

Annual Audit Letter

Arc21 Joint Committee

Year to 31 March 2007

Issued by
Denver Lynn
Local Government Auditor (NIAO)

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).

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 of this report

This report is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.

The report 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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Financial management

- 1 As your statutory appointed auditor I issued my audit opinion on the Statement of Accounts on 29 October 2007. I gave an unqualified opinion on your accounts.

Matters arising from the final accounts audit

- 2 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 annual accounts were signed by the Chief Executive on 29 June 2007. The Joint Committee approved the accounts on 29 June 2007 which was within statutory guidelines. Following disclosure adjustments arising from the audit the accounts were authorised for issue by the Chief Executive on 29 October 2007.
- 3 No material adjustments were noted during our audit.

Financial standing and balances

- 4 The financial statements reflect the expansion of Arc21 activities. Turnover has increased four fold from £2.5m in 2005-06 to £10m in 2006-07. My understanding is that this expansion will continue into next year.
- 5 On the basis of the 2006-07 activities a surplus of £59,000 was generated.
- 6 There are three significant balances as at 31 March 2007
 - Debtors £1.4m
 - Cash and Bank £2.4m
 - Creditors £3.4m

Although I appreciate that the rate of expansion in Arc21 activities means that financial planning is difficult, I would like to see the creditors and cash and bank balances reduced.

- 7 Arc21 prepares its current financial statements in accordance with an accounts direction issued by the Department of the Environment (under Article 24 of the Local Government (Northern Ireland) Order 2005). This format was drawn up in response to the first Arc21 financial statements in 2004-05. At that time turnover for the Joint Committee was £0.5m. Current turnover of £10m is already in excess of some Northern Ireland councils, and this is expected to grow further. It is my view that the current financial statements, although fully compliant with current Department of the Environment requirements, provide inadequate disclosure for the scale of Arc21's activities.
- 8 I have spoken to the Department of Environment and the Department has agreed to issue a revised accounts direction that will apply from 2007-08. This will require disclosures more fully in line with those made by councils. I recommend Arc21 begins preparatory work for this revision. I am happy to assist, both the Department and Arc21, to prepare a financial statement format which best discloses Arc21 activities and which is consistent with the accounting requirement framework established for all local government bodies.

Systems of internal financial control

- 9 I was able to place reliance on the Council's internal financial control environment for the purposes of forming my opinion on the financial statements which was fully compliant with current Department of the Environment requirements.
- 10 My Management Letter to the Chief Executive notes my concern that control systems need to be enhanced given the growing scale of Arc21 activities and the small number of staff. I have also drawn attention to the fact that additional corporate governance work such as risk management processes is mandatory for all Northern Ireland local government bodies from 2007-08 onwards. Given the expansion in activity, and enhanced corporate governance requirements, I do not expect to be able to rely on Arc21's control environment in 2007-08 if it remains as it was in 2006-07.

Internal Audit

- 11 At paragraph 10 I have noted additional corporate governance requirements apply to all Northern Ireland local government bodies from 2007-08. This includes a requirement to maintain an adequate and effective system of internal audit of both accounting records and systems of internal control. Arc21 currently use AGRS from Belfast City Council to support specific contracts and not Arc21 activities as a whole.
- 12 My Management Letter to the Chief Executive notes that internal audit coverage must be extended to all Arc21 activities, from 2007- 08, if Arc21 is to comply with enhanced corporate governance requirements.

- 13 Although not a requirement, the majority of Northern Ireland councils have established Audit Committees to provide a focus for the oversight of their additional corporate governance responsibilities. I noted that Arc21 has approved the establishment of an Audit Committee in December 2007. I look forward to discussing this Annual Audit Letter and my Management Letter with the Committee.

How is the Joint Committee performing?

Scope of my audit

- 14 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.”

- 15 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”.
- 16 A specific review of the Joint Committee’s corporate governance and VFM arrangements for 2006-07 was not carried out due to the scale of the joint committee’s activities. Corporate governance and VFM arrangements were considered as part of the financial audit. My findings are included at paragraphs 9 to 13 of this Annual Audit Letter.
- 17 I have written to the Chief Executive to note that from 2007-08, in line with all other Northern Ireland local government bodies, we will undertake a separate review of Arc21’s corporate governance and VFM arrangements. The results of this review will be copied to the Chief Executive and key issues will be included in my 2007-08 Annual Audit Letter.

Conclusion

- 18 This letter has been discussed and agreed with the Chief Executive and the Finance Director.

- 19 The Joint Committee has taken a positive and constructive approach to our audit. I would like to take this opportunity to express our appreciation to the Joint Committee.

Availability of this letter

- 20 This letter will be published on the Northern Ireland Audit Office's website at www.niauditoffice.gov.uk, and also on the Council's website.

Denver Lynn
Local Government Auditor
Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

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