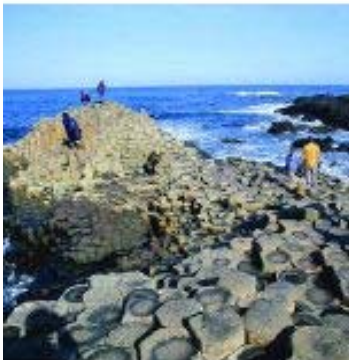




Annual Audit Letter

Issued by the Local Government Auditor



2013-14

To the Members of
Arc21 Joint Committee

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1. Introduction

I have been designated the Local Government Auditor for Arc21 Joint Committee by the Department of the Environment with the consent of the Comptroller and Auditor General for Northern Ireland.

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 2013-14 audit.

2. Financial Statements

Summary of Audit Findings

Arc21 Joint Committee

Arc21 Joint Committee 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 26 June 2014. This is within the statutory timeframe of 30th June. Following the audit, the accounts were re-signed on 30 October and published on the website of Arc21 Joint Committee on 31st October in accordance with the regulations.

For the year ended 31 March 2014 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 2013-14, of the financial position of Arc21 Joint Committee as at 31 March 2014 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 Joint Committee shows that during the year ended 31 March 2014 the Committee spent £25.1m on the provision of services. It also received income of £24.9m.

The major items of expenditure were:

- Landfill Service £14.3m
- Organic Waste Treatment £4.5m

The major areas of income were:

- Landfill Service £14.3m
- Organic Waste Treatment £4.5m

At 31 March 2014 the Joint Committee had non-current assets of £15k. As the Joint Committee has no loans it did not incur any loan charges or loan repayments.

At 31 March 2014 the Joint Committee had usable reserves of £352k made up of:

Usable Reserve	£
General Reserves	352,252
Total	352,252

3. Governance

The Good Governance Standard for Public Services¹ 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 Statement².

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 2013-14;
- 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.

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

- Residual Waste Treatment Project

The affordability mandate issue, identified in the 2012/13 Assurance Statement, has been resolved. A contingent liability has been recognised as part of the procurement process for the Residual Waste Treatment Project. This contingent liability has been approved by the Participant Councils in accordance with the governance arrangements of the Joint Committee.

¹ The Good Governance Standard for Public Services, OPM and CIPFA, 2004

² Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 and DOE circular LG/04/08

The key control measure is to be transparent and open with the Bidder and Constituent Councils and disclose all relevant information so that the Bidder can continue to make an informed decision as to continue to participate in the procurement or to withdraw.

The formal Planning Application was submitted at the end of March 2014, moving the Project into the final stages. Planning applications in Northern Ireland always present a significant risk, particularly in relation to large scale infrastructure, and the key controls involved in managing the risk have been a successful and uniquely transparent Pre-Application Discussions (PAD) application by the bidder, and the ongoing management of the Planning Application process as it proceeds through the various formal stages.

- Recruitment of Procurement and Contract Manager

The post of Procurement and Contracts Manager was filled on a permanent basis during the year but only for a limited period. The risk was mitigated through the use of temporary staff and a permanent appointment has been made after 31 March 2014.

- General Reserves Level

The level of £352,252 General Reserves shown at 31 March 2014 (£455,724 31/3/2013) would be considered to be below the level required to deal adequately with any contingencies should they arise. The policy adopted by the Joint Committee sets the desired level of general reserves at £500,000 and it is the intention to deal with this matter in conjunction with the Participant Councils during 2014/15.

- Local Government Reform

From 1 April 2015, under the Reform of Local Government (RLG), the number of Councils in Northern Ireland will reduce from the 26 existing to 11 new Councils, established under the Local Government Act (Northern Ireland) 1972 as amended by the Local Government (Boundaries) Act (Northern Ireland) 2008. From that date the Northern Ireland Executive has agreed to transfer some functions currently carried out by NI Government Departments and give some new responsibilities to the 11 new Councils. The new councils will be stronger, more efficient and will deliver more effective services.

The 11 newly formed Shadow Councils and the Department have been considering the future provision of waste management services and the position regarding the continuation of the Waste Management Group structure, beyond April 2015, is expected to be decided in the 2014/15 year.

Internal Audit

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires Joint Committees 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 function. A review of the effectiveness of the system of internal audit was carried out during 2013-14 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 Joint Committee. One way that Members carry out this function is through the Audit Committee. This Committee met 4 times in the year and the agenda items included a review of the risk register and consideration of internal and external audit reports.

4. Proper arrangements

Legislation requires me to be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources³.

My review of the Joint Committee'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.

For 2013-14, I examined the areas of Workforce Management, Procurement, Data to support decision making and manage performance and Risk 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.

³ 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 Joint Committees were involved in the recent NFI exercise and the Comptroller and Auditor General for Northern Ireland published a report on its outcomes on 17 June 2014. A copy can be obtained from the Northern Ireland Audit Office's website.

6. Local Government Reform

The Local Government Act (Northern Ireland) 2014 provides for a reduction in the number of local councils from twenty six to eleven on 1 April 2015.

arc21 continues to work to deliver appropriate waste contracts to ensure that all its member councils remain compliant and fulfil their statutory obligations. The current review of Public Administration concludes with the establishment of new councils on 1 April 2015. The future of the arc21 as a going concern is therefore the subject of consideration by the current member Councils and the shadow councils and will be taken forward by the new councils once they are established. arc21 continues to monitor the position closely and engage actively with the Department and Councils to ensure that there is a smooth transition of the Joint Committee from the current situation to the new structure.

7. Closing Remarks

The letter is addressed to the Members of Arc21 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 facilitated the audit in a positive and constructive way. 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. I have also asked the Chief Financial Officer to provide a copy to all Members of the Joint Committee.

Louise Mason

Local Government Auditor

6 January 2015