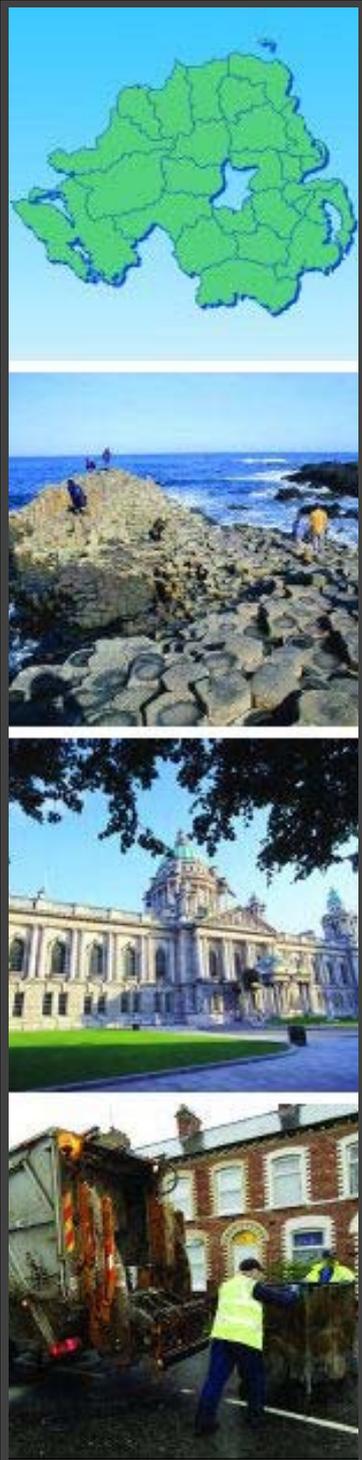




Annual Audit Letter

Issued by the Local Government Auditor
15 December 2008



ARC21

Year to 31 March 2008

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 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 his 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 29th October 2008. 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 Financial Officer on 26th June 2008. Members of the Joint Committee approved the accounts on 26th June 2008 which was within statutory guidelines. Following adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 28th October 2008.
- 3 A number of narrative and financial adjustments were made as a result of audit findings during our audit.

Financial standing

- 4 The financial statements reflect expansion of Arc21 activities. Turnover has more than doubled from £10m in 2006-07 to £23.5m in 2007-08. My understanding is that this expansion will continue into next year.
- 5 On the basis of the 2007/08 activities a surplus of £23,000 was generated.
- 6 There are three significant balances as at 31 March 2008
 - Debtors £4m (£1.5m 2006-07)
 - Cash and Bank £2.2m (£2.4m 2006-07)
 - Creditors £5.7m (£3.4m 2006-07)
- 7 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. I referred to this point in last years annual audit letter but note that although the creditors balance has increased this is in line with the expansion of Arc21 activities – in effect the position is unchanged. The increase in the debtors balance has out stripped the expansion in Arc21 activities and in my view the proportion of both this and the creditors balance, in relation to in-year activity, should be reduced.

- 8 In response to our concerns over the format of the financial statements and the lack of adequate disclosure for the scale of Arc21's activities in 2006/07 the Department of Environment issued a revised accounts direction which was applicable for the 2007-08 financial year. The disclosures as represented in the current financial statements now reflect those made by Councils. They are now consistent with the accounting requirement framework established for all local government bodies.

Income and Expenditure and General Reserve balances

- 9 The overall financial position remains stable. The Joint Committee increased by £23,000 the General Reserves in 2007/08, leaving the General Reserve balance at £565,000 as at March 2008.
- 10 I have dealt with one specific point on Arc21 expenditure in more detail below (paras 26 to 28).

Capital Programme

- 11 The Joint Committee has Fixed Assets totalling £7,100 with loans outstanding of £nil. The Statement of Accounts reports a capital programme totalling £80,000 in the course of or planned for delivery. I understand that the Joint Committee plans to fund this programme via revenue contributions.

Annual Governance Statement

- 12 The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Local Government Bodies 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 Chief Executive on behalf of the Joint Committee approved the Annual Governance Statement. 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 Local Government Body. I noted no Governance Statement matters in my report but paras 19 to 23 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 service to AGRS from Belfast City Council. As in 2006/07 Arc21 used AGRS to support specific contracts and not Arc21 activities as a whole.

- 15 My Management Letter to the Chief Executive, as was the case in 2006/07, notes that internal audit coverage did not extend to all Arc21 activities. Consequently Arc21 did not fully comply with this Corporate Governance requirement introduced with effect from 2007/08. This point was, however, appropriately noted in the Governance Statement included with the financial statements.
- 16 Although not a requirement, the majority of Northern Ireland Local Government Bodies have established Audit Committees to provide a focus for the oversight of their additional corporate governance responsibilities. I noted in last years Annual Audit letter that Arc21 had approved the establishment of an Audit Committee in December 2007. The Audit Committee had its inaugural meeting in May 2008. At this meeting the Audit Committee gave approval to the extension of the internal audit service to cover all aspects of the organisation via a three year strategic plan of audits.

Transition to International Financial Reporting Standards (IFRS)

- 17 In central government, International Financial Reporting Standards (IFRS) applies to 2009/10 accounts. The Central Government 2008/2009 accounts will be prepared on a normal Financial Reporting Standard basis in June 2009 then again on a shadow IFRS basis in September 2009 which audit will check before the end of December 2009.

For Local Government -the Chartered Institute of Public Finance Accountancy (CIPFA) website outlines the latest position regarding the development of the "IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010". Local Government Bodies will need to start considering the implications of the transition to IFRSs.

Joint Committee Performance

Scope of my audit

- 18 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."

- 19 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". Part of the way Councils monitors this is by benchmarking aspects of its financial data against other Councils and this information is also provided to the Department of the Environment.

- 20 A review of the Joint Committee's corporate governance and VFM arrangements for 2007-08 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.
- 21 The Joint Committee noted the following in its Governance Statement as significant governance issues
- The lack of a risk register for the majority of the financial year. The register along with risk action plans were not developed until January 2008 which was in breach of the statutory requirement that these should be in place as of 1 April 2007;
 - A system of assurance reporting by Directors within Arc21 was implemented in March 2008 and these signed assurance statements form part of the evidence to enable the sign off of the governance statement by the Accounting Officer, the Chief Executive;
 - Whilst the Arc21 Joint Committee agreed to put in place an Audit Committee in December 2007 they did not have their inaugural meeting until May 2008; and
 - The Internal Audit Service in 2007-08 did not cover all aspects of Arc21's activities.
- 22 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 aside from one as a result of our audit.
- Lack of segregation of duties within the finance function at Arc21.
- 23 I noted the following additional issues from the corporate governance and VFM arrangements review:
- Arc21 should prepare a suitable documented business continuity plan and test its implementation. Backup procedures should also be documented;
 - The policy on acceptance of gifts and hospitality is not reflective of current best practice. The Hospitality register should be updated to accommodate the decision to take or reject the gift or hospitality offered; and
 - The current whistleblowing policy does not make reference to the Local Government Auditor as a point of external contact.

Other Audit Work

Joint Committee

- 24 The Arc21 Joint Committee is a partnership of eleven councils established to collaborate in implementing the Waste Management Plan to develop an integrated network of regional waste management facilities which would be cost effective to the public. Total expenditure by the Committee for the year was £23.5 million and the Committee's Accounts identify longer term capital expenditure in the region of £300 million.
- 25 The Joint Committee accounts for its funding by the provision of a statement of accounts which is prepared under the Local Government (Northern Ireland) Order 2005 and subject to statutory audit by a local government auditor.

Other Matters

- 26 The Arc21 Joint Committee was set up in July 2003 with an initial membership of 22 Councillors, 2 from each of the 11 Councils. Under the terms of Agreement a quorum of the Joint Committee requires at least 10 members to be present, with at least 6 of the participant Councils represented. It is our understanding that on certain occasions Arc21 encountered problems in getting a quorum and, although meetings were not cancelled, they were unable to approve important decisions. Arc21 sought legal advice which recommended the appointment of substitute members which was approved by the Joint Committee on 29th May 2008. This resulted in a further 16 members being appointed. In addition there are 16 officers, one from each of the Councils, the Chief Executive of Arc21, a further 3 Directors from Arc21 and a secretary who attend the Committee. It is only members who have Voting rights on the Joint Committee, restricted to two votes per Participating Council. Whilst the above has solved the problem of numbers for meetings it has led to another, the logistical problem of identifying places to hold meetings with the facilities necessary to cater for such a large Committee. The large numbers involved in the Committee are contrary to accepted governance practice of smaller more manageable governance structures. I recommend Arc21 examines the possibility of streamlining the current structure.
- 27 I note that Arc21 provides participant Councils with monthly Steering Group reports and Joint Committee reports. I recommend key reports are published on the Arc21 website on a regular basis. However, I would also recommend that Arc21 prepare an Annual report which should be published and which could be presented directly to Councils. This report should cover such matters as strategic planning, progress against plans and performance information. Good communication is key, if the participating Councils are to derive the full efficiency benefits of working together as a Joint Committee.

- 28 I noted an example where, in my view, improved communication should have led to a more efficient approach by Arc21. A two day visit to Sheffield was organised to build the capacity of Arc21 Members and Councillors learning from Councils in England. Of particular concern were waste management issues arising in relation to planning, and the public's perception of energy from Waste facilities. 31 Local Government delegates attended the visit including 10 members of the Joint Committee and 21 Council Officers. The net cost of the visit for Councils was £18,000. A further 10 delegates were due to be included in the Sheffield visit but subsequently cancelled. The cancellation costs met by the Councils were an additional £2,000. It is my view that this visit could have achieved its objectives with less attendees, and reduced costs, had the issue of how those attending would effectively communicate the findings of the Sheffield visit been better considered.

Conclusion

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

DENVER LYNN

Local Government Auditor

15th December 2008