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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 provides that the Department for Communities may, with the consent of the Comptroller and Auditor General, designate persons who are members of the Northern Ireland Audit Office as Local Government Auditors. Louise Mason, Assistant Auditor General, is the designated Local Government Auditor for all local government bodies in Northern Ireland.

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DERRY CITY AND STRABANE DISTRICT COUNCIL AUDIT OF 2016-2017 FINANCIAL STATEMENTS

REPORT TO THOSE CHARGED WITH GOVERNANCE

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Introduction

1. This report summarises the key matters arising from our audit of the 2016-17 financial statements for the benefit of those charged with governance¹. We would like to thank the Chief Financial Officer and Lead Finance Officer & ICT and their staff for their co-operation during the audit process.
2. The examination of the 2016-17 financial statements was undertaken in accordance with auditing standards issued by the Auditing Practice Board (APB), taking into account the UK Auditing Practice Board's Practice Note 10 (Revised); Audit of Financial statement in Public Sector Bodies in the United Kingdom and the Code of Audit Practice issued by the Local Government Auditor. Our approach to the audit was planned and executed in accordance with the Audit Strategy presented to the Audit Committee in March 2017.
3. This report has been prepared for the sole use of Derry City and Strabane District Council. Our prior consent should be sought before any distribution (including web publication) either in full or in part is made. The Northern Ireland Audit Office (NIAO) does not accept responsibility to any third party for losses arising from reliance being placed on this report.
4. Derry City and Strabane District Council has now published its audited accounts on its website along with a note stating that the audit has been concluded and that the statement of accounts is available for inspection by any member of the public and including the matters set out in regulation 16 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

Actions for those charged with governance

5. Those charged with governance have reviewed the findings, as set out in this report, including the letter of representation and audit certificate included in Annex A and Annex B respectively.

Status of audit

6. Our audit for 2016-17 is complete. The Local Government Auditor certified the 2016-17 financial statements with an unqualified audit opinion, without modification.

Overall conclusion and opinion

7. The Local Government Auditor provided her audit opinion in the format set out in Annex B – Audit Report. The audit report includes an opinion as to the truth and fairness of the financial statements and that certain information given in the Narrative Report is consistent with the financial statements. The audit report also includes an opinion on whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the Department for Communities directions made under the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.
8. The Local Government Auditor certified the 2016-17 financial statements with an unqualified audit opinion, without modification.

Audit judgements

9. In reaching our opinion we have made the following key audit judgements:
 - We considered the legality of council recognising in its financial statements, all the costs of the North West Regional Development Group (NWRDG). While council appears to have implied vires to recognise all

¹ In accordance with ISA 260, those charged with governance are those individuals accountable for ensuring that the Council achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Executive Summary

joint Northern Ireland and Republic of Ireland costs there is no specific legislation which applies to costs solely for the benefit of the Republic of Ireland (ROI). This year as costs solely for ROI benefit, are of minor value then on materiality grounds we have accepted their inclusion in this year's financial statements. However in order to fully resolve this recognition query for 2017-18 we have recently asked council to provide us with a formal legal opinion justifying its accounting treatment for NWRDG costs which either solely or jointly apply to ROI. We have also raised a recommendation on this – see section 2.11

- We again considered the going concern issue raised by the auditor of CODA by way of an emphasis of matter paragraph in the auditors' certificate and the impact this might have for the Group accounts. We were satisfied with the assurances received from Derry City and Strabane District Council that the Council would continue funding the airport and has set aside additional funding in reserves in case this may be required for the next 2 years of CODA trading.

Audit findings

10. In Section 2 we outline the quality, effectiveness and transparency of Derry City and Strabane District Council's financial reporting and its accounting policy selection, and our audit findings including any issues identified relating to the internal control environment.
11. No issues were identified on the quality, effectiveness and transparency of financial reporting and accounting.
12. The accounting policies were considered appropriate.
13. We identified no significant internal control weaknesses². We do however acknowledge council's continued progress in implementing the recommendations arising from the significant procurement investigation.
14. The Annual Governance Statement has been reviewed for completeness and adequacy of disclosures and appears satisfactory.
15. Further issues of interest are set out in the Other Matters of Governance Interest section.

Identified misstatements

16. Arising from our audit, a number of narrative and financial presentation adjustments have now been made to the financial statement. No other financial adjustments have been made which would impact on the result or Net Assets value for the year.
17. Section 3 also details uncorrected misstatements. The net effect on the Comprehensive Income and Expenditure and balance sheet would be an increase of £89k. Management have not corrected these misstatements as they do not consider them material in the context of the financial misstatements as a whole. We are content with this.

² In accordance with ISA 265, it is the auditor's responsibility to communicate appropriately to those charged with governance and management, deficiencies in internal control identified in an audit of financial statements that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.

Section 2 Audit Findings

Significant risks

- 1.1. In our Audit Strategy issued in March 2017, our assessment of the Derry City and Strabane District Council's operations and control environment identified one significant risk. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.
- 1.2 No new risks were identified since the Audit Strategy was issued.
- 1.3 The table below describes how we addressed these matters through our audit process.

Significant risks of material misstatement

Risk 1: City of Derry Airport (CODA)
City of Derry Airport (CODA): There continues to be uncertainty regarding the going concern status of the Airport. This may impact upon the group accounts for the Council, disclosures within the financial statements and potential provisions in respect of both closing costs and carrying value of airport assets.
Audit Response
We will consider the work undertaken by the Council to secure a Public Service Obligation (PSO) in respect of the airport. We will review the going concern status of the airport during final accounts work and assess whether it impacts on the Council's closing financial position.
Outcome
The Council has secured a PSO in respect of the airport. As the council has set aside funds to meet the running costs of the airport for the next 2 years then we are content that there is no going concern issue for the council's accounts at this time.

Financial Reporting and Accounting Policies

- 2.1 The Financial Statements are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom and in accordance with the Accounts Direction issued by the Department for Communities.
- 2.2 In this section we draw to your attention our review of qualitative aspects of the accounting practices and financial reporting. This includes any significant changes or issues in respect of the accounting policies; estimates; judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period. We also review the overall balance and clarity of information contained in the Narrative Report.
- 2.3 A number of presentational adjustments were required to the financial statements submitted for audit.
- 2.4 During the audit:
 - The accounting policies were considered appropriate to the particular circumstances of the Council, judged against the objectives of relevance, reliability, comparability and understandability.
 - Based on our sample testing, other than very minor cut off errors, all transactions were correctly recorded in the current period.
 - No issues arose from the review of the appropriateness of accounting estimates and judgements in relation to provisions, including the consistency of assumptions and degree of prudence reflected in the recorded amounts.

Section 2

Audit Findings

- There are no material risks which have a potential effect on the financial statements which have not been disclosed in the financial statements.
- The financial statements are not affected by any unusual transactions including non-recurring profits and losses recognised during the period.
- There are no apparent misstatements in the other information in the document containing the audited financial statements or material inconsistencies between it and the audited financial statements.
- There were no significant difficulties encountered during the audit.

Review of information in the Narrative Report

- 2.5 We review information in the Narrative Report only to the extent that we confirm it is consistent with the financial statements and our understanding of the business. Except as noted in the audit opinion, the Narrative Report is not subject to our audit opinion.
- 2.6 Following a number of presentational changes, the Narrative Report was considered to be consistent with our understanding of the business, and was in line with the other information provided in the financial statements.

Internal Control

- 2.7 No material weaknesses in the design and implementation of internal control have come to our attention during the audit. Individual findings and recommendations are set out in “Observations and Recommendations” below.
- 2.8 We have reviewed the Governance Statement and in our opinion, it fairly reflects our understanding of the state of internal control systems within the Council during the year and the changes made to the Governance Statement during the course of the audit.

Remuneration Report

- 2.9 We have reviewed the Remuneration Report and in our opinion it has been properly prepared in accordance with Department for Communities directions issued under the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

Observations & Recommendations

- 2.10 This section outlines the findings arising from our audit, as well as management's response and target date for implementation to these recommendations.
- 2.11 We have included the significant, important and best practice findings arising from our audit which are defined as:
- Priority 1 – significant issues for the attention of senior management which may have the potential to result in material weakness in internal control.
 - Priority 2 – important issues to be addressed by management in their areas of responsibility.
 - Priority 3 – issues of a more minor nature which represent best practice.

Other issues of a more minor nature have been reported to the Chief Financial Officer / Lead Finance Officer.

Section 2

Audit Findings

- 2.12 As outlined in our Audit Strategy our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

Index of recommendations

Issues raised

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1. Fixed Asset – Improved custodial control issue

Observation
<p>Arising from our fixed asset expenditure testing we noted the following :</p> <ul style="list-style-type: none"> • Three heritage assets were included twice in the fixed asset register (FAR). Once, correctly, within heritage assets, and again, incorrectly within Vehicles, Plant and Equipment (the net book value within vehicles, plant and equipment was nil). • We note that a number of disposals off the fixed asset register in year were as a result of a verification exercise where a number of items could not be found/were no longer held by DCSDC. • We identified that one heritage asset had not been included in the fixed asset register (Council believes it owns this asset but this has to be confirmed). The asset has not been valued and therefore we cannot confirm the level of error.
Implication
Fixed asset register may not be accurate.
Priority Rating
2
Recommendation
<p>A full review of the FAR should be undertaken, to ensure that assets are correctly classified and no duplicates are included.</p> <p>For all items not yet physically verified, this should be completed in 2017-18. Further a time-table for periodic physical verification of council assets should be implemented</p> <p>DCSDC should obtain a value for the heritage asset and place it on the fixed asset register.</p>
Management Response
<p>Accepted.</p> <p>The 3 heritage assets recorded incorrectly within vehicles, plant and equipment all have zero net book values and these will be removed from this category in 2017/18.</p>

Section 2 Audit Findings

The verification exercise carried out during the year all related to very old items of plant and equipment that were recorded on the asset register at zero net book value and were therefore removed. The disposals in question relate to major capital projects whereby Council approval was obtained for the project including relevant disposals.

Officers are investigating the ownership of the heritage asset identified which is not included in the fixed asset register and this will be included and valued if necessary in 2017/18. The asset in question is likely to be of minimal value.

Target for Implementation

March 2018

2. Fixed Assets – Identification and Verification Issues

Observation
<p>During our testing of fixed asset identification and verification we noted;</p> <ul style="list-style-type: none"> • When we went to verify one of the assets selected for viewing, the engine number recorded on the fixed asset register did not agree with the engine number on the asset. • We viewed a disaster recovery system. The serial numbers on the components of the system are not recorded on either the main fixed assets register or IT asset register. • The fixed asset register neither records who is responsible for an asset nor the location of that asset • In one instance description of asset was not a clear reflection of what the asset was. (The whistle project - an outdoor space for playing)
Implication
Council fixed assets may be lost or misappropriated if records are incomplete.
Priority Rating
2
Recommendation
<p>Serial numbers or another unique identifier should be recorded accurately where possible for all assets.</p> <p>DCSDC should continue with the verification process commenced in 16-17.</p> <p>Asset detail should clarify what the asset is. Additional detail such as responsible officer and location should be recorded on the fixed asset register.</p>
Management Response
<p>Partially accepted.</p> <p>Officers will endeavour to record as much detail as is practicable in the fixed asset register, in particular who is responsible for the asset. The engine number recorded incorrectly was a typo.</p> <p>Council are introducing a new asset management system which will further strengthen controls in this area.</p>
Target for Implementation
March 2018

Section 2

Audit Findings

3. Debtors Management

Observation
<p>On review of the debtors ledger we noted:</p> <ul style="list-style-type: none"> • A debtor balance growing throughout the year to some £49k without payment in the year (since the year end the balance is now £23k). • Some small debts each below £100 that appear irrecoverable but yet are not included in the bad debts provision • A sizeable balance in the bad debts provision of £612k, of which £392k is car parking debt. <p>During income testing one of the selected items for income testing related to an internal credit note, under £2k in value, raised in respect of outstanding market street trading debt (from 2014/15). This credit note was raised to tidy up the street trading debtors as we understand that there was doubt to their existence / recovery</p>
Implication
Risk that council will be unable to collect monies due where the debt management procedures are not being rigorously adhered to
Priority Rating
2
Recommendation
<p>The Council should ensure that:-</p> <ul style="list-style-type: none"> - It is content with its cash collection procedures and that debtors are being pursued in a timely manner in line with council's policy. - A list of debts of material value which are definitely irrecoverable should be prepared for approval by council and written off as needed. This will help tidy up the ledger. The financial threshold as to what is deemed material can be set by council
Management Response
<p>Accepted.</p> <p>In relation to the £49k debtor, officers review all cases on an individual basis (including legal review) to determine the best course of action for recovery. In some instances, payment plans are deemed the best way forward. In this instance the debt has now reduced to a much lower level since the year end.</p> <p>The small debts identified have not been written off to ensure that all possible actions for recovery were exhausted. These will be written off in 2017/18 following final legal review.</p> <p>£400k of the bad debt provision relates to offset car parking debtors, the majority of which are very old and were inherited from DFC. It is Council policy to provide for all debtors exceeding 6 months old. The collection of car park debt is still carried out by DFC and a regional group has been established to look at improved future delivery models."</p> <p>Debt write offs of material value will be taken to Council for approval.</p>
Target for Implementation
March 2018

Section 2 Audit Findings

4. Expenditure Testing

Observation
<p>Out of a sample of 25 invoices we noted:-</p> <ul style="list-style-type: none"> - 10 invoices with either no purchase order attached or the purchase order was not dated - 3 with no goods received note attached (GRN) - 4 invoices had no note that the calculations were checked - 7 invoices had no approval signature present from the spending department <p>Further we noted a contract with a music group which did not elaborate precisely in respect of travel costs to be claimed, the travel section was blank and the band subsequently claimed full fuel expenses.</p>
Implication
The expenditure custodial controls are not fully operating as designed, which could result in financial loss to the Council.
Priority Rating
2
Recommendation
<p>Council should review its expenditure controls to ensure that they operate as designed.</p> <p>We understand that council has plans to introduce a fully automated purchasing order system. This should help address the custodial control weaknesses highlighted above</p> <p>All contracts/agreements with performer's specific the amount of travel and subsistence expenditure that can be claimed whilst performing at an event.</p>
Management Response
<p>Accepted.</p> <p>Council has recently approved expenditure to upgrade its accounting system and facilitate a move towards electronic ordering and procurement and a move towards more centralised purchasing. This will significantly enhance controls in this area.</p>
Target for Implementation
March 2018

5. Planning income lodgements

Observation
<p>We test sampled the time intervals for a number of planning income lodgements and we noted that the number of days from the previous lodgement varied from 8 days to 18 days. The total lodgement values were in region of £7k to £50k. While the vast majority of the lodgements were in respect of cheques, 2 of the lodgements sampled each had cash of over £1900.</p> <p>Further we noted that the cash box in respect of property certificates was kept in a drawer at night rather than a safe.</p>
Implication
A greater potential risk of cash being misappropriated

Section 2

Audit Findings

Priority Rating
2
Recommendation
Lodgements should be made on a more regular basis; perhaps these lodgements could be brought to the bank with other cash lodgements from council The cash box should be locked in the safe at night
Management Response
Accepted. All planning receipts need to be checked and entered on the planning portal system before they can be lodged with any invalid amounts having to be returned to the applicant. This causes some delay in lodging monies. In spite of the control weakness identified, all monies have been reconciled and properly accounted for. Officers will endeavour going forward to ensure lodgements are made as soon as possible and will ensure all cash received is kept in a safe.
Target for Implementation
March 2018

6. North West Regional Development Group (NWRDG)

Observation
We considered the legality of council recognising in its financial statements, all the costs of the North West Regional Development Group (NWRDG). While council appears to have implied vires to recognise all joint Northern Ireland and Republic of Ireland costs there is no specific legislation which applies to costs solely for the benefit of the Republic of Ireland (ROI). This year as costs solely for ROI benefit, are of minor value then on materiality grounds we have accepted their inclusion in this year's financial statements. However we need to resolve this issue as costs solely for ROI benefit, are expected to increase in the next few years.
Implication
Council may not have the legal powers to recognise costs solely for the benefit of the ROI, in its own financial statements.
Priority Rating
2
Recommendation
We recommend that the Council's legal Department consider the legality of Council recognising in its financial statements, NWRDG costs which either solely or jointly apply to ROI, and provide a formal legal opinion on this matter.
Management Response
Accepted. Council is seeking formal legal advice in relation to the inclusion of ROI specific expenditure within its accounts. To date, this has been minimal. As the lead Council, maximum disclosure has been made in relation to the activity of the group. The issue identified will have no impact on Council's outturn position. This expenditure has all been incurred within the remit of Council's economic development powers and through the approval of both Councils.
Target for Implementation
March 2018

Section 2

Audit Findings

- 2.13 In accordance with International Standards on Auditing we have to consider significant weaknesses identified in our prior year audit. There were no Priority 1 recommendations made in our prior year Report to those charged with Governance therefore it has not been necessary to track progress.

Section 4

Other Matters of Governance Interest

- 3.1 This section contains details of adjustments made to the financial statements during the course of the audit, as well as unadjusted misstatements which are not considered material in the context of the financial statements as a whole.
- 3.2 We do not consider that the adjusted or unadjusted misstatements indicate a significant weakness in accounting or control which needs to be reflected in the Governance Statement.

Significant adjustments made to the financial statements

- 3.3 As a result of our audit, other than financial presentational and narrative changes, no adjustments were made to the financial statements presented for audit which impacted on the result for the year.

Unadjusted misstatements or uncertainties arising from the audit

- 3.6 We are obliged to bring to your attention the misstatements found during the course of the audit that have not been corrected, unless they are 'clearly trivial', which we have identified as below £15,000.

Description of adjustments	Account area	CIES		BS	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
Capitalisation of Christmas Lights	PPE Opening Balance PPE Additions		75,000	75,000	
Accrual of wages holiday pay	Wages & Salaries Creditors	130,000			130,000
Monies owed in relation to NWRDG	Debtors Income		144,000	144,000	
Overall Total		130,000	219,000	219,000	130,000
Net effect			89,000	89,000	

- 4.1 International Standard on Auditing 260 requires us to communicate with those charged with governance any other audit matters of governance interest. These include matters which have come to our attention which may present future risks, enhance overall governance or where those charged with governance might wish to seek assurance on controls and processes.

Fraud

- 4.2 We are required by Auditing Standards to report to you if we identify a fraud or obtain information that indicates that a fraud may exist. We found no such instances during our testing.
- 4.3 In addition, we are not aware of material weaknesses in the design or implementation of internal controls to prevent and detect fraud.
- 4.4 In the course of our audit we have not identified any suspected or non-compliance with the laws and regulations.

Section 4

Other Matters of Governance Interest

Going concern

- 4.5 In the course of our audit, we have not identified any material uncertainties relating to events and conditions that may cast doubt on the Council's ability to continue as a going concern. However please see our comment on going concern of CODA Ltd at paragraph 1.3 of section 2.

Management of personal data

- 4.6 The Derry City and Strabane District Council is required to comply with the Data Protection Act 1998 in the handling and storage of personal data and those charged with governance should ensure they have made sufficient enquiries of management to form a view on whether there were any significant specific data incidents which should be disclosed in the Governance Statement. We are unaware of any data handling incidents during the year. Confirmation of this is sought within the letter of representation (Annex A).

Statement on personal data

- 4.7 During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We can confirm that we have discharged those responsibilities communicated to you in accordance with the requirements of the Data Protection Act 1998.

Disagreements with management

- 4.8 There are no audit disagreements with management, about matters that individually or in aggregate could be significant to the financial statements to report.

Co-operation with other auditors

Internal Audit

- 4.9 We reviewed the work of internal audit. Whilst we have not placed direct reliance on their work during the audit we have used their findings to inform and direct our approach and inform our review of the Governance Statement for completeness. We have discussed with internal audit any outstanding recommendations and assessed the impact on the year end audit, no significant matters were noted.

Consolidated entities' auditors

- 4.10 We liaised with the group auditors of City of Derry Airport (Operations) Ltd (CODA) to enable the Local Government Auditor to express an opinion on the financial statements of Derry City and Strabane District Council and its Group as at 31 March 2017 and its income and expenditure for the year then ended.

Deficiencies in internal control

- 4.11 No deficiencies in internal control were brought to the attention of the audit team that have not been disclosed in the Annual Governance Statement or included in this report or in the minor issues sent to Director of Support Services.

Independence, integrity & objectivity of auditors

- 4.13 The NIAO's policy to ensure independence, integrity and objectivity of our auditors was set out in our Audit Strategy. Overall, the threat to the audit arising from issues affecting our independence, integrity and objectivity is low, and the safeguards in place ensure that the likelihood of any impact is low.

Section 4

Other Matters of Governance Interest

- 4.14 We have complied with APB Ethical Standards and, in our professional judgement, we are independent and our objectivity is not compromised. There are no relationships between NIAO, Derry City and Strabane District Council that we consider to bear on our objectivity and independence.

Reliance on other experts

- 4.15 We have relied upon the work and expertise of
- Land and Property Services in respect of land and property valuation
 - An Actuary for the valuation of the pension scheme liabilities
 - A civil engineering firm for the costs included in the landfill site provision
 - A firm of Treasury Advisors re the discount rate applied to landfill site provision

Proper Arrangements

- 4.16 Under the Local Government (Northern Ireland) Order 2005, the Local Government Auditor should be satisfied that a Council has in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. There are no significant issues to report in relation to proper arrangements and no points have been raised in Section 2.

Other matters of interest

- 4.17 We note that the Council holds a balance of £282,745 in respect of the North West Air Access Consortium. Given that other third parties have contributed to this fund in the past, the Council should consider whether these parties should periodically be informed as to how these monies have been used.
- 4.18 In 2016-17 we looked at Assets Under Construction. We note an asset Under Construction at 31 March 2017 which is not yet operational due to rectification work having to be performed by a third party. We will follow this up in next year's audit including who pays for the rectification works and whether the time delay has had any impact on the final costs of the project against the tender price.
- 4.19 Part 12 of the Local Government Act (Northern Ireland) 2014 covers 'Performance Improvement'. The Act requires an improvement audit and an improvement assessment. The outcome from this work will be reported separately to those charged with governance as set out in the timetable in the 'Improvement Audit and Assessment Strategy'.
- 4.20 On 5 July 2017 I published the 'Local Government Auditor's Report -2017' which highlights areas of strength and areas for improvement within local councils. I have also considered several important issues that may affect the new councils in the near future. Both councillors and officers should consider this report and review how their new council is managing the issues I have highlighted.

Complaints procedure

- 4.21 NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Chief Executive of the audited body can then write directly to the Comptroller and Auditor General. He will ensure that a further review of the case will be undertaken.

[Client Letterhead]

The Local Government Auditor
Northern Ireland Audit Office
106 University Street
BELFAST
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LETTER OF REPRESENTATION: Derry City and Strabane District Council 2016-17

As Chief Financial Officer of Derry City and Strabane District Council, I acknowledge my responsibility for discharging the functions of Derry City and Strabane District Council which include preparing accounts that give a true and fair view of the state of affairs, income and expenditure and cash flows of the Derry City and Strabane District Council for the year ended 31 March 2017.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Department for Communities, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and prepare the accounts on a going concern basis on the presumption that the Derry City and Strabane District Council will continue in operation.

I confirm that for the financial year ended 31 March 2016:

- having considered and enquired as to the Derry City and Strabane District Council compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Derry City and Strabane District Council to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Derry City and Strabane District Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- all Related Parties and Related Party Transactions involving Councillors and senior staff of the Derry City and Strabane District Council have been properly disclosed.

All material accounting policies as adopted are detailed in note 1 to the accounts.

INTERNAL CONTROL

I acknowledge as Chief Financial Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

Annex A – Letter of Representation

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with Department for Communities guidance on the Governance Statement.

FRAUD

I acknowledge as Chief Financial Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the Derry City and Strabane District Council and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

ASSETS

General

All assets included in the Balance Sheet were in existence at the reporting period date and owned by the Derry City and Strabane District Council and free from any lien, encumbrance or charge, except as disclosed in the accounts. The Balance Sheet includes all long term assets owned by the Derry City and Strabane District Council.

Long Term Assets

All assets over £5,000 are capitalised. Land and Property assets valuations are carried out every five years by an independent valuer and are revalued annually using indices provided by Land and Property Services. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Derry City and Strabane District Council operations.

While Council currently does not have title deeds for the Pennyburn depot and the War Memorial, I am content that there is no legal ownership dispute and it can prove that it owns these assets.

Within the asset category PPE under construction there are a number of small projects with no spend in the year; I am content that all these projects are still going to take place and that no costs need to be written off to the CIES

Current Assets

On realisation in the ordinary course of the Derry City and Strabane District Council operations the other current assets in the Balance Sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to Derry City and Strabane District Council which are known, or may be expected, to be irrecoverable.

LIABILITIES

General

All liabilities have been recorded in the Balance Sheet. There were no significant losses in the year and no provisions for losses were required at the year end.

Provisions

Provision is made in the financial statements for:

Annex A – Letter of Representation

- Re –organisation; included within this is the estimated cost of overtime re holiday pay and also single status costs.
- Landfill Gas Asset - The estimated income of £816,372 is based on recent gas arising projections by the energy contractor. We are content with the estimation process and that the income share to council is in line with the gas agreement.
- Landfill provision £2,810,450 - The landfill provision includes aftercare costs, which are based on current prices and an aftercare period of 52 years will be required. No cost provision is required for future gas flaring, post gas generation, as gas levels are expected to be low once contractor goes off site. NIEA have confirmed they are content with the provision.
- Claims Management Provision – I am satisfied with the claims management provision of £1,369,840.

Contingent Liabilities

There are a number of legal claims or potential claims against the Derry City and Strabane District Council the outcome of which cannot at present be estimated with certainty. Full provision is made in the financial statements for all liabilities which are expected to materialise.

I am not aware of any pending litigation which may result in significant loss to the Derry City and Strabane District Council, and I am not aware of any action which is or may be brought against the Derry City and Strabane District Council under the Insolvency (Northern Ireland) Order 1989 and the Insolvency (Northern Ireland) Order 2005.

OTHER LIABILITIES

The net pension liability at the year end is £36,934,500.

Having made appropriate enquiries, I am satisfied with the appropriateness of the actuarial assumptions underlying the valuation of the Council's share of the valuation of the pension scheme liabilities.

Furthermore, I confirm that:

- All significant retirement benefits, including any arrangements that are implicit in the employers' actions, have been identified and properly accounted for; and
- All settlements and curtailments have been identified and properly accounted for.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Derry City and Strabane District Council, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

The following unadjusted errors have been brought to my attention:

- Under accrual of wages and salaries holiday pay of £130,000
- Non recognition of income due to council in respect of NWRDG spend £140k
- Christmas lights were expensed rather than capitalised - £75,000

The net impact of these adjustments would be to improve the result for the year by £89k

I consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Annex A – Letter of Representation

Events after the Balance Sheet date

Except as disclosed in the accounts, there have been no material changes since the Balance Sheet date affecting liabilities and commitments, and no events or transactions have occurred in either the Council or the group which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

Personal Data Related Incidents

I can confirm there were no data related incidents in the financial year and to date.

Other Representations

Council has agreed funding to ensure the sustainability of the Airport (CODA) up to 31st March 2019.

John Kelpie
Chief Financial Officer
Derry City and Strabane District Council
18th September 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERRY CITY AND STRABANE DISTRICT COUNCIL

I have audited the financial statements of Derry City and Strabane District Council and its group for the year ended 31 March 2017 under the Local Government (Northern Ireland) Order 2005. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, together with the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the Members of Derry City and Strabane District Council in accordance with the Local Government (Northern Ireland) Order 2005 and for no other purpose, as specified in the Statement of Responsibilities.

Respective responsibilities of the Chief Financial Officer and the independent auditor

As explained more fully in the Statement of Council's and Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year. My responsibility is to audit the financial statements in accordance with the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Derry City and Strabane District Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Derry City and Strabane District Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with relevant legal and statutory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, of the financial position of Derry City and Strabane District Council and its group as at 31 March 2017 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and the Department for Communities' directions issued thereunder.

Opinion on other matters

In my opinion:

the part of the Remuneration Report to be audited has been properly prepared in accordance with the Department for Communities directions made under the Local Government (Accounts and Audit) Regulations (Northern

Ireland) 2015; and

the information given in the Narrative Report for the financial year ended 31 March 2017 is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if:

- in my opinion:
 - the Annual Governance Statement:
 - does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 ;
 - does not comply with proper practices specified by the Department for Communities;
 - is misleading or inconsistent with other information I am aware of from my audit; or
 - adequate accounting records have not been kept; or
 - the statement of accounts and the part of the remuneration Report to be audited are not in agreement with the accounting records; or
 - I have not received all of the information and explanations I require for my audit, or
- I issue a report in the public interest under Article 9 of the Local Government (Northern Ireland) Order 2005; or
- I designate under Article 12 of the Local Government (Northern Ireland) Order 2005 any recommendation made to the Council; or
- I exercise the other special powers of the auditor under Article 19 to 21 of the Local Government (Northern Ireland) Order 2005.

Certificate

I certify that I have completed the audit of accounts of Derry City and Strabane District Council in accordance with the requirements of the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice.

Louise Mason
Local Government Auditor
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

22nd September 2017