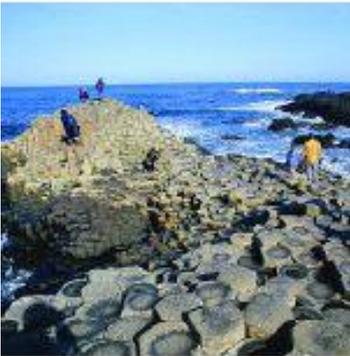




Northern Ireland Audit Office

# Annual Audit Letter

Issued by the Local Government Auditor  
November 2010



## Arc21

Year to 31 March 2010

## 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). For the year ending 31 March 2009 I have been designated the local government auditor for the Council.

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 this Annual Audit Letter on the NIAO website at [www.niauditoffice.gov.uk](http://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 28th October 2010. I gave an unqualified opinion on your accounts.
- 2 The Local Government (Northern Ireland) Order 2005 requires that in auditing accounts a local government auditor must by examination of the accounts or otherwise satisfy himself that:
  - (a) they are prepared in accordance with regulations;
  - (b) they fully comply with the requirements of all other statutory provisions applicable to the accounts;
  - (c) proper practices have been observed in the compilation of the accounts; and
  - (d) the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## *Matters arising from the final accounts audit*

- 3 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 24<sup>th</sup> June 2010 and members of the Joint Committee approved the accounts on 24<sup>th</sup> June 2010 which was within the statutory guidelines which requires this to be completed by 30 June. Following minor adjustments from the audit the accounts were authorised for issue by the Chief Executive on 28<sup>th</sup> October 2010.
- 4 There were no significant adjustments to the accounts made as a result of our audit findings during our audit. A number of narrative adjustments were made as a result of audit findings during our audit.
- 5 At the conclusion of our audit we issue a Management Letter to the Chief Executive noting the most significant audit issues found and seeking comments. I would draw the following points from the management Letter to your attention:

#### Confirmation of Council Balances:

In 2009-10 disproportionate audit time was spent in examining Note 4 (a) Contract Income from Councils. In some instances Arc21 had included amounts net of VAT whereas Councils were including the gross amount in their financial statements. Reconciliations were completed but in the case of six Councils different figures were included in their financial statements than Arc21 records in Note 4 (a).

#### Credit Notes:

Arc21 invoice councils for landfill charges based on projected tonnages. A reconciliation is then carried out with the actual quantities. In the 2008-09 year Arc21 estimated projected tonnages based on the value of the same period for the previous year in order to take into consideration seasonal fluctuations.

However, these estimations were frequently inaccurate resulting in a number of material credit notes being issued to councils.

In the 2009-10 year Arc21 amended their estimation methodology and charges for calculating projected tonnages; however the value of credit notes has more than doubled to £1,049,000 (£486,000 in 2008-09). This represents 3.6% of total income and expenditure between Arc21 and participant Councils in 2009-10 (1.9% in 2008-09).

With both points noted above there is a risk of inaccurate charges being recorded in financial statements or made to Councils.

### ***Financial standing***

- 6 The Joint Committee continues to have adequate financial management arrangements overall.
- 7 The financial statements reflect the expansion of Arc21's activities. Turnover has increased from £27m in 2008-09 to £31m in 2009-10.
- 8 On the basis of 2009-10 activities, a surplus of £293,000 was generated.
- 9 There are 3 significant balances as at 31 March 2010
  - Debtors £2.7m (£2.9m 2008-09)
  - Short Term Investments £2.8m (£2.7m 2008-09)
  - Creditors £4.6m (£5.1m 2008-09)

## ***District fund spending and balances***

- 10 The overall financial position remains stable. The Joint Committee increased by £306,267 the District Fund in 2009-10, leaving the District Fund balance at £898,020 as at March 2010.

## ***Capital Programme***

- 11 The Joint Committee has Fixed Assets totalling £58,019 with loans outstanding of £nil.
- 12 The Statement of Accounts reports future capital commitments relating to the Residual Waste Treatment Project. Arc21 expect to be in a position to acquire land and property for the construction of facilities to provide the necessary waste treatment services. Such acquisitions will be subject to independent valuations undertaken by the Land and Property Services Agency of the Department of Finance and Personnel and will be accounted for in the relevant financial year.

## ***Annual Governance Statement***

- 13 The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Joint Committees 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.
- 14 The Annual Governance Statement was approved by the Chief Executive and the Chairman on behalf of the Joint Committee. 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 Joint Committee.

I noted no Governance Statement matters in my report but paragraphs 22 and 23 of this Audit Letter include matters I considered.

## ***Internal Audit***

- 15 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 also required 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 Council has contracted out its internal audit to AGRS from Belfast City Council. The council reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee on 24<sup>th</sup> June 2010.

## ***Transition to International Financial Reporting Standards (IFRS)***

- 16 In central government, International Financial Reporting Standards (IFRS) applied to the 2009-10 accounts and the Central Government 2008-09 accounts were prepared for the last time on the UK Financial Reporting Standard basis in June 2009. In preparation for the change the 2008-09 accounts of Central Government were prepared again on a shadow IFRS basis in September 2009 with an audit review undertaken before the end of December 2009.
- 17 For Local Government the change to IFRS will take place a year later (i.e. from 2010-11). The Chartered Institute of Public Finance Accountancy (CIPFA) issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the implementation of IFRS. This included a Project Plan with key steps and dates.
- 18 The DoE commissioned CIPFA (NI) to provide training and support to local government bodies in Northern Ireland to help take forward IFRS issues. A series of training days were held in late 2009 and early 2010. A new IFRS - based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010 has been issued by CIPFA. As was the case in Central Government, Joint Committees will be required to re-state their final UK Financial Reporting Standard based accounts (ie 2009-10) on an IFRS basis and have this subject to audit review. DOE, under Circular LG 22/10 dated 28 October 2010, require re-stated accounts to be prepared by 17 December 2010 and we plan to undertake our audit reviews before the end of February 2011.

# Joint Committee Performance

## *Scope of my audit*

- 19 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.”*

- 20 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”.
- 21 A review of the council’s corporate governance and VFM arrangements for 2009-10 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.
- 22 The Joint Committee noted the following in its Governance Statement as significant governance issues;
- Segregation of duties – arc21 have made further progress during 2009/10 in addressing the need to ensure appropriate segregation of duties within its financial processes through the continued temporary secondment of an additional member of staff in the Corporate Services Department. The structural review undertaken during 2008-09, facilitated by the Local Government Staff Commission, identified a new post of Project Accountant which has been approved by the Joint Committee. This new post will be recruited on a permanent basis at an appropriate time.
  - Code of Governance – arc21 has developed a Code of Governance for the organisation during 2009/10 and this is being presented to the Audit Committee and the Joint Committee for approval in June 2010.
- 23 I noted the following additional issues from the corporate governance and VFM arrangements review:
- The organisation should finalise a suitable documented business continuity plan and test its implementation. Backup procedures should also be documented.

- Arc21 should finalise the Financial Accounting and Accounting Procedures.
- An amendment to the whistleblowing policy should be made to insert the local government auditor and PSNI as external contact points in accordance with the Public Interest Disclosure Order.
- Arc21 should ensure the Audit Committee includes at least one external member; external to both Arc21 and its constituent councils.
- Arc21 should develop specifically detailed procedures covering all aspects of capital expenditure as soon as possible in anticipation of upcoming spend in relation to the Residual Waste Treatment Project.
- Arc21 should develop an IT business continuity plan.

### ***Payment of invoices***

- 24 In November 2008 the Minister at the Department of Finance and Personnel reduced the target for the payment of invoices by the public sector from 30 days to 10 days. This was to assist small business in the changed financial circumstances prevailing, thus assisting businesses with their cash flow.
- 25 The target is not mandatory for local government but for the first time in 2009-10 DoE required joint committees to disclose their prompt payment performance. For arc21 a sample of invoices indicated that this was 31.3 days. It is hoped that arc21 will consider means by which the time taken to pay invoices can be reduced.

## Conclusion

- 26 This Audit Letter has been discussed and agreed with the Chief Executive and Finance Director.
- 27 The Council 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.

Local Government Auditor

22 November 2010

