

Issued by the Local Government Auditor
5 November 2009



Arc21

Year to 31 March 2009

Introduction

The Department of the Environment may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate persons who are members of the staff of the Northern Ireland Audit Office as local government auditors (Article 4(3) of the Local Government (Northern Ireland) Order 2005). For the year ending 31 March 2009 I have been designated the local government auditor for the Joint Committee.

As an auditor independent of the audited body I seek to examine that the body has managed its affairs having regard to a combination of economy, efficiency and effectiveness and that public money is properly spent or in the case of income properly accounted for.

Status and Availability of this Annual Audit Letter

This Annual Audit Letter is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006. The Regulations require the local government body to publish this Annual Audit Letter as soon as reasonably possible. The local government auditor will place a copy of this Annual Audit Letter on the NIAO website at www.niauditoffice.gov.uk.

The Audit Letter is addressed to members and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 22nd October 2009. I gave an unqualified opinion on your accounts.
- 2 The Local Government (Northern Ireland) Order 2005 requires that in auditing accounts a local government auditor must by examination of the accounts or otherwise satisfy himself that:
 - (a) they are prepared in accordance with regulations;
 - (b) they fully comply with the requirements of all other statutory provisions applicable to the accounts;
 - (c) proper practices have been observed in the compilation of the accounts; and
 - (d) the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Matters arising from the final accounts audit

- 3 The published accounts are an essential means by which the Joint Committee reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Joint Committee's Statement of Accounts were signed by the Chief Executive on 25th June 2009 and members of the Joint Committee approved the accounts on 25th June 2009 which was within the statutory guidelines which requires this to be completed by 30 June. Following minor adjustments from the audit the accounts were authorised for issue by the Chief Executive on 15th October 2009.
- 4 A number of narrative adjustments were made as a result of audit findings during our audit.

Financial standing

- 5 The Joint Committee continues to have adequate financial management arrangements overall.
- 6 The financial statements reflect the expansion of arc21's activities. Turnover has increased from £23.5m in 2007-08 to £27m in 2008-09.
- 7 On the basis of 2008-09 activities, a surplus of £92,000 was generated.

8 There are 3 significant balances as at 31 March 2009

- Debtors £2.9m (£4m 2007-08)
- Short Term Investments £2.7m (£2.1m 2007-08)
- Creditors £5.1m (£5.7m 2007-08)

District fund spending and balances

9 The overall financial position remains stable. The Joint Committee increased by £26,732 the General Reserves in 2008-09, leaving the General Reserve balance at £591,753 as at 31 March 2009.

Capital Programme

- 10 The Joint Committee has Fixed Assets totalling £72,726 with loans outstanding of £nil.
- 11 The Statement of Accounts reports future capital commitments relating to the Residual Waste Treatment Project. Arc21 expect to be in a position to acquire land and property for the construction of facilities to provide the necessary waste treatment services. Such acquisitions will be subject to independent valuations undertaken by the Land and Property Services Agency of the Department of Finance and Personnel and will be accounted for in the relevant financial year.

Annual Governance Statement

- 12 The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Councils to conduct a review at least once in a financial year of the effectiveness of its governance framework (including its system of internal control) and then approve an Annual Governance Statement.
- 13 The Annual Governance Statement was approved by the Chief Executive on behalf of the Joint Committee. My opinion on the accounts includes the Annual Governance Statement. I am required to report if the Governance Statement is inconsistent with the guidance provided by DOE or if disclosures in the Statement are inconsistent with my understanding of the Joint Committee. I noted no Governance Statement matters in my report but paras 16 and 19 to 24 of this Audit Letter includes matters I considered.

Internal Audit

- 14 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 also required local government bodies to maintain an adequate and effective system of internal audit and to conduct a review at least once in a financial year of the effectiveness of its system of internal audit. The Joint Committee has contracted out its internal audit to AGRS from Belfast City Council.
- 15 The Joint Committee reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee on 15th June 2009.
- 16 My Management Letter to the Chief Executive notes that in August 2009 Internal Audit carried out a follow up report to the report on Internal Financial Control (issued October 2008). In this follow up report, it was noted that out of seven recommendations made by Internal Audit, none of them were fully implemented, six were partially implemented and one was not implemented. Internal Audit plays a fundamental role in the systems of internal control as summarised in the Annual Governance Statement but only if the weaknesses identified are acted upon. This point was, however, appropriately noted in the Annual Governance Statement (included with the financial statements see para 22) and I note that Internal Audit continued to provide an “amber” assurance meaning in their view risks were being controlled to an acceptable level.

Transition to International Financial Reporting Standards (IFRS)

- 17 In central government, International Financial Reporting Standards (IFRS) apply to the 2009-10 accounts and the Central Government 2008-09 accounts were prepared for the last time on the UK Financial Reporting Standard basis in June 2009. In preparation for the change the 2008-09 accounts of Central Government will be prepared again on a shadow IFRS basis in September 2009 with an audit review to be undertaken before the end of December 2009.
- 18 For Local Government the change to IFRS will take place a year later (i.e. from 2010-11). The Chartered Institute of Public Finance Accountancy (CIPFA) issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the implementation of IFRS. This included a Project Plan with key steps and dates. The DoE commissioned CIPFA (NI) to provide training and support to local government bodies in Northern Ireland to help take forward IFRS issues. A series of training days will be held in late 2009 and early 2010. A new IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010 is being developed by CIPFA. As was the case in Central Government, Local Government Bodies (including arc21) will be required to re-state their final UK Financial Reporting Standard based accounts (2010-11) on an IFRS basis and have this subject to audit review.

Joint Committee Performance

Scope of my audit

- 19 My audit is conducted in accordance with a Code of Audit Practice (the Code) issued by the Chief Local Government Auditor. The Code prescribes the standards, procedures and techniques which comprise a local government audit. The Code notes that due to the special accountabilities attached to public money and the conduct of public business:

“the scope of auditors’ work is extended to cover not only the audit of financial statements but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources.”

- 20 Throughout the public sector the economic, efficient and effective use of resources is known as Value for Money (VFM). More particularly in the context of the Local Government (Best Value) Act (Northern Ireland) 2002 “a council shall make arrangements for continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”.
- 21 A review of the Joint Committee’s corporate governance and VFM arrangements for 2008-09 was carried out separately from the audit of the accounts. The finding from the review was included in my audit file and a summary report, prepared for me, was copied to the Chief Executive. I used this information, together with information obtained during the course of the audit of the accounts, to examine the Governance Statement.
- 22 The Joint Committee noted the following in its Annual Governance Statement as significant governance issues;
- Significant progress has been made in terms of implementing risk management within arc21 including the production of a risk register, the implementation of risk action plans and the implementation of a system of assurance reporting by Directors within arc21. However, the need for an overall risk management strategy was identified and developed in line with best practice and implemented in December 2008;
 - While arc21 made progress during 2008-09 in addressing the need to ensure appropriate segregation of duties within its financial processes through the temporary secondment of an additional member of staff in the Finance Department, this remains an issue;
 - Arc21 intend to develop and adopt a Code of Governance during 2009-10 based on CIPFA guidance.
 - Internal Audit produced a follow up report in August 2009 to an initial report issued in October 2008 on Internal Financial Controls within arc21. It was noted in the follow up report that arc21 had only partially implemented 6 of the 7 recommendations arising from the original report. (see para 16)

- 23 We note the above Governance issues and the steps being taken by the Joint Committee to address the weaknesses noted. We did not identify any other significant governance issues.
- 24 I noted the following additional issues from the corporate governance and VFM arrangements review:
- Arc 21 should prepare a suitable documented business continuity plan and test its implementation. Backup procedures should also be documented;
 - An amendment to the whistleblowing policy should be made to include the Local Government Auditor and PSNI as external contact points in accordance with the Public Interest Disclosure Order;
 - Arc21 should develop a formal fraud policy in line with current best practice;
 - Arc21 should ensure the Audit Committee includes at least one external member;
 - Arc21 should consider producing a statement or policy on data quality and include an assessment of the risks relating to the reliability and accuracy of data within the Corporate Risk Register.

Looking Ahead

- 25 The Environment Minister in March 2008 announced as part of the Review of Public Administration in Northern Ireland that the current 26 council areas will be rationalised to create 11 new council areas. The Minister also outlined the functions to transfer to local government.
- 26 The proposed boundaries for the new Council structure broadly follow the outline of the existing Constituent Councils of arc21, with the exception of Down District Council, and accordingly it is anticipated that five new Councils will form the core of arc21 post RPA.

Other Matters

- 27 I note that arc21 provides participant Councils with monthly Steering Group reports and Joint Committee reports. As previously noted in 2007-08, I recommend key reports are published on the arc21 website on a regular basis. As was the case in 2007-08, I recommend again that arc21 prepare an Annual Report which should be published and which could be presented directly to Councils. This report should cover matters such as strategic planning, progress against plans and performance details. Good communication is vital if the participating Councils are to derive the full efficiency benefits of working together as a Joint Committee.

Conclusion

- 28 This Audit Letter has been discussed and agreed with the Chief Executive and Finance Director.
- 29 Arc21 has taken a positive and constructive approach to our audit. I would like to take this opportunity to express our appreciation for the Joint Committee's assistance and co-operation.

Denver Lynn

Local Government Auditor

5 November 2009