the Local Government (Accounts and Audit) Regulations (NI) 2006 include:
  - the accounts have to be approved by a committee of the Council or by members of the Council as a whole prior to the deadline of the 30th June following the end of the financial year;
  - the Local Government Auditor for the purpose of the exercise of rights under Article 17(1) and Article 18(1) of the Order will appoint a date on or after which those rights may be exercised and will notify the council of the date.
  - public notification by way of advertisement of the date on which the accounts and other documents will be made available for inspection needs to be done no later than 14 days before the commencement of the period of public inspection;
  - the Council must make the accounts and other documents mentioned in Article 17 of the Order available for public inspection for 20 working days before the date appointed by the local government auditor;
  - the Council is required to publish the Statement of Accounts with any certificate, opinion or report issued, given or made by the Local Government Auditor under Article 10 of the Order prior to the 31st October immediately following the end of the financial year. It is the Council's responsibility to ensure that publication on its website properly presents this financial information. If no opinion has been given by the Local Government Auditor at the time of publication then this needs to be disclosed along with an explanation of the fact;
  - except with the consent of the Local Government Auditor, accounts and other documents shall not be altered after the date on which they are first made available for inspection;
  - the Council must publish the fact that the audit has been concluded as soon as it is reasonable to do so and that the accounts are available for inspection; and
  - the Council must also publish the Annual Audit Letter from the Local Government Auditor as soon as it is reasonably possible to do so following receipt of that letter.
14. Additional requirements under the Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 include:



- the Council must ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk;
- the Council shall conduct a review at least once in a financial year of the effectiveness of its system of internal control. The findings of the review must be considered by either a committee of Council or the by members of the Council as a whole, who will then approve the Annual Governance Statement, prepared in accordance with proper practices in relation to internal control and publish it within the Statement of Accounts;
- the Council must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control; and
- the Council must, at least once in each financial year, conduct a review of the effectiveness of its system of internal audit. The findings of the review as referred to above will be considered as part of the consideration of the system of internal control.

### Supporting Records

16. All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the draft financial statements. Any amendments made to the trial balances after the close of books should be discussed with NIAO staff and supported by an approved journal and any other underlying documentation. Further adjustments may be required as a result of our audit findings.
17. We will require access to schedules and documentation which support the figures and disclosures within the financial statements, and we would expect the draft account to have been subject to appropriate management review prior to submission for audit. A list summarising the key items of audit information required and the dates that we need them for will be agreed with the finance team prior to each audit visit.
18. We will verify that the submitted financial statements and their supporting schedules have been subject to a detailed management review.

### Fraud

19. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. The Chief Financial Officer is responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.
20. Our audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.
21. We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:
  - Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;

## Annex 1: Scope of audit, respective responsibilities and other matters

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- Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management's communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud;
- Management's communication, if any, to its employees on its views about business practices and ethical behaviour; and
- Whether management has any knowledge of any actual, suspected or alleged fraud.

### Regularity and propriety

22. The Council can only do those things for which it has legal authority. If the Council acts otherwise its actions are ultra vires. Our approach to completing the regularity audit will be to obtain a sufficient understanding of the framework under which the Council operates and to ensure compliance as part of our audit testing.
23. In particular, this means gaining assurance that the Council's income and expenditure transactions are in accordance with appropriate authorities and that the accounting presentation and disclosure conforms to applicable statutory and other requirements. , We will also have regard to the concept of propriety in conducting our audit, which is concerned with the way in which public business should be conducted, concerning the avoidance of waste and extravagance.

### Communication of audit matters

24. ISA 260: *Communication with those charged with governance* provides guidance for communication during the audit cycle.
25. The principles of this ISA are embodied in the NIAO audit approach. These include the provision of this strategy document, wash-up meetings, after audit visits to communicate findings, and the provision of a Report to those Charged with Governance at the completion of the audit setting out observations and recommendations on significant matters which have arisen during the course of the audit.
26. In addition, the ISA states that '*the auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit*'. Significant difficulties would include delays in management providing required information, the unavailability of expected information and restrictions imposed on the auditor by management. We will consider if any issues we have in performing our audit represents significant difficulties. If we encounter significant difficulties we must report these to those charged with governance, documenting how they have been resolved.
27. ISA 265: *Communicating deficiencies in internal control to those charged with governance and management* places a responsibility on the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. We will report significant deficiencies in writing to those charged with governance and management.

### Whole of Government Accounts

28. The Council is required to prepare Whole of Government Accounts consolidation schedules for the year ending 31 March 2015 and submit them to the Department of the Environment. The consolidation schedules should be prepared in accordance with the issued instructions. The requirement for audit of the Council's consolidation schedules and extent of that audit is

determined each year in accordance with certain criteria set by us. An audit of the Council's consolidation schedules was not necessary in 2013-14 and continues not to be necessary for 2014-15.

### Personal Data

29. The processing of personal data for audit purposes will be completed in accordance with the requirements of the Data Protection Act 1998. We have procedures in place to ensure that the security of personal data is safeguarded at all stages of the audit process. We will notify you in the Executive Summary of the Report to those charged with Governance of action taken to return, retain or destroy any personal data processed for audit purposes.

### Assembly of certified audit files

30. International Standard on Quality Control (UK and Ireland) 1 (ISQC1): *Quality control for firms that perform audits* provides guidance on the assembly of completed audit files. We are dedicated to achieving quality throughout our audit process. ISQC1 suggests that 60 days is sufficient time to assemble the files and also states that firms should have "policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation".
31. As part of our office procedures we operate a structured approach to storing the completed audit files within 60 days of certification thereby demonstrating compliance with ISQC1 requirements (which are echoed in ISA 230: *Audit documentation*). Therefore we will request that management responses to our Report to those charged with Governance are agreed within 60 days of certification.

### Independence

32. The NIAO complies with relevant ethical requirements regarding independence and has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in **Annex 2** below: *NIAO quality standards and independence*. We will reconfirm our independence and objectivity for the year ended 31 March 2015 in our Report to those Charged with Governance.

### Audit quality

1. Auditing Standards require that we communicate at least annually with each body we audit on how we maintain our audit quality and our independence.
2. Quality is strongly embedded in the NIAO culture and manifests itself through:
  - Continued Professional Development (CPD) – all professional staff are expected to maintain a level of CPD each year across the range of professional, management and personal effectiveness training and development; and
  - specialist skills – our audit team can call as necessary on the NIAO in-house Audit Policy Branch.
3. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:
  - all planning decisions and fieldwork are reviewed by NIAO management and directorate;
  - all significant matters are dealt with promptly and will be raised with the Council management as necessary; and
  - progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing.
4. In addition, the NIAO has additional procedures for high risk audits, which include the review of key judgements by an NIAO Director who is fully independent of the audit team.
5. Each year the NIAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NIAO's financial audits comply with professional standards and internal policies.
6. To seek an external view, the other UK public audit agencies conduct external Quality Control Reviews on a sample of our post-certified audit files. The results of the Quality Control Reviews are regularly brought to the attention of all staff.

### Independence policies and safeguards

7. The NIAO is independent of government and differs from other professional audit bodies in that it has additional public service responsibilities.
8. All public sector bodies are required to observe high standards of probity in the management of their affairs, and the Committee on Standards in Public Life has identified seven key principles which should be followed: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The combination of professional ethics and public sector principles therefore places the NIAO in a unique position.
9. These principles underpin the work of the NIAO, in particular:
  - Accountability - everything done by those who work in the NIAO must be able to stand the test of assembly scrutiny, public judgements on propriety, and professional codes of conduct;
  - Probity - there should be an absolute standard of honesty and integrity in handling NIAO work and resources; and

- Objectivity and Impartiality - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.
10. We need to apply these values to retain our credibility with the Assembly, audited bodies and other stakeholders in our work and therefore a code of conduct is issued annually for all staff to complete a return confirming that they have complied with its provisions.

### 1. Background

The Causeway Coast and Glens Statutory Transition Committee was formed pursuant to the power conferred by the Local Government (Statutory Transition Committees) Regulations (Northern Ireland) 2013.

According to the Regulations, the primary role of the Statutory Transition Committee was to undertake preparatory duties to inform the key decisions of the new incoming Council following local government elections in May 2014.

In accordance with the Local Government (Statutory Transition Committees) Regulations (Northern Ireland) 2013, the Statutory Transition Committee ceased to exist on 19 June 2014.

### 2. Format of the Accounts

The Statutory Transition Committee must prepare its account, for the period ended 19 June 2014, in the form directed by the DOE. DOE issue this Accounts Direction in accordance with Article 24(2) of the Local Government (Northern Ireland) Order 2005 and Regulation 4(1) of the Local Government (accounts and Audit) Regulations (Northern Ireland) 2006.

### 3. Scope of the Audit

The Local Government Auditor is the independent external auditor appointed under the Local Government (Northern Ireland) Order 2005 (the Order). The Local Government Auditor is required to examine, certify and report on each of the statements comprising the financial statements of the Statutory Transition Committee. Our examination of the financial statements for the period ended 19 June 2014 will be carried out in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board and the Code of Audit Practice issued by the Chief Local Government Auditor.

We have a professional responsibility to report if the financial statements do not comply in any material respect with the Accounts Direction and other relevant guidance issued by the DOE. We will provide the Chief Financial Officer of the Statutory Transition Committee with a Report to those charged with Governance containing observations and recommendations on significant matters that have arisen in the course of the audit.

After the completion of the audit we will issue an Annual Audit Letter to the Chief Financial Officer of the Statutory Transition Committee, which is required to be published.

### 4. Materiality

The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

Following our initial planning assessment, we have set our quantitative materiality threshold for the Statutory Transition Committee audit at 2% of gross expenditure.

Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include things such as our audit fee etc.

As the audit progresses our assessment of both quantitative and qualitative materiality may change.

For reporting purposes, we will treat any misstatements below £1,000 as “trivial” and therefore not requiring consideration by the Audit Committee.

### 5. Risks of material misstatements in the financial statements

As part of our work to develop the audit plan, we have not identified any significant risks of material misstatement however we will keep this under review throughout our audit. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special consideration.

### 6. Key Target Dates

The Committee is required to comply with the legislative timetable for producing and publishing audited accounts. Key target dates are:

Event	Date Agreed/ (Target Date)
Statement of Accounts (unsigned) for the period ended 19 June 2014 sent to DOE.	28 February 2015
Statement of Accounts for the period ended 19 June 2014 sent to DOE by the Committee.	30 June 2015
Appointed Date for exercise of rights under Article 17 and 18 of the Order	1 September 2015 (to be confirmed)
Local Government Auditor certifies Financial Statements	21 September 2015
Final Report to those charged with Governance issued.	20 October 2015
Annual Audit Letter issued.	13 November 2015

The estimated audit fee for the Committee's Statement of Accounts for the period ended 19 June 2014 is £2,000.

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

- Delivery, by 1 July 2015, of a complete Statement of Accounts of sufficient quality that have been subject to appropriate internal review.
- Good quality supporting documentation and evidence, within the agreed timetable; and
- Appropriate client staff being available during the audit.

### 7. Staffing

The following NIAO staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>Assignment Director</b>	Colette Kane	Overall responsibility for the audit.
<b>Assignment Manager</b>	Alfred Knox	Day to day management of the audit.
<b>Lead Auditor</b>	Caroline Laird	Planning and audit testing.







## Northern Ireland Audit Office

Our purpose ...

Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

- Integrity
- Equality
- Openness
- Innovation

To make a difference for the people of Northern Ireland.

The Local Government (Northern Ireland) Order 2005 (the Order) provides that the Department of the Environment (DOE) may, with the consent of the Comptroller and Auditor General, designate persons who are members of staff of the Northern Ireland Audit Office (NIAO) as Local Government Auditors. Once designated, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the DOE and the Comptroller and Auditor General.

Louise Mason, Assistant Auditor General is the designated Local Government Auditor.

For further information please contact:

Tomas Wilkinson  
Director  
Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

Tel: 02890 251073

Email: [tomas.wilkinson@niauditoffice.gsi.gov.uk](mailto:tomas.wilkinson@niauditoffice.gsi.gov.uk)

## MOYLE DISTRICT COUNCIL

### AUDIT OF 2014-2015 STATEMENT OF ACCOUNTS

#### AUDIT STRATEGY

#### Contents

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## 1 Introduction

- 1.1. The Local Government Auditor is the independent external auditor of the financial statements of Moyle District Council (the Council) under the Local Government (Northern Ireland) Order 2005 (the Order). Our audit is designed to allow the Local Government Auditor to give an opinion on whether:
- the financial statements are ‘true and fair’, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting (the Code);
  - the information given in certain sections of the Statement of Accounts is consistent with the financial statements; and
  - a number of further matters on which he reports by exception, including whether or not adequate accounting records have been maintained or if the Annual Governance Statement does not reflect Department of the Environment guidance or compliance with the Code.
- 1.2. The purpose of this document is to highlight to the Chief Financial Officer and Audit Committee of the Council:
- how we plan to audit the financial statements for the year ending 31 March 2015, including how we will be addressing significant risks of material misstatement to transactions and balances;
  - 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 (UK and Ireland) (ISAs), including the scope of the audit, our respective responsibilities, and how we maintain independence and objectivity (**Annex 1**).

### **Actions for those charged with governance**

- 1.3. Those charged with governance are invited to consider and discuss:
- whether our assessment of the potential risks of material misstatement to the financial statements is complete;
  - whether management’s responses to these risks are adequate;
  - our proposed audit plan 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.
- 1.4. Those charged with governance, in order to comply with best practice, should also review the accounting policies adopted by the organisation and consider whether they remain appropriate to the organisation’s circumstances and comply with the Code and relevant guidance issued by Department of the Environment.

## 2 Our Audit approach

- 2.1. Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the business.
- 2.2. This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.

### *Use of Contractors*

- 2.3. The NIAO has appointed RSM McClure Watters to undertake the detailed work to support the Local Government Auditor's opinion. On a day-to-day basis the audit will be managed by RSM McClure Watters and all audit work completed by RSM McClure Watters staff, under the direction of the NIAO. The responsibility for recommending the form of audit opinion to the Local Government Auditor shall be retained by the NIAO.

### *Outline of our general audit approach*

- 2.4. The NIAO audit approach is risk-based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements and the regularity of underlying transactions.
- 2.5. Our initial assessment of the Council's operations and control environment has identified areas of significant risk which require a specific audit response. These are listed below in section 3. Against each risk we have provided a preliminary audit response. On completion of our audit we will provide a further update on each of these risks in our Report to those charged with Governance.
- 2.6. For all significant audit areas, we will use a variety of audit techniques, including analytical procedures and sampling of transactions.
- 2.7. The prior year audit did not identify any significant misstatements and disclosure deficiencies.
- 2.8. 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. As a result, our review may not detect all weaknesses that exist or all improvements that could be made. Where we do uncover any significant deficiency weaknesses we will report these to you, with our recommendations for improvements.

### *Reliance on others*

- 2.9. We continue to liaise with Internal Audit and seek to take assurance from their work where their objectives cover areas of joint interest. Where appropriate, we will also carry out a review of the Internal Audit structure and function in accordance with ISA 610: *Using the work of internal auditors*.

### *Materiality*

- 2.10. The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.
- 2.11. In determining whether the financial statements are free from material misstatement or irregularity we consider whether the following would influence the users of the accounts:
  - the magnitude of misstatement; or
  - the nature and cause of misstatements (e.g. because of the sensitivity of specific disclosure or regularity requirements).

- 2.12. In line with generally accepted practice, we have set our quantitative materiality threshold for the Council as approximately 2% of income.
- 2.13. Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include the remuneration report disclosures; the losses and special payments note; our audit fee.
- 2.14. We apply the concept of materiality in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

***Error Reporting Threshold***

- 2.15. For reporting purposes, we will treat any misstatements below £5,700 as “trivial” and therefore not requiring consideration by the Audit Committee.
- 2.16. Please note that this is a separate threshold to our consideration of materiality as described above. It is materiality, not the error reporting threshold, which is used in forming our audit opinion.

### 3 Significant Risks

#### Risks of material misstatement in the financial statements

- 3.1. A significant risk is an identified and assessed risk of material misstatement that, in the auditors's judgement, requires special audit consideration. As part of our work to develop the audit plan, our initial assessment has not identified any significant risks of material misstatement. However we will keep this assessment under review throughout the course of our audit.
- 3.2. 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.
- 3.3. 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.

#### Other risk factors

- 3.4. We have identified a number of other 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:
  - **Local Government Reform** – prior to the merger of Moyle District Council, Coleraine Borough Council, Ballymoney Borough Council and Limavady Borough Council there may be significant staff changes which could potentially lead to control weaknesses. The Council should also consider if any provisions should be recognised in respect of severance costs, redundancy costs or other liabilities associated with the restructuring; and
  - **Heritage and Community Assets** – there is a risk that these assets are not recorded at the correct value in the financial statements. We will review and ensure the independent valuations carried out during 2014-15 have been reflected in the financial statements.

## 4 Audit timetable, staffing and fees

### Timetable and fees

4.1 The Council is required to comply with the legislative timetable for producing and publishing audited accounts.

4.2 Key target dates are:

Event	Date Agreed/ (Target Date)
The Council provides a draft of the year end financial statements to NIAO for audit.	26 June 2015
Audit testing to commence.	10 August 2015
Appointed Date for exercise of rights under Article 17 and 18 of the Order.	1 September 2015 (TBC)
NIAO clearance on draft financial statements, subject to completion of post accounting period review.	18 September 2015
Provisional Report to those charged with Governance (with draft audit opinion) issued for management responses.	18 September 2015
The Council provides signed Financial Statements and Letter of Representation to the Local Government Auditor.	12 October 2015
Financial Statements certified by the Local Government Auditor.	16 October 2015
Final Report to those charged with Governance issued.	13 November 2015
Annual Audit Letter issued.	13 November 2015

4.3 The estimated audit fee for the Council's Statement of Accounts is £16,000.

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

- The Council delivering by 26 June 2015 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

4.5 The following NIAO staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>Assignment Director</b>	Tomas Wilkinson ☎ 028 90251073	Overall responsibility for the audit. Will be consulted on audit planning and significant issues arising. Will report to the Comptroller and Auditor General in respect of the certification of the accounts.
<b>Assignment Manager</b>	Peter O'Sullivan ☎ 028 90251111	Will liaise with Moyle District Council and RSM McClure Watters to ensure delivery of the audit.

4.6 The following RSM McClure Watters staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
<b>Audit Partner</b>	David Gray ☎ 028 90234343	Overall responsibility for the audit.
<b>Audit Director</b>	Michael Scoffield ☎ 028 90234343	Day to day management of the audit and the audit team.
<b>Audit Senior</b>	Mark Trimble ☎ 028 90234343	Detailed planning, conduct and supervision of the audit testing.
<b>Audit Junior</b>	Emer McCann ☎ 028 90234343	Audit testing.

### Scope of the audit

1. Our audit of the financial statements will be carried out in accordance with International Standards on Auditing (UK & Ireland) (ISAs) issued by the Auditing Practice Board (APB), taking into account Practice Note 10 (Revised): *Audit of Financial Statements in Public Sector Bodies in the United Kingdom (Revised)* ]. These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process.
2. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the position at 31 March 2015 and the activities reported for the year then ended.
3. In addition we have a professional responsibility to report if the financial statements do not comply in any material respect with the Code and the Accounts Direction and other relevant guidance issued by the Department of the Environment. We therefore review the quality, effectiveness and transparency of the accounting practices and financial reporting. This includes consideration of the appropriateness of accounting policies, accounting estimates and judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period.
4. As part of our audit we will review the information contained in the Statement of Accounts. Certain information given in the Statement of Accounts is subject to our audit opinion. Other information in the Statement of Accounts is reviewed only to the extent that we confirm that it is consistent with the financial statements and our understanding of the business. We also review the overall balance and clarity of information contained in the Statement of Accounts.
5. Legislation requires the Council to advertise 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. We will hear and carefully consider representations by, and objections from, interested parties concerning the Council's accounts. In conducting our audit, when appropriate, 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 our other statutory duties as Local Government Auditor.
6. The Code of Audit Practice issued by the Chief 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.
7. We will provide the Council with a Report to those Charged with Governance containing observations and recommendations on significant matters that have arisen in the course of the audit. After the completion of the audit we will issue an Annual Audit Letter to the Council.

### Governance Statement

8. We will also review the Annual Governance Statement to ensure it complies with the Code and Department of the Environment guidance and that the statement fairly reflects our understanding of the state of internal control systems within the entity during the year.



### Respective Responsibilities

9. 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 Chief Local Government Auditor.
10. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### Preparation of the financial statements

11. The primary responsibility for the preparation of the financial statements and the legality of financial transactions lies with the Council and the Chief Financial Officer.
12. The financial statements should be prepared in accordance with the Accounts Direction issued by the Department of the Environment and the Code.

### Legal requirements under Accounts and Audit Regulations

13. The main requirements under the Local Government (Accounts and Audit) Regulations (NI) 2006 include:
  - the accounts have to be approved by a committee of the Council or by members of the Council as a whole prior to the deadline of the 30th June following the end of the financial year;
  - the Local Government Auditor for the purpose of the exercise of rights under Article 17(1) and Article 18(1) of the Order will appoint a date on or after which those rights may be exercised and will notify the council of the date.
  - public notification by way of advertisement of the date on which the accounts and other documents will be made available for inspection needs to be done no later than 14 days before the commencement of the period of public inspection;
  - the Council must make the accounts and other documents mentioned in Article 17 of the Order available for public inspection for 20 working days before the date appointed by the local government auditor;
  - the Council is required to publish the Statement of Accounts with any certificate, opinion or report issued, given or made by the Local Government Auditor under Article 10 of the Order prior the 31st October immediately following the end of the financial year. It is the Council's responsibility to ensure that publication on its website properly presents this financial information. If no opinion has been given by the Local Government Auditor at the time of publication then this needs to be disclosed along with an explanation of the fact;
  - except with the consent of the Local Government Auditor, accounts and other documents shall not be altered after the date on which they are first made available for inspection;
  - the Council must publish the fact that the audit has been concluded as soon as it is reasonable to do so and that the accounts are available for inspection; and
  - the Council must also publish the Annual Audit Letter from the Local Government Auditor as soon as it is reasonably possible to do so following receipt of that letter.

15. Additional requirements under the Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 include:
- the Council must ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk;
  - the Council shall conduct a review at least once in a financial year of the effectiveness of its system of internal control. The findings of the review must be considered by either a committee of Council or the by members of the Council as a whole, who will then approve the Annual Governance Statement, prepared in accordance with proper practices in relation to internal control and publish it within the Statement of Accounts;
  - the Council must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control; and
  - the Council must, at least once in each financial year, conduct a review of the effectiveness of its system of internal audit. The findings of the review as referred to above will be considered as part of the consideration of the system of internal control.

### Supporting Records

16. All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the draft financial statements. Any amendments made to the trial balances after the close of books should be discussed with NIAO staff and supported by an approved journal and any other underlying documentation. Further adjustments may be required as a result of our audit findings.
17. We will require access to schedules and documentation which support the figures and disclosures within the financial statements, and we would expect the draft account to have been subject to appropriate management review prior to submission for audit. A list summarising the key items of audit information required and the dates that we need them for will be agreed with the finance team prior to each audit visit.
18. We will verify that the submitted financial statements and their supporting schedules have been subject to a detailed management review.

### Fraud

19. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. The Chief Financial Officer is responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.
20. Our audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.
21. We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:
- Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;

## Annex 1: Scope of the audit, respective responsibilities and other matters

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- Management’s process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management’s communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud;
- Management’s communication, if any, to its employees on its views about business practices and ethical behaviour; and
- Whether management has any knowledge of any actual, suspected or alleged fraud.

### Regularity and propriety

22. The Council can only do those things for which it has legal authority. If the Council acts otherwise its actions are ultra vires. Our approach to completing the regularity audit will be to obtain a sufficient understanding of the framework under which the Council operates and to ensure compliance as part of our audit testing.
23. In particular, this means gaining assurance that the Council’s income and expenditure transactions are in accordance with appropriate authorities and that the accounting presentation and disclosure conforms to applicable statutory and other requirements. , We will also have regard to the concept of propriety in conducting our audit, which is concerned with the way in which public business should be conducted, concerning the avoidance of waste and extravagance.

### Communication of audit matters

24. ISA 260: *Communication with those charged with governance* provides guidance for communication during the audit cycle.
25. The principles of this ISA are embodied in the NIAO audit approach. These include the provision of this strategy document, wash-up meetings, after audit visits to communicate findings, and the provision of a Report to those Charged with Governance at the completion of the audit setting out observations and recommendations on significant matters which have arisen during the course of the audit.
26. In addition, the ISA states that *‘the auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit’*. Significant difficulties would include delays in management providing required information, the unavailability of expected information and restrictions imposed on the auditor by management. We will consider if any issues we have in performing our audit represents significant difficulties. If we encounter significant difficulties we must report these to those charged with governance, documenting how they have been resolved.
27. ISA 265: *Communicating deficiencies in internal control to those charged with governance and management* places a responsibility on the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. We will report significant deficiencies in writing to those charged with governance and management.

### Whole of Government Accounts

28. The Council is required to prepare Whole of Government Accounts consolidation schedules for the year ending 31 March 2015 and submit them to the Department of the Environment. The consolidation schedules should be prepared in accordance with the issued instructions. The requirement for audit of the Council’s consolidation schedules and extent of that audit

## Annex 1: Scope of the audit, respective responsibilities and other matters

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is determined each year in accordance with certain criteria set by us. An audit of the Council's consolidation schedules was not necessary in 2013-14.

### Other Audit Work

29. In addition to the audit of the financial statements we also certify grant claims.
30. We also audit the North East Peace III and Rural Development Joint Committees respectively, of which the Council is a member of both. The results of these audits will be reported to the lead Councils, Coleraine Borough Council and Ballymena Borough Council respectively.

### Personal Data

31. The processing of personal data for audit purposes will be completed in accordance with the requirements of the Data Protection Act 1998. We have procedures in place to ensure that the security of personal data is safeguarded at all stages of the audit process. We will notify you in the Executive Summary of the Report to those charged with Governance of action taken to return, retain or destroy any personal data processed for audit purposes.

### Assembly of certified audit files

32. International Standard on Quality Control (UK and Ireland) 1 (ISQC1): *Quality control for firms that perform audits* provides guidance on the assembly of completed audit files. We are dedicated to achieving quality throughout our audit process. ISQC1 suggests that 60 days is sufficient time to assemble the files and also states that firms should have "policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation".
33. As part of our office procedures we operate a structured approach to storing the completed audit files within 60 days of certification thereby demonstrating compliance with ISQC1 requirements (which are echoed in ISA 230: *Audit documentation*). Therefore we will request that management responses to our Report to those charged with Governance are agreed within 60 days of certification.

### Independence

34. The NIAO complies with relevant ethical requirements regarding independence and has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in **Annex 2** below: *NIAO quality standards and independence*. We will reconfirm our independence and objectivity for the year ended 31 March 2015 in our Report to those Charged with Governance.

### Audit quality

1. Auditing Standards require that we communicate at least annually with each body we audit on how we maintain our audit quality and our independence.
2. Quality is strongly embedded in the NIAO culture and manifests itself through:
  - Continued Professional Development (CPD) – all professional staff are expected to maintain a level of CPD each year across the range of professional, management and personal effectiveness training and development; and
  - specialist skills – our audit team can call as necessary on the NIAO in-house Audit Policy Branch.
3. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:
  - all planning decisions and fieldwork are reviewed by NIAO management and directorate;
  - all significant matters are dealt with promptly and will be raised with NMNI management as necessary; and
  - progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing.
4. In addition, the NIAO has additional procedures for high risk audits, which include the review of key judgements by an NIAO Director who is fully independent of the audit team.
5. Each year the NIAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NIAO's financial audits comply with professional standards and internal policies.
6. To seek an external view, the other UK public audit agencies conduct external Quality Control Reviews on a sample of our post-certified audit files. The results of the Quality Control Reviews are regularly brought to the attention of all staff.

### Independence policies and safeguards

7. The NIAO is independent of government and differs from other professional audit bodies in that it has additional public service responsibilities.
8. All public sector bodies are required to observe high standards of probity in the management of their affairs, and the Committee on Standards in Public Life has identified seven key principles which should be followed: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The combination of professional ethics and public sector principles therefore places the NIAO in a unique position.
9. These principles underpin the work of the NIAO, in particular:
  - Accountability - everything done by those who work in the NIAO must be able to stand the test of assembly scrutiny, public judgements on propriety, and professional codes of conduct;
  - Probity - there should be an absolute standard of honesty and integrity in handling NIAO work and resources; and
  - Objectivity and Impartiality - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.

10. We need to apply these values to retain our credibility with the Assembly, audited bodies and other stakeholders in our work and therefore a code of conduct is issued annually for all staff to complete a return confirming that they have complied with its provisions.

### **Annex 3: Prior period misstatements**

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#### **Significant prior year misstatements and disclosure deficiencies**

The prior year audit did not identify any significant misstatements or significant disclosure deficiencies.