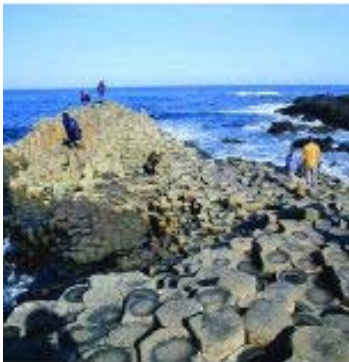




Annual Audit Letter

Issued by the Local Government Auditor



2014-15

To the Members of
Arc21 Joint Committee

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1. Introduction

I have been designated the Local Government Auditor for the arc21 Joint Committee by the Department of the Environment with the consent of the Comptroller and Auditor General for Northern Ireland.

2. Financial Statements

Summary of Audit Findings

Arc21 Joint Committee must prepare its accounts in accordance with International Financial Reporting Standards (IFRS) as interpreted for Local Government in the 'The Code of Practice on Local Authority Accounting in the United Kingdom' 2014-15. 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 2nd June 2015. This was within the statutory timeframe of 30 June. Following the audit, a number of presentational adjustments were required and the accounts were revised and re-signed on 28th October 2015 and published on the website of arc21 Joint Committee on 29th October, within the regulatory timeframe of 31 October.

For the year ended 31 March 2015 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 2014-15, of the financial position of arc21 Joint Committee as at 31 March 2015 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 there under.

My staff have issued a Report to those charged with Governance on the results of the audit, noting the most significant issues, making recommendations and seeking responses from management to address these issues. That report is presented separately to the Joint Committee and the Audit Committee of the lead council.

Financial Performance

The Statement of Comprehensive Income and Expenditure of the arc21 Joint Committee shows that during the year ended 31 March 2015 the Joint Committee spent £28.8m on the provision of services. It also received income of £28.9m.

The main items of expenditure were:

- Landfill service £17.4m
- Organic waste treatment £4.9m

The main area of income was:

- Landfill service £17.4m
- Organic waste treatment £4.9m

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

Arc21 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 2014-15;
- 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 Statement.

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

- **Residual Waste Treatment Project**

During the 2013/14 year the Bidder sought a Contingent Liability of up to £1m by way of recovery of some of the procurement costs invested, thus far at risk, in the Project. 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

approved the accepting of a Contingent Liability of up to £1m and this was then endorsed by the Constituent Councils and, where appropriate, the Statutory Transition Committees.

In essence, the Contingent Liability will be payable in defined circumstances, beyond the control of the Bidder, and will be in relation to costs incurred from the end of March 2014 on the Project. Any subsequent claim by the Bidder, in the event that the Contingent Liability becomes payable, will be based on vouched expenses provided by the Bidder and verified by arc21.

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 Contingent Liability remains in place as at October 2015.

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 PAD application by the bidder, and the ongoing management of the Planning Application process as it proceeds through the various formal stages.

In September 2015, the Department issued its Notice of Opinion to refuse the application and informed the applicant that it had 28 days to decide whether or not to write to the Department seeking to appear and be heard by the Planning Appeals Commission. The Joint Committee considered the matter and agreed that a request to appear and be heard by the Planning Appeals Commission should be made and this request to the Department was made on 16 October 2015.

We propose to keep under review the above matter to further enhance our governance arrangements and take appropriate action should it be deemed necessary. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

- **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.

As part of the Local Government Reform process, arc21 has been re-constituted in legislation through the formal adoption of *“The Local Government (Constituting a Joint Committee a Body Corporate) Order (Northern Ireland) 2015”*, coming into operation on 1 April 2015. Any developments with the future of waste management services will be determined by the 6 new Participant Councils, in conjunction with arc21.

Internal Audit

The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 requires Councils 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 2014-15 by the Joint Committee and the findings of the review were considered by the Audit Committee

Audit Committee

It is essential that members exercise 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 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 resources^[1].

My review of 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.

^[1] Local Government (Northern Ireland) Order 2005

- j) **Workforce Management.** Planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

For 2014-15, I examined the areas of Financial Planning and Workforce Planning 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.

5. 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 Executive of arc21.

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 arc21'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

23 November 2015