



Annual Audit Letter

Issued by the Local Government Auditor
February 2012



arc 21

Year to 31 March 2011

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 2011 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 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 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.

Contents

- Audit of Accounts
- Joint Committee Performance
- Looking Ahead
- Conclusion

Audit of Accounts

- 1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on the 1st November 2011. 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 Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Council's annual accounts were signed by the Chief Financial Officer initially on 30th June 2011 and then final accounts on 31 October. Members of the Committee approved the accounts on 30th June 2011 which was within the statutory guidelines which requires this to be completed by 30 June. Following one material adjustment arising from the audit the accounts were authorised for issue by the Chief Financial Officer on 31th October 2011.
- 4 The one material adjustment to the financial statements made as a result of our audit findings involved a reduction in the bad debt provision of £350,000 and a corresponding increase in income of £350,000. As a consequence the General Reserve increased by £350,000.
- 5 At the conclusion of our audit we issue a Report to Those Charged with Governance on the audit results to management noting the most significant audit issues making recommendations and seeking comments. The significant point noted that I wish to bring to your attention is that the costs of additional services, provided under multi-disciplinary contracts associated with procurement of the residual waste treatment plan, are considerably higher than the fixed service costs. I have made recommendations on this matter in the Report to Those Charged with Governance.

Financial standing

- 6 The Joint Committee continues to have adequate financial management arrangements overall.
- 7 As a measure of prudence, a Joint Committee should retain a sufficient balance in its General Reserve to cover unexpected revenue expenditure or an unexpected drop in income in the foreseeable future.
- 8 The General Reserve balance of £1373k would appear to be satisfactory.

Capital Programme

- 9 The Joint Committee has Fixed Assets of plant and equipment totalling £44k with no loans outstanding.
- 10 The Statement of Accounts reports that in relation 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.

Annual Governance Statement

- 11 The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Councils 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.
- 12 The Annual Governance Statement was initially approved by the Chair of the Joint Committee and the Chief Executive on 30th June 2011 and then for final accounts purposes on the 31st October 2011. 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 inconsistencies in my report

Internal Audit

- 13 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 Committee has contracted out its internal audit to an internal audit department of one of the Councils. The Committee reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Audit Committee in June 2011.

Joint Committee Performance

Scope of my audit

- 14 My audit is conducted in accordance with a Code of Audit Practice (the Code). 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.”

- 15 A review of the Joint Committee’s corporate governance statement for 2010-11 was carried out as a separate exercise this year. This was principally on an exception basis using issues highlighted in the 2009-10 Audit letter and on matters arising from the review. The Statement was also reviewed against the pro-forma LG 04/08..

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

- In terms of funding for the Residual Waste Treatment Project, the Department published its Comprehensive Spending Review 2011-15 which identified significant reductions in grant support for all three major waste infrastructure projects in Northern Ireland. As a consequence, arc21 have been developing a Finance Strategy to deal with the potential for grant funding to be reduced specifically for the Project and also took the opportunity to incorporate a more comprehensive approach to funding other future waste infrastructure projects on behalf of Constituent Councils.
- In terms of funding for the Project during the year, arc21 undertook regular reviews of the expenditure needs of the Residual Waste Treatment Project and was in regular contact with the Department of the Environment to ensure that the funding requirements of the project were maximised through the provision of the grant assistance schemes in place.
- There were a number of challenges impacting on the Project throughout the year. These matters were dealt with on an ongoing basis in conjunction with arc21’s specialist team of advisors, the Department, who are the sponsors of the waste infrastructure programme, and member councils.

- 17 I noted the following additional issues from the corporate governance arrangements review:

- An independent member has not yet been appointed to the Audit Committee in keeping with best practice; and
- there is no specific IT Business Continuity Plan.

Payment of invoices

- 18 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.
- 19 The target is not mandatory for local government but as directed by DoE, prompt payment performance should be disclosed in the accounts. Arc21 did not disclose it's payment days in 2010-11 but should do so in the 2011-12 accounts.

Looking Ahead

Prudential Code

- 20 A major development in the financial powers available to Councils is the introduction of the Local Government Finance Act (Northern Ireland) 2011, which will be in effect for the 2012-13 accounts. This modernises the legislative framework for local government finance, with a focus on greater freedom for councils. The Act covers budgeting, reserves and funds, borrowing powers and capital receipts and expenditure. The key change is that it gives councils more freedom to manage their finances without the need to obtain consent from the Department of the Environment. More emphasis will therefore be placed on the Chief Financial Officers' assessment of affordability by applying the principles and requirements of the Prudential Code.

Conclusion

- 21 The factual accuracy of this Audit Letter has been agreed with the Chief Executive and the Director of Finance.
- 22 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 council's assistance and co-operation.

Louise Mason

Local Government Auditor

29 February 2012