



Annual Audit Letter

Issued by the Local Government Auditor



2012-13

To the Members of
arc21 Joint Committee

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1. 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 auditors¹. 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 proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for.

This report provides a summary of the findings from my 2012-13 audit.

¹ Article 4 (3) of the Local Government (Northern Ireland) Order 2005).

2. Financial Statements

Summary of Audit Findings

Arc21 must prepare its accounts in accordance with International Financial Accounting Standards as interpreted for Local Government in the 'The Code of Practice on Local Authority Accounting in the United Kingdom'. This code sets out the accounting treatment and disclosures for all normal transactions of local authorities.

The financial statements were signed by the Chief Executive on 27 June 2013. This is within the statutory timeframe of 30 June. Following the audit, the accounts were re-signed on 30 October and published on the website of Arc21 on 31 October in accordance with the regulations.

For the year ended 31 March 2013 I gave the following unqualified opinion on the 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 2012-13, of the financial position of arc21 as at 31 March 2013 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) 2006 and the Department of the Environment directions issued thereunder.

At the end of the audit I issued a Report to those charged with Governance on the results of the audit, noting the most significant issues, making recommendations and seeking comments. That report is presented separately to your Audit Committee.

Financial Performance

The Statement of Comprehensive Income and Expenditure of arc21 shows that during the year ended 31 March 2013 the Council spent £31,089,766 on the provision of services. It also received income of £31,043,016.

The major items of expenditure were;

- Landfill service £20,049,296
- Organic Waste Treatment £4,033,744

The major areas of income were:

- Landfill service £20,049,296
- Organic Waste Treatment £4,033,744

The Joint Committee currently has net non-current assets of £32,842. All of these non-current assets are in the Property, Plant & Equipment (PP&E) category. There were no loans within the group.

During the year the Joint Committee incurred £nil on loan charges and interest payments.

At 31 March the Joint Committee has usable reserves of £455,724 all relating to general reserves.

3. Governance

The Good Governance Standard for Public Services² sets out the following key principles of good governance. Good governance means;

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

Annual Governance Statement

The Joint Committee is required 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 to then approve an Annual Governance Statement³.

I am required to report if the Annual Governance Statement:

- does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13;
- does not comply with proper practices specified by the Department of the Environment; or
- is misleading or inconsistent with other information I am aware of from my audit

I have no inconsistencies to report as a result of my review of the Statment.

The Joint Committee noted the following significant governance issues in its Governance Statement;

- Residual Waste Treatment Project

The issue of proceeding with the residual waste treatment procurement in relation to affordability has created a significant risk in the 2012/13 year and going forward into the 2013/14 year. The bidder has decided to continue at risk and has invested heavily in the Planning Application process, as well as the development of the proposed solution.
- Challenges and Freedom of Information Requests in relation to Procurement and Management of Waste Contracts and Supplies

² The Good Governance Standard for Public Services, OPM and CIPFA, 2004

³ Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08

During the year Freedom of Information requests continued to be submitted and dealt with accordingly. As at 24th October 2013 there has been no further response from the Information Commissioner in relation to the complaint made. It is therefore assumed that the complaint will not be pursued. However, arc21 continue to await an official response and will respond accordingly should one be received.

The legal challenge to the awarding of a waste management services contract is still ongoing and still being robustly defended by arc21.

- Recruitment of Procurement and Contract Manager

Some difficulty was experienced in recruiting for the vacant post of a Procurement and Contract Manager but the risk was mitigated and managed through the use of temporary staff. The full time position remained vacant as at 31st March 2013 but the position has now been filled.

Internal Audit

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires Joint Committee's 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's internal audit service is provided by Belfast City Council. A review of the effectiveness of the system of internal audit was carried out during 2012-13 by the Joint Committee and the findings of the review were considered by the Audit Committee.

Audit Committee

It is essential that Members exercise effective scrutiny of the internal control processes and procedures in place within the Council. One way that Members carry out this function is through the Audit Committee. This Committee met 4 times this year and the agenda items included risk management and internal audit reports.

4. Proper arrangements

Legislation requires me, each year to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources⁴.

My review of the Council's arrangements for securing value for money can cover the following ten areas which are referred to in my Code of Audit Practice:

- a) **Financial Planning.** Planning finances effectively to deliver strategic priorities and secure sound financial health.
- b) **Financial Performance.** Having a sound understanding of costs and performance and achieving efficiencies in activities.
- c) **Financial Reporting.** Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people.
- d) **Procurement.** Commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money.
- e) **Data to support decision making and manage performance.** Producing relevant and reliable data and information to support decision making and manage performance.
- f) **Good governance.** Promoting and demonstrating the principles and values of good governance.
- g) **Risk.** Managing risks and maintaining a sound system of internal control.
- h) **Natural Resources.** Making effective use of natural resources.
- i) **Asset Management.** Managing assets effectively to help deliver strategic priorities and service needs.
- j) **Workforce Management.** Planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

In 2012-13, I examined the areas of Financial Planning, Financial Reporting, Procurement and Good Governance based on my risk assessment of the Joint Committee.

On the basis of my work I am satisfied that the Joint Committee had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.

⁴ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

National Fraud Initiative (NFI)

In the current economic climate with unprecedented budgetary pressures on public services, it is essential that public bodies use every means at their disposal to prevent and detect fraud and error. The NFI exercise, which is carried out every two years, is a highly effective tool which helps public bodies identify potentially fraudulent and duplicate transactions using sophisticated computer based data matching techniques. The Serious Crime Act 2007 inserted provisions dealing with data matching exercises into the Audit and Accountability (Northern Ireland) Order 2003. Local councils and Joint Committees are involved in the 2012-13 NFI exercise and the outcome will be reported at a later date. The outcome of the previous NFI exercise can be found in the report produced by the Comptroller and Auditor General for Northern Ireland, published on 26 June 2012. A copy can be obtained from the Northern Ireland Audit Office's website. Suggestions would be welcome for further potential data matches that could help in the prevention and detection of fraud.

6. Local Government Reform

Local Government Finance Act 2011

The new prudential system for capital finance in Northern Ireland was introduced on 1 April 2012 with the implementation of Local Government Finance Act (Northern Ireland) 2011 and the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011. The Act and Regulations introduced significant changes to local authority capital financing and accounting in Northern Ireland. This has modernised the legislative framework for local government finance, with a focus on greater freedom for Councils and Joint Committees. The Act covers budgeting, reserves and funds, borrowing powers and capital receipts and expenditure. The key change is that it gives Councils and Joint Committees more freedom to manage their finances without the need to obtain consent from the Department of the Environment. More emphasis has therefore been placed on the Chief Financial Officers' assessment of affordability by applying the principles and requirements of the Prudential Code.

The Department of the Environment has also issued statutory guidance on the minimum revenue provision, capitalisation directions and local government investments.

7. Closing Remarks

The letter is addressed to the Members of the Joint Committee 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.

The factual accuracy of this Audit Letter has been agreed with the Chief Financial Officer.

The Joint Committee 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.

This letter will be presented to your Audit Committee by my staff and I have asked for copies to be sent to all Members.

Louise Mason

Local Government Auditor

30 January 2014