

ARMAGH CITY AND DISTRICT COUNCIL

Minutes of Proceedings of a Meeting of the
AUDIT COMMITTEE
held in the Committee Room,
The Palace Demesne, Armagh, on
Thursday 6 December 2012 at 7.00 pm

PRESENT:

Chair: Councillor Mrs F Donnelly

Other Members: Councillors:

M Eagle R McCartney G P White

Lay Members:

Ms F Moore Prof P Murphy

Apologies: Councillors –

Mrs M Campbell T McWilliams Mrs J Rollston

In Attendance: Clerk and Chief Executive
Strategic Director of Corporate Services and Governance
Strategic Director of Regeneration and Development
Internal Auditor
Head of Financial Services
Stephen Knox, NI Audit Office
Democratic Services Officer (C Kyle)

1.0 **ELECTION OF CHAIR**

AGREED: in the absence of the Chair and Vice Chair, that Councillor Mrs Donnelly should chair the meeting.

2.0 **APOLOGIES/OPENING ANNOUNCEMENTS**

Apologies were received and accepted from Councillors Mrs M Campbell, T McWilliams and Mrs J Rollston.

3.0 **DECLARATIONS OF INTEREST/OBSERVER STATUS**

There were no declarations of interest or observer status.

4.0 **INTERNAL AUDIT**

4.1 **Internal Audit Update 2012-13 (AC-12-22-CK)**

PREVIOUSLY CIRCULATED: update report (AC-12-22-CK) in relation to work undertaken by Internal Audit.

The Internal Auditor took members through the update report, elaborating briefly on the main points.

- Data Security and IT Support Maintenance – Audit Report Finalized and included on agenda for approval
- Revenue and Community Grant Funding Programmes – Audit Report Finalized and included on agenda for approval
- Insurance – Fieldwork completed, report to be drafted
- Income Review of Recreation and Leisure Centres – Fieldwork being completed
- Risk Management – work on-going in relation to the new risk management strategy

The Strategic Director of Corporate Services and Governance referred in particular to the significant amount of work already undertaken in relation to risk management. She advised that work was continuing in relation to updating the corporate risk register, as well as reviewing departmental risk registers across the Council.

Professor Murphy referred to issues such as risk management; health and safety; and equality, and said that it was often very easy for staff to gloss over these issues. He said that it was important to keep making an effort to get the message across to ensure that these important issues were not taken for granted.

The Strategic Director added that Managers had recently received training and Members had received a briefing in relation to The Bribery Act 2010.

RECOMMENDED: approval to the Internal Audit Update Report, AC-12-19-CK.

4.2 **Revised 2012/13 Internal Audit Plan (AC-12-23-CK)**

PREVIOUSLY CIRCULATED: Revised 2012/13 Internal Audit Plan, AC-12-23-CK.

The Internal Auditor elaborated briefly on the revised internal audit plan. She said that due to a request from Management to undertake an urgent audit in relation to casual staff, a number of planned audits had been deferred – training and development; SGEHC and Registration. She added that a number of other audits had also taken longer than originally planned – Insurance, Income at Leisure and Recreation Centres, Revenue and Community Funding Programmes and Data Security and IT Support Maintenance. The audit plan had been revised to reflect this.

The Strategic Director of Corporate Services and Governance explained that an issue had arisen which indicated a flaw in the current system for payment of casual staff. She said that the interpretation of time sheets for casual staff had resulted in some overpayments and underpayments of staff. Therefore it was considered important that this audit be given priority at this time.

The Clerk and Chief Executive emphasized that they were not talking about large sums of

money, but obviously it was important to clarify and rectify the situation as soon as possible.

Professor Murphy commented that it was positive that management had requested an audit when a problem was uncovered.

RECOMMENDED: approval to the revised Internal Audit Plan, AC-12-23-CK.

4.3 **Internal Audit Report Re: Data Security and IT Support Maintenance (AC-12-24-CK)**

PREVIOUSLY CIRCULATED: Internal Audit Report in relation to a review of Data Security and IT Support Maintenance, AC-12-24-CK.

The Internal Auditor referred briefly to the report. She advised that the Data Security and IT support maintenance audit was carried out in August 2012. A total of 17 recommendations were made including 3 priority 1 recommendations, 7 priority 2 recommendations and 7 priority 3 recommendations. A satisfactory assurance was considered appropriate. Key issues to be resolved included:

- An overall IT security policy is to be completed in accordance with ISO 27001 standard;
- Data Protection Policy to be finalised and made available to staff. Data protection awareness sessions to be made to staff;
- The Council should work towards adhering to the retention and disposal schedule;
- Up to date agreements to be put in place with IT Service Providers;
- IT inventory records to be updated to include a unique sequenced reference number and a record of all disposed and sold IT assets to be recorded; and
- A formal review of user access rights on key IT systems to be completed on a 6 monthly basis.

The Internal Auditor advised that all recommendations had been agreed with Management and recommendations would be implemented by March 2013.

In response to an enquiry from Ms Moore in relation to Service Level Agreements for IT support services, the Internal Auditor advised that work was on-going in relation to updating the contract register. The Strategic Director advised that it was hoped to undertake extensive work in the future in relation to contract registers as it had been highlighted as an issue over a number of areas at the moment.

In response to a further enquiry from Ms Moore in relation to policies, the Strategic Director emphasised that a Data Protection Policy had been in place but had needed to be updated. She advised that a number of Information Governance Policies had been approved by the Executive Committee that day.

Professor Murphy commented that data security and IT support maintenance was an area that caused great concern to many areas of the public sector so it was good to see this work being done. He said that with new technology coming on board so quickly it was a difficult area to keep up to speed with.

Mr Knox, NIAO, commended officers on what was a very informative report. In relation to Data Security he referred to a 'clear desk' policy operated by the NIAO. He also referred to the outsourcing of the collection of paper waste including confidential paper and emphasised the need to ensure that confidentiality was maintained at all times.

RECOMMENDED: approval to the Audit Review Report, AC-12-24-CK, in respect of a

review of Data Security and IT Support Maintenance, and the recommendations contained therein.

4.4 **Internal Audit Report Re: Revenue and Community Grant Funding Programmes (AC-12-25-CK)**

PREVIOUSLY CIRCULATED: Internal Audit Report in relation to a review of Revenue and Community Grant Funding Programmes, AC-12-25-CK.

The Internal Auditor referred briefly to the report. She advised that the Revenue and Community Funding Programme audit was carried out in Sept/Oct 2012. A total of 11 recommendations were made including 3 priority 1 recommendations, 7 priority 2 recommendations and 1 priority 3 recommendations. A satisfactory assurance was considered appropriate. Key issues to be resolved included:

- All grant awards under the Financial Assistance Policy should be supported by a valid application form and appropriately scored;
- Consideration should be given to the implementation of a grant application deadline in each annual funding cycles;
- A signed letter of offer should be in place prior to any event taking place;
- Claims should be supported by both invoices and bank statements before payments were made;
- Surpluses reported by organisation should be reviewed by the Council to ensure monies were appropriately used;
- A sponsorship grant programme should be established and open to other events;
- All sponsorship events should be supported by a letter of offer and effectively monitored;
- A reconciliation between the finance grant records and the records held by the Regeneration and Development Departments should be completed on a 6 monthly basis; and
- An evaluation report for seeding grants should be introduced.

The Internal Auditor advised that with the exception of the recommendation in relation to the establishment of a sponsorship grant programme which had been agreed in principle, all other recommendations had been agreed with Management and recommendations would be implemented by January 2013.

In response to an enquiry from Councillor McCartney regarding the recommendation to consider implementing a grant application deadline in each annual funding cycle, the Strategic Director of Regeneration and Development advised that they currently operated a rolling programme, but said that they would consider this recommendation. She said that they had previously operated a system whereby they had 3 calls per year, but they found that some groups were still missing the calls so following a review and discussion with elected members a rolling programme was implemented and this seemed to be working well. However, she acknowledged the point made by audit that this was more staff resource intensive. She said there were advantages and disadvantages with both systems.

The Chief Executive said that this was an issue that many members became involved in through local community groups and officers would take the lead from members regarding which system they wished the Council to operate.

Councillor Mrs Donnelly said that while the current rolling system may be more work intensive for officers, she felt it was more effective system.

Ms Moore said that the Council would need to be able to demonstrate that it was getting

value for money.

Councillor McCartney referred to the recommendation that all claims should be supported by both invoices and bank statements before payments were made, and said that it was often difficult for smaller groups to fully fund events in advance.

In response, the Strategic Director advised that within the current financial assistance policy there was provision whereby a group could seek a payment in advance of an event.

Mr Knox commended officers on another very useful audit report. He advised that some Councils' had a clause within their policy whereby groups could claim up to a certain amount and if after their event had taken place there was a surplus in their claim this was held back by the Council. Mr Knox also referred to the possibility of fraudulent claims with copied invoices, etc. and asked if the Council was happy with the processes and checks in place.

In response, the Strategic Director briefly outlined the current process for dealing with claims.

In response to an enquiry from Mr Knox regarding the application of procurement rules, the Strategic Director advised that where necessary groups were advised of the Council's procurement rules.

RECOMMENDED: approval to the Audit Review Report, AC-12-24-CK, in respect of a review of Data Security and IT Support Maintenance, and the recommendations contained therein.

5.0 **EXTERNAL AUDIT**

5.1 **Audited Annual Report and Accounts 2011-12 (AC-12-26-CK)**

PREVIOUSLY CIRCULATED: copy of Audited Annual Report and Accounts 2011-12, AC-12-26-CK.

The Head of Finance referred briefly to a number of issues which had been raised within the accounts.

NOTED.

5.2 **NIAO Annual Audit Letter 2011-2012 (AC-12-27-CK)**

PREVIOUSLY CIRCULATED: NIAO Annual Audit Letter 2011-12, AC-12-27-CK.

Mr Knox referred briefly to the Annual Audit Letter as follows –

- Introduction
- Financial Statements
 - Summary of Audit Findings
 - Financial Performance
- Governance
- Proper Arrangements
- Other Audit Work
- Future Challenges
- Closing Remarks

NOTED.

5.3 **NIAO Draft Report to Those Charged with Governance (AC-12-28-CK)**

PREVIOUSLY CIRCULATED: NIAO Draft Report to those charged with Governance, AC-12-28-CK.

Mr Knox took members through the report elaborating briefly on the following –

- Significant Risks
- Audit Findings
- Identified Misstatements
- Other Matters of Governance Interest

RECOMMENDED: that the NIAO Draft Report to Those Charges with Governance, AC-12-28-CK, including Management Responses, should be approved.

6.0 **CORRESPONDENCE**

There were no items of correspondence.

The business having been completed, the meeting concluded at 8.10 pm.

LORD MAYOR: _____

**CLERK AND
CHIEF EXECUTIVE:** _____

DATE: _____

Audit Committee
Internal Audit update
6 December 2012



Summary work of work completed to date in 2012/ 13

There have been 3 final reports issued and 3 follow up reports completed in 2012 to date. 5 of the 6 reports have been given a satisfactory assurance and in 1 case a limited assurance (Water Quality Management).

Name	Date report completed	Reported to Audit Committee	Assurance rating	Budgeted days	Actual days	Explanation of variance against budget
Follow up of Licensing and Cash Handling Arrangements in place at the Shambles Market	June 2012	June 2012	Satisfactory (previously limited)	4	4	N/a
Follow up of Receipting and Recording of income at the Council Civic Amenity Sites	June 2012	June 2012	Satisfactory (previously limited)	4	4	N/a
Follow up of Events	June 2012	June 2012	Satisfactory (previously limited)	4	4	N/a
Water Quality Management	August 2012	September 2012	Limited	10	10	N/a
Data Integrity/Data Security and support maintenance	October 2012	December 2012	Satisfactory	12	17	5 days over
Revenue and Community Grant funding programmes	November 2012	December 2012	Satisfactory	15	18	3 days over
Insurance	On-going	N/a	?	10	7 days to date	On target
Leisure and Recreation centres	On-going	N/a	?	15	10 days to date	Likely to go over budget.
Risk Management	On-going	Updates at each Audit Committee	N/a	20	12 to date	-

Work is currently being carried out in the following areas:

- Insurance (Fieldwork completed – to draft report);
- Income review of recreation and Leisure Centres (Completion of fieldwork); and
- Risk Management (on-going).

Data Security and IT support maintenance

The Data Security and IT support maintenance audit was carried out in August 2012. A total of 17 recommendations were made including 3 priority 1's, 7 priority 2's and 7 priority 3's. A satisfactory assurance was considered appropriate. Key issues to be resolved include:

- An overall IT security policy is to be completed in accordance with ISO 27001 standard;
- Data Protection Policy to be finalised and made available to staff. Data protection awareness sessions to be made to staff;
- The Council should work towards adhering to the retention and disposal schedule;
- Up to date agreements to be put in place with IT Service Providers;
- IT inventory records to be updated to include a unique sequenced reference number and a record of all disposed and sold IT assets to be recorded; and
- A formal review of user access rights on key IT systems to be completed on a 6 monthly basis.

All recommendations have been agreed with Management and recommendations will be implemented by March 2013.

Revenue and Community Funding Programmes

The Revenue and Community Funding Programme audit was carried out in Sept/Oct 2012. A total of 11 recommendations were made including 3 priority 1's, 7 priority 2's and 1 priority 3. A satisfactory assurance was considered appropriate. Key issues to be resolved include:

- All grant awards under the Financial Assistance Policy should be supported by a valid application form and appropriately scored;
- Consideration should be given to the implementation of a grant application deadline in each annual funding cycles;
- A signed letter of offer should be in place prior to any event taking place;
- Claims should be supported by both invoices and bank statements before payments are made;
- Surpluses reported by organisation should be reviewed by the Council to ensure monies are appropriately used;
- A sponsorship grant programme should be established and open to other events;
- All sponsorship events should be supported by a letter of offer and effectively monitored;
- A reconciliation between the finance grant records and the records held by the Regeneration and Development Departments should be completed on a 6 monthly basis; and
- An evaluation report for seeding grants should be introduced.

All recommendations have been agreed with Management and recommendations will be implemented by January 2013.

Risk Management

Risk Management sessions on the new risk management strategy was provided to Managers in September 2012.

Work is continuing in the updating of the corporate risk register to align to the new risk management strategy approved by the audit committee in June 2012. Once completed work will commence with each Department to develop departmental risk registers across the Council.

2012-13 Revised Audit Plan

Department / Section	Risk Register Rating (or professional judgement)	Est Number of Audit Days per original Audit Plan	Revised Audit Plan	Notes
Finance:				
High level financial review:	Moderate			Scheduled for Feb/March 2013
Fixed assets		5	5	
Stock/inventories		3	3	
Loans		2	2	
Income/Debtors		5	5	
HR				
Training and development	Moderate	8	0	Agreed with Management that this will be deferred to 2013/14
Casual staff	High	0	25	To be completed Jan 2013
Operational Services:				
Recycling (Landfill targets)	Moderate	10	10	Scheduled for Feb/March 2013
Clerks Department:				
Corporate Governance and Declarations of Interest and FOI/ gifts and hospitality / Fraud	Moderate	10	10	Scheduled for Feb/March 2013
Risk management	High	15	15	On-going
Estates Management:				
Insurance	Moderate	10	15	Report to be drafted. Revised budget days.
Business Continuity	Moderate	10	0	Agreed with Management that this will be deferred to 2013/14
Water Quality Management	High	10	10	Final Report issued
Recreation and Leisure:				
Leisure and recreation centres - (Leisure pitch/site bookings and cash handling)	Moderate	15	25	Fieldwork completion. Revised budgets

Regeneration & Development:				
Revenue and Community funding programmes (Grant Funding)	Moderate	15	20	Final Report issued. Revised budgets
Regulatory Services				
Registration (BDM)	Low	7	0	Agreed with Management that this will be deferred to 2013/14
SGEHC	Moderate	12	0	Defer to 2013/14
Information Technology:				
Data Integrity / Data Security	High	12	15	Final Report issued
Follow up audits		20	18	4 days for Water Quality Management review in Jan 12
Development of SIAP and audit plan		5	5	
Training		5	5	
Service Development		5	5	
Annual Governance statement		2	0	
Audit Committee		3	3	
Other work		9	2	Used for Risk Management
Scheduled Audit Days		198	198	

AC-12-24-CK

Armagh City and District Council

Audit fieldwork 2012/ 13

Data Security and IT support maintenance

Summary Report

22 November 2012



Summary Action Plan

No.	Recommendation	Priority	Management Response	Status	Responsible Officer	Implementation Date
IT Security Policies						
1	<p>It is recommended that priority is given to the completion of an overall IT security policy with reference made to any individual IT policies that have been developed such as the Internet, Email and Data Protection policies. In accordance with best practice, ISO 27001 standard, it is considered that the overall policy should, at a minimum, contain guidance on the following:</p> <ul style="list-style-type: none"> • Access rights including the registration of starters and removal of leavers; • Use of USB's and other portable drives and devices; • Locking of rooms and cabinets; • Password policy; • Physical security of information systems & asset management; • Information security incident management; • Business continuity management; • Network security; and • IT Equipment disposal. 	1	Agreed.	Accepted.	IT Manager.	March 2013.

Summary Action Plan

2	It is recommend that once the overall IT security policy has been finalised, that it is provided to staff. It is also recommended that training be provided and that all new staff be provided with training in this regard as part of the induction process.	2	Agreed.	Accepted.	IT Manager / HR Manager.	March 2013.
3	It is recommended that the Intranet/Internet and Email policy is updated as soon as possible and distributed to all relevant staff.	2	Agreed.	Accepted.	IT Manager / Policy group.	March 2013.
Data Protection and retention of documents						
4	It is recommended that the Council finalise and approve the revised Data Protection Policy. The Policy should be made available to the staff via the staff intranet.	1	Agreed.	Accepted.	DCS / Policy & Diversity Officer.	December 2012.
5	It is recommended that the Council consider the use of data protection information sessions to supplement the Data Protection Policy to provide staff with comprehensive awareness of the prevailing data protection issues.	2	Agreed.	Accepted.	Policy & Diversity Officer.	March 2013.
6	It is recommended that work commences on the implementation of the retention and disposal schedule as soon as possible. There should be regular monitoring of compliance with the retention and disposal schedule.	2	Agreed. A Project Plan is to be developed to assist this process.	Accepted.	DCS / Policy & Diversity Officer.	On-going.
7	It is recommended that the roles and responsibilities of staff within the Council	3	Agreed.	Accepted.	Policy & Diversity	December 2012.

Summary Action Plan

	for the shredding of confidential waste are clearly outlined in documented guidance.				Officer.	
8	The Council should consider introducing a 'clear desk policy' to ensure that all sensitive and personal data is locked away at the end of each day.	3	Agreed. The current arrangements will be reviewed.	Accepted.	DCS / Policy & Diversity Officer.	March 2013.
IT support service level agreements						
9	It is recommended that the Council put in place up to date agreements with IT service providers as soon as possible. The Council should continue to work closely with other Councils in the cluster group for the renewal of key IT systems.	1	Agreed. The review of IT contracts/Service Level Agreements will be included as part of the overall contracts management review.	Accepted.	DCS.	March 2013.
10	It is recommended that all departments introduce faults logs for all issues reported to IT providers to ensure effective monitoring is being carried out.	3	Agreed. This will be put in place for current Service Level Agreements. Once the recommendation at C6 is implemented staff will advised to keep logs of all issues reported to IT providers.	Accepted.	DCS / Information System Managers.	March 2013.
IT inventory						
11	It is recommended that all IT assets are given a unique sequenced reference number going forward and retained on the inventory listing following the sale or disposal of IT assets.	2	Agreed.	Accepted.	IT Manager.	March 2013.

Summary Action Plan

12	It is recommended that the IT section carry out an inventory audit to ensure the accuracy of the IT inventory listing. Internal audit should be provided with evidence of the outstanding assets that are present in the Council, so that assurance can be given that the issue is one purely of record keeping and not misappropriation.	2	Agreed.	Accepted.	IT Manager.	March 2013.
User access						
13	It is recommended that a formal review of users' access rights at regular intervals, say 6 monthly, would provide further assurance that all changes to access rights have been properly activated and remained appropriate. Management should keep appropriate records to demonstrate that this regular review has been carried out.	2	Agreed. Access rights to the finance system are currently reviewed on a 6 monthly basis. Arrangements to review access rights of other key systems will be put in place.	Accepted.	Information System Managers.	March 2013.
14	It is recommended that managers are reminded of the importance of returning leaver forms to IT on a timely basis.	3	Agreed. Managers will be reminded at the monthly manager meetings.	Accepted.	HR Manager.	December 2012.
15	It is recommended that a formal process be documented for the issue and return of mobile phones and swipe cards. It is also recommended that leaver forms are updated to include mobile phones and swipe cards to ensure all issued items are returned. Once updated the leaver form should be communicated to managers across the Council so that they are fully aware of these requirements.	3	Agreed. A process for signing the acceptance and the returning of equipment will be introduced. A record of this will be held on the individual personnel files.	Accepted.	HR Manager / IT Manager.	March 2013.

Summary Action Plan

Back-up logs						
16	It is recommended that management ensures that all daily backups and backup restores are recorded on a daily backup log and bi-monthly restore log. The logs should include the action taken for any backup or restore failures. The logs should also be signed off by the relevant member of IT support to evidence that they have been completed.	3	Agreed.	Accepted.	ICT Officer.	December 2012.
17	A periodic review should be performed by management to ensure back up logs have been completed and, where errors/alerts have been identified during the backup process, appropriate remedial action has been taken.	3	Agreed.	Accepted.	IT Manager.	March 2013.

AC-12-25-CK

Armagh City and District Council

Audit fieldwork 2012/ 13

Revenue and Community Grant Funding Programmes

Summary Report

29 November 2012



Summary Action Plan

No.	Recommendation	Priority	Management Response	Status	Responsible Officer	Implementation Date
Financial Assistance Programme						
1	It is recommended that the Council consider implementing a grant application deadline in each annual grant funding cycle instead of all year round and advertise the annual financial assistance programme once a year instead of three times a year.	2	The CEDM would support this, as this fits with the proposed policy for RPA. However the only concern is Councillors feel the current rolling programme is working well and to change this would require the necessary approvals. Previously the Council run three calls a year and this was changed to a rolling basis on the request of Council.	Accepted.	CEDM.	January 2013.
2	It is recommended that management ensure that all groups submit an application form for funding before a grant award is considered. It is also recommended that management are reminded that all grant applications should be scored and assessed in accordance with the procedures and documented on the grant file.	1	The CEDM accepts this and agrees in future all requests for Financial Assistance will require an Application. However in the case viewed all necessary information was corresponded and the group did complete all necessary evaluations.	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.
3	It is recommended that a signed Letter of Offer is in place prior to any event taking place.	2	The CEDM accepts this, however this is sometimes complicated by late applications which Council would like to support.	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.
4	It is recommended that all grant awards including those for council run events are supported by both invoices and bank statements before payments are made.	2	The CEDM accepts this and will ensure this is implemented by the Panel in the future. The Financial Assistance policy will be updated and going forward bank statements from groups will be requested.	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.
5	It is recommended that all surpluses noted on the grant evaluation form are	2	Currently groups are contacted and it is established that surpluses will be utilised for future community benefit. The CEDM	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.

Summary Action Plan

	reviewed for appropriateness by the Council and evidence is obtained to confirm the use of the surplus.		accepts this and will prepare a pro-forma for Panel Members to complete as part of the evaluation process.			
6	It is recommended that the Council provide a more streamlined approach for small organisations where grants awarded are £250 or less. Internal audit consider that supporting documentation for expenditure along with an evaluation report is suffice for grants of £250 or less.	3	The CEDM welcomes this finding and with Councillors Approval will work with the Panel to Formulate a simplified process.	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.
Sponsorship events						
7	It is recommended that a sponsorship grant programme is established and open to other events.	1	Whilst the CEDM agrees in principle, it is important to consider what sponsorship is and why Council agreed to this process i.e. These events would have continued with or without Council support. However, such events present opportunity which Council want to be associated with. The CEDM feels that in order to progress a review should be carried out with Councillors.	Not accepted.	CEDM/ Financial Assistance Panel.	Following Direction. CLLR
8	It is also recommended that once the sponsorship grant programme is established management review the annual events that are currently funded through the Financial Assistance small grants/Community Festivals programme and determine if they would fit better under the sponsorship of events funding.	2	CEDM agrees there maybe more scope for inclusion from the current programme, however this would have to compliment or fit with the decision taken in terms of point 7.	Accepted.	CEDM/ Financial Assistance Panel.	Following Direction. CLLR
9	It is recommended that all events funded by the Council are supported by a Letter of Offer to ensure both parties are clear about their roles and responsibilities. It	1	In 3 out of 4 cases, events sponsored were supported with all necessary information, however on 1 event the CEDM accepts this was not the case and will ensure it is better managed in the	Accepted.	CEDM/ TDM.	Immediate.

Summary Action Plan

	is also recommended that grants awarded are effectively monitored to ensure funds awarded are being used as intended.		future.			
Grant reconciliations						
10	It is recommended that a reconciliation is carried out between the finance grant records and the records held by the Regeneration and Development Department. It is considered that this reconciliation is carried out on a 6 monthly basis.	2	CEDM is happy to formalise this and will liaise with finance to prepare a pro-forma to assist with this process.	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.
Seeding grants						
11	It is recommended that the Council introduce an evaluation report to be completed by projects within a period of 6 months after receipt of a seeding grant.	2	CEDM is happy to formalise this and will prepare a pro-forma to assist with this process.	Accepted.	CEDM/ Financial Assistance Panel.	Immediate.



Northern Ireland Audit Office

Our purpose ...

Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

- Integrity
- Equality
- Openness
- Innovation

To make a difference for the people of Northern Ireland.

The Local Government (Northern Ireland) Order 2005 provides that the Department of the Environment may, with the consent of the Comptroller and Auditor General, designate persons who are members of the Northern Ireland Audit Office as Local Government Auditors. Louise Mason, Assistant Auditor General, is the designated Local Government Auditor for all local government bodies in Northern Ireland.

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AC-12-28-CK

Armagh City and District Council
AUDIT OF 2011 -2012
FINANCIAL STATEMENTS

**DRAFT REPORT TO THOSE CHARGED WITH
GOVERNANCE**

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Introduction

1. This report summarises the key matters arising from our audit of the 2011-12 financial statements for the benefit of those charged with governance¹. We would like to thank the Chief Financial Officer and the Head of Financial Services and their staff for their co-operation during the audit process.
2. The examination of the 2011-12 financial statements was undertaken in accordance with auditing standards issued by the Auditing Practice Board (APB), taking into account the UK Auditing Practice Board's Practice Note 10 (Revised); Audit of Financial statement in Public Sector Bodies in the United Kingdom and the Code of Audit Practice issued by the Chief Local Government Auditor. Our approach to the audit was planned and executed in accordance with the Audit Strategy presented to the Audit Committee in April 2012.
3. This report has been prepared for the sole use of Armagh City and District Council. Our prior consent should be sought before any distribution (including web publication) either in full or in part is made. The Northern Ireland Audit Office (NIAO) does not accept responsibility to any third party for losses arising from reliance being placed on this report.
4. After the conclusion of the audit the Council then place an advertisement stating, in line with regulation 12 Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006, that the audit has been concluded and that the financial statements are publicly available. A copy of the paper(s) incorporating this advertisement should be sent to our office within a week of the advertisement being made.

Actions for those charged with governance

5. Those charged with governance are invited to review the findings set out in this report, including the draft letter of representation and audit report included in Annex A and Annex B respectively.

Overall conclusion and opinion

6. The 2011-12 financial statements were certified on 31 October 2012 with an unqualified audit opinion.

Audit judgements

7. In reaching our audit opinion we reviewed how indices were applied to the valuations and depreciation charged for the property. We were satisfied that assets are now included at the appropriate carrying value.

Audit findings

8. In Section 2 we outline the quality, effectiveness and transparency of Armagh City and District Council's financial reporting and its accounting policy selection, and our audit findings including any issues identified relating to regularity and the internal control environment.
9. No issues were identified on the quality, effectiveness and transparency of financial reporting and accounting.
10. The accounting policies were considered appropriate. One new accounting policy which affected all Councils in 2011-12 was the introduction of Heritage Assets and the Council has made sufficient disclosure in respect of this new accounting policy.
11. There were no significant issues identified regarding regularity.

¹ In accordance with ISA 260, those charged with governance are those individuals accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Executive Summary

12. We identified no significant internal control weaknesses².
13. The original Annual Governance Statement was updated to include additional disclosures concerning “Limited” assurances given by Internal Audit during 2011-12.
14. Further issues of interest are set out in the Other Matters of Governance Interest section.

Identified misstatements

15. In the course of the audit misstatements were identified which have been adjusted in the financial statements, as detailed in Identified Misstatements in Section 3. The net effect of these adjustments on the Comprehensive Income and Expenditure Statement (CIES) was an improvement in the result for the year of £0.3m and a reduction in the net book value of fixed assets by £6.7m.

² In accordance with ISA 265, it is the auditor’s responsibility to communicate appropriately to those charged with governance and management, deficiencies in internal control identified in an audit of financial statements that, in the auditor’s professional judgement, are of sufficient importance to merit their respective attentions.

Section 1 Audit Risks

Significant risks

- 1.1. In our Audit Strategy issued in April 2012, our assessment of Armagh City and District Council's operations and control environment identified a number of significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.
- 1.2. During the course of the audit we identified a significant risk regarding the incorrect application of indices advised by Land and Property Services for the indexation of land and buildings for the 2011-12 financial year.
- 1.3. The table below describes how we addressed these matters through our audit process.

Significant risks of material misstatement

Risk 1: Landfill Provision
<p>We note that there is a provision in the accounts relating to the estimated aftercare costs of the Council's landfill site which closed some years ago.</p> <p>Recent guidance has indicated that Councils should consider the after care costs for a significantly longer period than was previous normal practice. This may necessitate potential revision of the provision in place.</p>
Audit Response
<p>Review the Council's basis of calculation of landfill provision and review of any 3rd party expert opinion that Council has relied upon in its calculations.</p> <p>Review any correspondence from NIEA associated with the landfill provisions.</p> <p>Discussion with Council management.</p>
Outcome
<p>This is an old landfill site and is not subject to the European Landfill Directive.</p> <p>Aftercare costings, mainly in respect of leachate costs, for the former landfill site were provided. The provision was reduced by £102,574.</p> <p>As the Council may acquire the part of the landfill site not in its ownership we will review the supporting documentation for the provision again next year.</p>

Risk 2: Single Status
<p>The Council has a small number of remaining single status/equal pay cases which are difficult to financially quantify.</p>
Audit Response
<p>Discuss with management progress in agreeing terms with the Trade Unions and any subsequent payments of arrears.</p> <p>Assess the reasonableness and appropriateness of any provision disclosure on this issue.</p> <p>Review of correspondence on these issues including that from expert advisers and solicitors.</p>

Section 1 Audit Risks

Outcome

Several claims were settled in October 2012 and based on these settlements and potential future claims the provision was found to be overstated and consequently was reduced by £200k.

Risk 3: Valuation of Land and Buildings

In the years between mandatory 5 year revaluations of land and buildings, Land and Property Services (LPS) indices are applied to asset values to ensure the assets held on the Balance Sheet (BS) reflect fair value. Our audit identified that Council were misinterpreting how to apply LPS indices. The incorrect application of these indices may result in material misstatement of the carrying amount of land and buildings on the BS at 31 March 2012.

Audit Response

We sought to ensure that the carrying amount determined for land and buildings at 31 March 2012 was in accordance with applicable guidance.

Outcome

Following clarification from the Council's valuer, Land and Property Services (LPS), on the indices presented by them to the Department of Environment (DoE) for the revaluation of Land and Buildings the Council subsequently amended its financial statement to correct this and the net book value of the Land and Buildings assets in the Councils Balance Sheet was reduced by £6.7m. An amount of £0.8m was taken to the Comprehensive Statement of Income and Expenditure (CIES) and £7.5m to the Revaluation Reserve.

We are content the adjustments identified in Section 3 relating to the revaluation exercise the carrying amount determined for Land and Buildings at 31 March 2012 was in accordance with applicable guidance.

Section 2

Audit Findings

Financial Reporting and Accounting Policies

- 2.1 The Financial Statements are required to comply with the Code of Practice on Local Authority Accounting in accordance with the Accounts Direction issued by the Department of the Environment.
- 2.2 In this section we draw to your attention our review of qualitative aspects of the accounting practices and financial reporting. This includes any significant changes or issues in respect of the accounting policies; estimates; judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period. We also review the overall balance and clarity of information contained in the Explanatory Foreword.
- 2.3 A number of minor presentational adjustments were required to the financial statements submitted for audit.
- 2.4 During the audit:
- The accounting policies were considered appropriate to the particular circumstances of the Council, judged against the objectives of relevance, reliability, comparability and understandability. For example We note the new accounting policy on heritage assets and all other accounting policies have remained consistent with the prior year. We are content with the appropriateness of the accounting policies judged against the objectives of relevance, reliability, comparability and understandability.
 - All transactions were correctly recorded in the correct period.
 - Following the review of the appropriateness of accounting estimates and judgements in relation to provisions, provisions were found to be overstated – see Section 3.
 - There are no material risks which have a potential effect on the financial statements which have not been disclosed in the financial statements.
 - The financial statements are not affected by any unusual transactions including non-recurring profits and losses recognised during the period.
 - There are no apparent misstatements in the other information in the document containing the audited financial statements or material inconsistencies between it and the audited financial statements.
 - There were no significant difficulties encountered during the audit.

Review of information in the Explanatory Foreword

- 2.5 We review information in the Explanatory Foreword only to the extent that we confirm it is consistent with the financial statements and our understanding of the business. Except as noted in the audit opinion, the Explanatory Foreword is not subject to our audit opinion.
- 2.6 The Explanatory Foreword was considered to be consistent with our understanding of the business, and was in line with the other information provided in the financial statements.

Internal Control

- 2.7 No material weaknesses in the design and implementation of internal control have come to our attention during the course of the audit.

Section 2

Audit Findings

- 2.8 We have reviewed the Governance Statement and in our opinion, it fairly reflects our understanding of the state of internal control systems within the entity during the year and the changes made to the Governance Statement during the course of the audit.

Observations & Recommendations

- 2.9 This section outlines the findings arising from our audit, as well as management's response and target date for implementation to these recommendations.

- 2.10 We have included the significant, important and best practice findings arising from our audit which are defined as:

- Priority 1 – significant issues for the attention of senior management which may have the potential to result in material weakness in internal control.
- Priority 2 – important issues to be addressed by management in their areas of responsibility.
- Priority 3 – issues of a more minor nature which represent best practice.

Other issues of a more minor nature have been sent to the Head of Financial Services.

- 2.11 As outlined in our Audit Strategy our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

Index of recommendations

Issues raised

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Section 2

Audit Findings

1. Declarations of Interest

Observation
<p>All Councillors were requested by Human Resources to make a related party return, however at the time of audit, only 14 out of 22 Councillors had done so.</p> <p>This point was also raised in the 2010-11 Report to Those Charged with Governance.</p>
Implication
Disclosures of related parties in the financial statements may be incomplete.
Priority Rating
2
Recommendation
The Council should highlight the importance to all Councillors of disclosing all related party interests. The Council should clearly demonstrate compliance with IAS 24.
Management Response
Accepted
Target for Implementation
March 2013

2. Grant Expenditure Testing

Observation
<p>We noted that the council approved funding for an event subject to the organisation meeting the terms and conditions on the letter of offer, in line with normal practice.</p> <p>After the event, the council demonstrated good practice by completing an evaluation of the event and sending an evaluation form to the organisation in question. However, we noted that the event did not meet some of the criteria outlined in the letter of offer and the organisation did not submit invoices for all expenditure incurred during the event as requested by the Council. Despite these issues, the Council still paid the full amount of the grant (£7,000).</p>
Implication
There is a risk that the Council is not sufficiently monitoring grant funding which may set a precedent for non-adherence to terms and conditions by grantee bodies and lead to irregular expenditure.
Priority Rating
2
Recommendation
Until the grant-receiving body fully complies with the terms and conditions set out in the letter of offer, the Council should withhold all or part of the agreed funding.
Management Response
Accepted in Principle
The Council seeks to develop close working relationships with the organisations it wishes to assist with

Section 2
Audit Findings

<p>funding, it needs to maintain flexibility in managing grant awards to maximise the benefits of funding awards. The Council monitors all funding awards.</p> <p>The Council has received all the information required for the grant application reviewed</p>
Target for Implementation
On going

3. Credit Card Receipts Missing

Observation
<p>During testing of a sample of items of expenditure incurred on the corporate credit card, there were several occasions where receipts were not provided to support the expenditure (value of £143.85).</p>
Implication
<p>There is a risk that inappropriate expenditure may be incurred.</p>
Priority Rating
2
Recommendation
<p>Although the examples noted were small value, all corporate credit card holders should keep receipts to support the expenditure they have incurred on the card. These receipts should be forwarded to finance to be kept in a folder along with the statements and claim forms to ensure that a full audit trail is maintained.</p>
Management Response
<p>Accepted</p> <p>The Council has a robust monitoring process of credit card expenditure independent of the card holder. All spend is checked that that it has been incurred in accordance with financial regulations and on behalf of the Council.</p>
Target for Implementation
On-going

Section 2 Audit Findings

4. Post Project Evaluations

Observation
A Board or Panel is established for major projects and, in the event of overspends, these are reported to the relevant committee and then to the Council. Post Project Evaluations are however not being completed on all occasions – only when it is a requirement of a grant application.
Implication
Where projects are not evaluated post completion, there is a risk that the Council may not be formally learning important lessons and applying these when undertaking future projects.
Priority Rating
2
Recommendation
Post project evaluations are an important part of good financial and project management, leading to better future decisions and use of resources. The Council should ensure that post project evaluations are carried out with proportionate effort to each project undertaken. Findings of these evaluations should be reported to the relevant committee with significant issues identified taken to Council.
Management Response
Accepted in principle
Target for Implementation
On-going

5. Pitch Resurfacing at Ardmore Recreation Centre

Observation
We reviewed the tender process in respect of the pitch resurfacing project at Ardmore Recreation Centre. Following initial tender specification, some works (floodlight remedial works) were subsequently not considered necessary and were therefore omitted from the scheme. There was no formal note of whether this was a major change of project and could potentially lead to a future procurement challenge.
Implication
The Council may be at risk of legal challenge from unsuccessful bidders where subsequent amendments are made.
Priority Rating
2
Recommendation
Where there are significant changes to tender specifications, the Council should formally consider whether the project needs to be re-tendered to ensure it complies with best practice.
Management Response

Section 2 Audit Findings

Accepted in principle
We accept the findings of the audit but we did not view the remedial repair to floodlighting as 'a significant change' to the tender specification hence little need to re-tender. The key element of the specified work was indeed the artificial surface which required a specialist contractor.
Target for Implementation
On-going

6. Cash receipts

Observation
<p>We identified that the first three lodgements (worth £1,787.40) appearing in the April bank statement (bulk lodgement) related to March income but were not included within the 2011-12 financial year.</p> <p>We note that at the year-end, finance undertake a manual review of receipts posted to the system in early April to determine which of these relate to March income to ensure items are captured in the correct financial year. The first two items noted above were simply overlooked during this manual review, however the third item was not included as it was not posted to the Cash Management System (CMS) by the site until May (after the manual review had been carried out) following query by finance during their reconciliations.</p> <p>From our sample testing of Registration Income, we also noted a delay in lodgement in respect of one item tested. Monies received for the week ending 24 February 2012 were not lodged to the bank until 09 March 2012.</p>
Implication
There is a risk that income may not be complete and that cut-off may not be correctly applied. Delay in lodgement of cash to the bank may increase the risk of theft, loss or error.
Priority Rating
2
Recommendation
<p>All sites should ensure that cash receipts are lodged to the bank and income posted to the Cash Management System on a timely basis. Postings should include a description (i.e. date of takings) to enable finance to easily identify the period to which the income relates.</p> <p>At the end of each month, external council locations should submit system reports to Finance detailing their daily takings throughout the month (cash, cheques and credit cards) and confirming that all amounts have been posted appropriately to CMS. These should be held on file in Finance for use in resolving queries arising during Finance's monthly reconciliations. At the year-end, Finance should use the March/April reports to carry out checks on their application of cut off and ensure that all income relating to that financial year is correctly captured.</p>
Management Response
Accepted Processes are continually reviewed
Target for Implementation
On-going

Section 2
Audit Findings

7. Southern Group Environmental Health Committee - group Councils slow to pay

Observation
<p>Armagh City and District Council is the lead Council on the Southern Group Environmental Health Committee. At the year end, the Council was owed £211k from one Council and £68k from another in respect of services provided by this Committee.</p>
Implication
<p>Reduced cash flow for Armagh City and District Council.</p>
Priority Rating
<p>3</p>
Recommendation
<p>For cash flow management purposes, the Council should ensure that other Councils are held to the same payment terms as normal trade creditors.</p>
Management Response
<p>Accepted</p>
Target for Implementation
<p>On-going</p>

8. Title Deeds

Observation
<p>Armagh City and District Council use the Oakleaf Estate Terrier system which contains details of title deeds held by Council. All relevant documents have been scanned onto this system. The Council also maintain hard copies of these records in its strong room. However we noted that the filing cabinets in which the title deeds are stored are neither fire-proof nor locked.</p> <p>This point was also raised in the 2010-11 Report to Those Charged with Governance.</p>
Implication
<p>As all members of staff have access to the strong room, there is a potential risk of important legal documents going missing. Title deeds may also be damaged or destroyed in the event of a fire as they are not stored in an appropriate cabinet.</p>
Priority Rating
<p>2</p>

Section 2
Audit Findings

Recommendation
Title Deeds should be stored in fire-proof filing cabinets which are locked and access to these should be restricted to Property Management staff.
Management Response
Accepted Systems are currently under review
Target for Implementation
On-going

9. Contracts

Observation
Our testing indicated that the Council is currently providing services under two expired contracts; recycling services under a contract which expired at end March 2012, and occupational health services for employees under a contract which expired at 30 April 2010. We note however that tendering processes are currently underway in respect of both services. In addition, we understand that provision for legal services for employee-related matters has never been tendered. The same firm has been used for many years.
Implication
The Council may be at risk of legal challenge where it is not operating under properly tendered contracts. In addition there is a risk that the Council is not receiving best value for money.
Priority Rating
2
Recommendation
In the event of a contract being extended beyond the agreed termination date or a proposal for goods or services to be bought by single tender action, these proposals should be approved in advance by the Chief Executive with a formal paper to Council justifying why this is necessary. The Council should also review its legal services provision to ensure that it is operating within procurement guidelines and receiving best value for money.
Management Response
Accepted Following an internal audit report contract management within the Council is being reviewed with new systems to be put in place. Legal services are currently being reviewed.
Target for Implementation
2013

Section 2

Audit Findings

10. Physical Verification of Assets

Observation
Not all assets are tagged and movement of assets to other departments is not always documented. In addition, the Council does not carry out any physical verification checks on assets.
Implication
Failure to both adequately physically verify assets and review the security controls of fixed assets increases the risk of misappropriation.
Priority Rating
2
Recommendation
The council should implement a system of both tagging assets and then performing rotational spot checks to improve the custodial controls over fixed assets.
Management Response
Accepted Council intends to review the system of maintaining asset inventories and developing a system for recording assets. It is intended to do this as a joint process with Banbridge and Craigavon Council's to ensure that the preferred system will meet the needs of the new Council
Target for Implementation
Options to be considered 2013

11. Approval of Exit Packages

Observation
We were unable to confirm the approval of four exit packages totaling £158k awarded during 2011-12. The Council has advised that this approval was granted at the Executive Meeting on 02 February 2012 however this has not been recorded in the minutes. While formal payback period workings have not been prepared we understand that the payback period should be under 2 years.
Implication
There is a lack of audit trail surrounding Council approval of the award of exit packages.
Priority Rating
2

Section 2
Audit Findings

Recommendation
The Council should ensure that such decisions and approvals are appropriately recorded within the formal Council minutes and that business cases are available to ensure that a full audit trail is maintained.
Management Response
Accepted All exit packages were approved by Council Committee, however as personnel issues they were not minuted in the detail required for the audit trail.
Target for Implementation
On-going

12. Property Dispute

Observation
To date Council has incurred £93k in legal fees associated with a property matter.
Implication
Cost/benefit considerations may not be taken into account in the extent of legal fee expenditure incurred.
Priority Rating
2
Recommendation
Council should keep legal fees under review and consider. Given the level of fees to date the Council should seek abated rates from its advisers. Council should also be able to clearly demonstrate that value for money is being delivered in the handling of this dispute.
Management Response
Accepted in principle. The property issue has been regularly reviewed by Council and Council actions are in accordance with decisions made by Council.
Target for Implementation
On-going

Section 2

Audit Findings

13. Procurement Self-Assessment Checklist

Observation
<p>During the year NIAO asked the Council to complete a Procurement Self-Assessment Checklist and from this we note the following:</p> <ul style="list-style-type: none"> • Key fraud indicators per HM Treasury and NIAO are not reviewed against contracts in place to form a view as to whether any fraud indicators may be present. • Currently the entity's procurement policies and procedures are not fully documented. • Council is not periodically provided with a list of ongoing contracts with expiry dates. • We note that where the Purchasing Officer proposes to accept a quotation other than the lowest or the specified number of quotations has not been obtained, or the expenditure is of an unusual nature then the circumstances are reported in writing to the Strategic Director of Corporate Services. However this is not also reported to Council.
Implication
<ul style="list-style-type: none"> • Potential fraud may not be challenged. • Council may not be informed of breaches in standing orders – potential increase for error in the application of procurement rules. • Expiry dates may be missed and contracts extended which may not provide value for money. • Council are not asked to ratify breaches in standing orders.
Priority Rating
2
Recommendation
<ul style="list-style-type: none"> • Council should periodically consider key fraud indicators against existing contracts. • While we understand that a procurement policy and procedure guidance document is to be implemented this should be introduced as soon as possible. • Council should be periodically provided with a list of ongoing contracts for review. • All procurement which is not in line with standing orders should be approved by Council.
Management Response
<p>Accepted in principle</p> <p>Council's financial regulations and procurement guidance are currently being reviewed for introduction in January. Contract management procedures are under review with new systems to be introduced in 2013.</p>
Target for Implementation
2013

- 2.12 In accordance with International Standards on Auditing we have to consider significant weaknesses identified in our prior year audit. We have therefore reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those charged with Governance. Our findings are set out in Annex C – Implementation of Prior Year Recommendations. The Audit Committee should continue to track progress on all recommendations, including Priority 2 and Priority 3 points.

Section 3 Identified Misstatements

- 3.1 This section contains details of adjustments made to the financial statements during the course of the audit, as well as unadjusted misstatements which are not considered material in the context of the financial statements as a whole.
- 3.2 We do not consider that the adjusted or unadjusted misstatements indicate a significant weakness in accounting or control which needs to be reflected in the Governance Statement.

Significant adjustments made to the financial statements

- 3.3 As a result of our audit, adjustments were made to the financial statements presented for audit. The adjustments are shown below. The presentation of this information enables those charged with governance to assess the extent to which the financial statements presented for audit have been subject to change as a result of the audit process.

Audit adjustments³

Reason adjustment is required	Proposed by	Account area	CIES		BS	
			Debit	Credit	Debit	Credit
			£	£	£	£
Incorrect Disclosure of additions	NIAO	Investment Properties			5,859	
		Community Assets				5,859
Revaluation of Keady Swimming Pool	NIAO	Revaluation Reserve			10,000	
		Surplus Assets				10,000
Single Status provision overstated	NIAO	Provisions			200,000	
		Surplus/Deficit in provision of services		200,000		
Landfill Closure provision overstated	NIAO	Provisions			102,574	
		Surplus/Deficit in provision of services		102,574		

³ Above the clearly trivial threshold of £2,700 defined in the Audit Strategy.

Section 3 Identified Misstatements

NBV of Buildings revised	NIAO	Buildings				6,700,000
		Capital Adjustment Account				800,000
		Revaluation Reserve			7,500,000	
Overall Total				302,574	7,818,433	7,515,859
Net Effect				302,574	302,574	

- 3.4 We have also made a number of other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the Code of Practice on Local Authority Accounting.

Unadjusted misstatements or uncertainties arising from the audit

- 3.5 We are obliged to bring to your attention the misstatements found during the course of the audit that have not been corrected, unless they are 'clearly trivial', which we have identified as below £2,700. There were no unadjusted errors noted by NIAO.

Provisional Audit Findings

Section 4

Other Matters of Governance Interest

- 4.1 International Standard on Auditing 260 requires us to communicate with those charged with governance any other audit matters of governance interest. These include matters which have come to our attention which may present future risks, enhance overall governance or where those charged with governance might wish to seek assurance on controls and processes.

Fraud

- 4.2 We are required by Auditing Standards to report to you if we identify a fraud or obtain information that indicates that a fraud may exist. We found no such instances during our testing.
- 4.3 In addition, we are not aware of material weaknesses in the design or implementation of internal controls to prevent and detect fraud.
- 4.4 In the course of our audit we have not identified any suspected or non-compliance with the laws and regulations.

Going concern

- 4.5 In the course of our audit, we have not identified any material uncertainties relating to events and conditions that may cast doubt on the entity's ability to continue as a going concern.

Management of personal data

- 4.6 The Council is required to comply with the Data Protection Act 1998 in the handling and storage of personal data and those charged with governance should ensure they have made sufficient enquiries of management to form a view on whether there were any significant specific data incidents which should be disclosed in the Governance Statement. We are unaware of any data handling incidents during the year. Confirmation of this is sought within the letter of representation (Annex A).

Statement on personal data

- 4.7 During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We can confirm that we have discharged those responsibilities communicated to you in accordance with the requirements of the Data Protection Act 1998.

Disagreements with management

- 4.8 There are no audit disagreements with management, about matters that individually or in aggregate could be significant to the financial statements to report.

Co-operation with other auditors

Internal Audit

- 4.9 Internal Audit performed a variety of audit assignments across various business areas within Armagh City and District Council in 2011-12. Although we have not placed specific reliance on the work of internal Audit we do rely on it as a high level control within the Council. Their work is valuable and we have considered carefully all of their reports once they have been issued. We have followed up with them any issues emerging that were of relevance or interest to our audit of the annual accounts.

Deficiencies in internal control

- 4.10 No deficiencies in internal control were brought to the attention of the audit team that have not been disclosed in the Annual Governance Statement or included in this report or in the minor issues sent to the Chief Financial Officer.

Section 4

Other Matters of Governance Interest

Independence, integrity & objectivity of auditors

- 4.11 The NIAO's policy to ensure independence, integrity and objectivity of our auditors was set out in our Audit Strategy. Overall, the threat to the audit arising from issues affecting our independence, integrity and objectivity is low, and the safeguards in place ensure that the likelihood of any impact is low.
- 4.12 We have complied with APB Ethical Standards and, in our professional judgement, we are independent and our objectivity is not compromised. There are no relationships between NIAO and Armagh City and District Council that we consider to bear on our objectivity and independence.

Reliance on other experts

- 4.13 We have relied on the work of Hymans Robertson (Actuary) in respect of the valuation of the pension liability at note 20 to the financial statements. We have also relied on the Land & Property Service in respect of providing indices for revaluation purposes for Property, plant and equipment.

Other matters of interest

- 4.14 We noted that post year end a tribunal case went to the High Court in respect of an employee dismissal some years ago. This employee was awarded out of court damages. This is a matter we will keep under review and we will ascertain if Council has identified any lessons learned as a result of this case.

Complaints procedure

- 4.15 NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Chief Executive of the audited body can then write directly to the Comptroller and Auditor General. He will ensure that a further review of the case will be undertaken

[Client Letterhead]

The Local Government Auditor
Northern Ireland Audit Office
106 University Street
BELFAST
BT 7 1EU

LETTER OF REPRESENTATION: ARMAGH CITY AND DISTRICT COUNCIL 2011-12

I acknowledge as Chief Financial Officer of the Council my responsibility for preparing accounts that give a true and fair view of the state of affairs, income and expenditure and cash flows of the Council for the year ended 2011-12.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Department of the Environment (DOE), including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and prepare the accounts on a going concern basis on the presumption that the Council will continue in operation.

I confirm that for the financial year ended 31 March 2012:

- having considered and enquired as to Council compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Council to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- all Related Parties and Related Party Transactions involving Councillors and senior staff of the Council have been properly disclosed.

All material accounting policies as adopted are detailed in note 1 to the accounts.

INTERNAL CONTROL

I acknowledge as Chief Financial Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with DOE guidance on the Governance Statement.

Annex A – Letter of Representation

FRAUD

I acknowledge as Chief Financial Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the Council and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

ASSETS

General

All assets included in the Balance Sheet were in existence at the reporting period date and owned by the Council and free from any lien, encumbrance or charge, except as disclosed in the accounts. The Balance Sheet includes all long term assets owned by the Council.

Long Term Assets

All tangible and intangible assets capable of being used for a period which could exceed one year are capitalised. Valuations are carried out every five years by an independent valuer. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the operations of the Council.

A review for impairment of land and property whether carried at historic cost or valuation should be carried out if events or changes in circumstances indicate that the carrying amount of the land and property may not be recoverable. I confirm that land and property has been adjusted for any material changes to their value.

Current Assets

On realisation in the ordinary course of the Council's operations the other current assets in the Balance Sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to Council which are known, or may be expected, to be irrecoverable.

LIABILITIES

General

All liabilities have been recorded in the Balance Sheet. There were no significant losses in the year and no provisions for losses were required at the year end.

Provisions

Provision is made in the financial statements for:

- Single status settlement costs.
- Expected costs of closure and aftercare costs of the Council's landfill site which was closed in 1994. While a final decision has not been made as to whether to acquire the part of the landfill site which is not in Council ownership, I am satisfied that the provision is fairly stated to cover the estimated fencing and aftercare costs for this site.

Adequate provision has been made at Note 18 in the financial statements for these costs.

Annex A – Letter of Representation

Contingent Liabilities

The Council have not noted any contingent liabilities in their accounts. I am not aware of any pending litigation other than that already notified which may result in significant loss to the Council, and I am not aware of any action which is or may be brought against the Council under the Insolvency (Northern Ireland) Order 1989 and the Insolvency (Northern Ireland) Order 2005.

OTHER LIABILITIES

Results

I am not aware that Armagh City and District Council is liable for any financial penalties levied under the European Landfill Directive and the Landfill Allowances Scheme (Northern Ireland) Regulations 2004.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Council, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

No unadjusted errors have been brought to my attention.

Events after the Balance Sheet date

Except as disclosed in the accounts, there have been no material changes since the Balance Sheet date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

John Briggs
Chief Financial Officer
Armagh City and District Council
Date:
29 October 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARMAGH CITY AND DISTRICT COUNCIL

I have audited the financial statements of Armagh City and District Council for the year ended 31 March 2012 under the Local Government (Northern Ireland) Order 2005. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the Members of Armagh City and District Council in accordance with the Local Government (Northern Ireland) Order 2005 and for no other purpose, as specified in the Statement of Responsibilities issued by the Chief Local Government Auditor.

Respective responsibilities of the Chief Financial Officer and the independent auditor

As explained more fully in the Statement of Council's and Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year. My responsibility is to audit the financial statements in accordance with the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice issued by the Chief Local Government Auditor. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Armagh City and District Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Armagh City and District Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on 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 2011-12, of the financial position of Armagh City and District Council as at 31 March 2012 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.

Opinion on other matters

- In my opinion the information given in the Explanatory Foreword for the financial year ended 31 March 2012 is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- The Annual Governance Statement:

Annex B – Audit Report

- does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12;
- does not comply with proper practices specified by the Department of the Environment;
- is misleading or inconsistent with other information I am aware of from my audit; or
- adequate accounting records have not been kept; or
- the statement of accounts is not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit.

Certificate

I certify that I have completed the audit of accounts of Armagh City and District Council in accordance with the requirements of the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice issued by the Chief Local Government Auditor.

*Louise Mason
Local Government Auditor
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU*

31 October 2012

Provisional Audit Findings

Annex C - Implementation of Prior Year Recommendations

We reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those Charged with Governance. We have summarised the response and provided our evaluation, based on the audit work we have undertaken.

No.	Recommendation	Management Implementation
1.	Section 59 approval to use capital receipts	Approval was received from the DOE.

The Audit Committee should ensure that it is content that other recommendations made in our prior year Report to those Charged with Governance have been actioned by management. The Audit Committee should also ensure that adequate arrangements are in place to track all recommendations.

Provisional Audit Findings

Annual Audit Letter 2011-12

To the Members of Armagh City and District Council

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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 Council.

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 2011-12 audit.

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

2. Financial Statements

Summary of Audit Findings

Armagh City and District Council 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 2012. Following the audit, the accounts were re-signed on 29 October 2012 and published on the website of Armagh City and District Council on 31 October 2012 in accordance with the regulations.

For the year ended 31 March 2012 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 2011-12, of the financial position of Armagh City and District Council as at 31 March 2012 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.

There was one area of difficulty that arose during the audit. The Council is required to disclose its fixed assets at fair value. In common with other Councils, Armagh decided the best way to do this was to use indices applied to it by Land and Property Services. Following clarification on the application of indices, the fixed assets were overstated and the Council amended its accounts to correct this.

Financial Performance

The Statement of Comprehensive Income and Expenditure of Armagh City and District Council shows that during the year ended 31 March 2012 the Council spent £23.7m on the provision of services. It also received income of £24.4m.

The major items of expenditure were;

- Staff salaries - £8.1m
- Depreciation - £2.4m

The major areas of income were:

- District Rates - £14.8m
- Revenue Grants - £2.4m

The Council currently has non-current assets of £54,865,944 and the Council told me that it plans to purchase additional capital items of £4,000,000. The majority of these non-current assets are in the Property, Plant and Equipment category. The Shambles Market Upgrade is currently under construction and the overall cost is estimated to be £1,100,000. Other commitments include the Keady Community Centre at a cost of £2,500,000. Both these amounts are included in the £4,000,000 noted above. Total loans outstanding is £26,970,218. During the year the Council incurred £3,156,266 on loan charges and interest payments. It plans to fund the additional capital expenditure by loans, grants and revenue contributions to capital.

At 31 March 2012, the council has usable reserves of £4,090,736 made up of:

Usable Reserve	£
Capital Receipts Reserve	6,080
Other Balances and Reserves	12,798
District Fund	4,071,857
Total	4,090,736

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 Council 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 2011-12;
- 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 had no inconsistencies to report, as a result of my review of the statement, in my Report to Those Charged with Governance.

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

- Following a change of personnel and a review of Internal Audit the Council has decided to recruit an Internal Auditor and the officer has been in post from May 2012
- Internal Audit identified some weaknesses in controls in five areas for which they could only give limited assurance. Internal Audit has reviewed Summer Schemes and Events, Civic Amenity Sites and Licensing/Markets in 2012/13. These areas have now been granted a satisfactory assurance level. The Council is reviewing Contracts Management and Estates and will introduce new procedures in 2012/13.

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

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 Council's internal audit function was performed by Deloitte during 2011-12. A review of the effectiveness of the system of internal audit was carried out during 2011-12 by the Council and the findings of the review were considered by the Audit Committee. The Council has recruited an in-house internal auditor and she has been in post since May 2012.

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 3 times during the year and the agenda items included:

- Review of Internal Audit Reports
- Review of External Audit Reports
- Review of Corporate Risk Action Plans
- Review of the Effectiveness of the Audit Committee

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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 covered the following ten areas:

- 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.

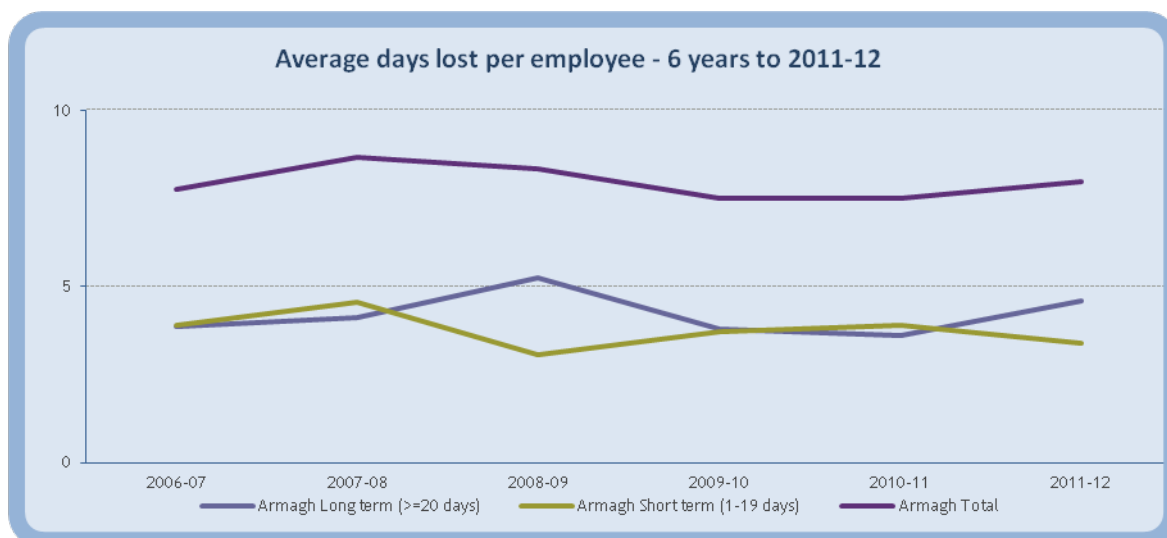
I am satisfied that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources. I have not made any recommendations to the Council arising from my review.

⁴ Local Government (Northern Ireland) Order 2005

5. Other Audit Work

Absenteeism

The 2011-12 absenteeism figure for the Council is 7.97 days. This represents an increase of 0.47 days on the previous year. The Council have told me that this is due to a greater number of long-term absences in 2011-12. The trend over the years 2006-07 to 2011-12 is shown below.



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 were involved in the last NFI exercise which was conducted throughout 2011. The outcome of the 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.

Joint Committees

The Council is a member of:

- the SOAR Joint Committee which is established for the purposes of rural development.
- the SWaMP2008 Joint Committee which is established for managing waste. During the year the Council advanced £30,728 towards funding the expenditure of the Joint Committee; and
- the Southern Cluster Joint Committee for the purpose of delivering programmes funded by the European Union. Under this arrangement Peace III and INTERREG IVA funding

Separate accounts have been prepared by the Joint Committees and are audited by me. A separate Annual Audit Letter is issued to each Joint Committee.

Grant Claims

In accordance with Article 25 of the Local Government (Northern Ireland) Order 2005 I have made arrangements for the certification of local government body grant claims. These arrangements are designed to provide reasonable assurance to the grant paying body. The key principle is that the certification of grant should be proportionate to the amounts involved and the associated risks. Specifically financial thresholds apply. I examined the relevant grant claims of the Council and reported my findings to the funding body concerned.

District Policing Partnership (DPPs)

Under the Police (Northern Ireland) Act 2000, DPPs were established by each council up to 31 March 2012. The Policing Board for Northern Ireland provided a grant equal to three-quarters of approved DPP expenses. The set-up arrangements provided for DPP expenditure to be audited annually by Local Government Auditors and I reported to the Northern Ireland Policing Board.

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6. Future Challenges

Implications of the 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 introduce significant changes to local authority capital financing and accounting in Northern Ireland. 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 is therefore to be 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. Councils' financial statements for 2012-13 will include a charge to the general fund for the minimum revenue provision for financing capital expenditure and reflect other changes from the implementation of the Act and Regulations.

Local Government Reform

It is planned that from April 2015 the number of local councils in Northern Ireland will reduce from 26 to 11. At that time it is planned that Armagh City and District Council will be amalgamated into Armagh, Banbridge and Craigavon District.

The Local Government (Boundaries) Order 2012 sets the boundaries of the 11 new local government districts and was approved by the Northern Ireland Assembly in June 2012. This legislation also includes the number and names of the wards into which each district will be divided.

Prior to the new councils coming into effect, it is anticipated there will be 'shadow' councils. These 'shadow' councils are expected to have the power to make key decisions on striking rates and approving business and financial plans for the new councils which are planned to begin in 2015. Elections to the 'shadow' councils are expected to take place in 2014.

The re-organisation of local government, including areas such as the introduction of new governance arrangements, an ethical standards regime, community planning powers and the improvement of well being are anticipated within the Local Government (Reorganisation) Bill. This Bill is due to be introduced to the Northern Ireland Assembly in the near future.

Financial Pressures on the Public Sector

The economic forecast remains difficult. The downturn has significantly changed the financial environment in the Northern Ireland public sector including reduced budgets and pay freezes. This has the potential to adversely impact the funding streams of councils and the ability to provide services. It is critical therefore that in this environment, councils make best use of funds available and provide a sharp focus on improving the value for money of the services which are delivered.

7. Closing Remarks

The letter is addressed to the Members of the Council 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 and Director of Corporate Services.

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.

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

XX November 2012

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Northern Ireland Audit Office

Our purpose ...

Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

- Integrity
- Equality
- Openness
- Innovation

To make a difference for the people of Northern Ireland.

The Local Government (Northern Ireland) Order 2005 provides that the Department of the Environment may, with the consent of the Comptroller and Auditor General, designate persons who are members of the Northern Ireland Audit Office as Local Government Auditors. Louise Mason, Assistant Auditor General, is the designated Local Government Auditor for all local government bodies in Northern Ireland.

For further information please contact:

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AC-12-28-CK

Armagh City and District Council
AUDIT OF 2011 -2012
FINANCIAL STATEMENTS

**DRAFT REPORT TO THOSE CHARGED WITH
GOVERNANCE**

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Introduction

1. This report summarises the key matters arising from our audit of the 2011-12 financial statements for the benefit of those charged with governance¹. We would like to thank the Chief Financial Officer and the Head of Financial Services and their staff for their co-operation during the audit process.
2. The examination of the 2011-12 financial statements was undertaken in accordance with auditing standards issued by the Auditing Practice Board (APB), taking into account the UK Auditing Practice Board's Practice Note 10 (Revised); Audit of Financial statement in Public Sector Bodies in the United Kingdom and the Code of Audit Practice issued by the Chief Local Government Auditor. Our approach to the audit was planned and executed in accordance with the Audit Strategy presented to the Audit Committee in April 2012.
3. This report has been prepared for the sole use of Armagh City and District Council. Our prior consent should be sought before any distribution (including web publication) either in full or in part is made. The Northern Ireland Audit Office (NIAO) does not accept responsibility to any third party for losses arising from reliance being placed on this report.
4. After the conclusion of the audit the Council then place an advertisement stating, in line with regulation 12 Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006, that the audit has been concluded and that the financial statements are publicly available. A copy of the paper(s) incorporating this advertisement should be sent to our office within a week of the advertisement being made.

Actions for those charged with governance

5. Those charged with governance are invited to review the findings set out in this report, including the draft letter of representation and audit report included in Annex A and Annex B respectively.

Overall conclusion and opinion

6. The 2011-12 financial statements were certified on 31 October 2012 with an unqualified audit opinion.

Audit judgements

7. In reaching our audit opinion we reviewed how indices were applied to the valuations and depreciation charged for the property. We were satisfied that assets are now included at the appropriate carrying value.

Audit findings

8. In Section 2 we outline the quality, effectiveness and transparency of Armagh City and District Council's financial reporting and its accounting policy selection, and our audit findings including any issues identified relating to regularity and the internal control environment.
9. No issues were identified on the quality, effectiveness and transparency of financial reporting and accounting.
10. The accounting policies were considered appropriate. One new accounting policy which affected all Councils in 2011-12 was the introduction of Heritage Assets and the Council has made sufficient disclosure in respect of this new accounting policy.
11. There were no significant issues identified regarding regularity.

¹ In accordance with ISA 260, those charged with governance are those individuals accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Executive Summary

12. We identified no significant internal control weaknesses².
13. The original Annual Governance Statement was updated to include additional disclosures concerning “Limited” assurances given by Internal Audit during 2011-12.
14. Further issues of interest are set out in the Other Matters of Governance Interest section.

Identified misstatements

15. In the course of the audit misstatements were identified which have been adjusted in the financial statements, as detailed in Identified Misstatements in Section 3. The net effect of these adjustments on the Comprehensive Income and Expenditure Statement (CIES) was an improvement in the result for the year of £0.3m and a reduction in the net book value of fixed assets by £6.7m.

² In accordance with ISA 265, it is the auditor’s responsibility to communicate appropriately to those charged with governance and management, deficiencies in internal control identified in an audit of financial statements that, in the auditor’s professional judgement, are of sufficient importance to merit their respective attentions.

Section 1 Audit Risks

Significant risks

- 1.1. In our Audit Strategy issued in April 2012, our assessment of Armagh City and District Council's operations and control environment identified a number of significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.
- 1.2. During the course of the audit we identified a significant risk regarding the incorrect application of indices advised by Land and Property Services for the indexation of land and buildings for the 2011-12 financial year.
- 1.3. The table below describes how we addressed these matters through our audit process.

Significant risks of material misstatement

Risk 1: Landfill Provision
<p>We note that there is a provision in the accounts relating to the estimated aftercare costs of the Council's landfill site which closed some years ago.</p> <p>Recent guidance has indicated that Councils should consider the after care costs for a significantly longer period than was previous normal practice. This may necessitate potential revision of the provision in place.</p>
Audit Response
<p>Review the Council's basis of calculation of landfill provision and review of any 3rd party expert opinion that Council has relied upon in its calculations.</p> <p>Review any correspondence from NIEA associated with the landfill provisions.</p> <p>Discussion with Council management.</p>
Outcome
<p>This is an old landfill site and is not subject to the European Landfill Directive.</p> <p>Aftercare costings, mainly in respect of leachate costs, for the former landfill site were provided. The provision was reduced by £102,574.</p> <p>As the Council may acquire the part of the landfill site not in its ownership we will review the supporting documentation for the provision again next year.</p>

Risk 2: Single Status
<p>The Council has a small number of remaining single status/equal pay cases which are difficult to financially quantify.</p>
Audit Response
<p>Discuss with management progress in agreeing terms with the Trade Unions and any subsequent payments of arrears.</p> <p>Assess the reasonableness and appropriateness of any provision disclosure on this issue.</p> <p>Review of correspondence on these issues including that from expert advisers and solicitors.</p>

Section 1 Audit Risks

Outcome

Several claims were settled in October 2012 and based on these settlements and potential future claims the provision was found to be overstated and consequently was reduced by £200k.

Risk 3: Valuation of Land and Buildings

In the years between mandatory 5 year revaluations of land and buildings, Land and Property Services (LPS) indices are applied to asset values to ensure the assets held on the Balance Sheet (BS) reflect fair value. Our audit identified that Council were misinterpreting how to apply LPS indices. The incorrect application of these indices may result in material misstatement of the carrying amount of land and buildings on the BS at 31 March 2012.

Audit Response

We sought to ensure that the carrying amount determined for land and buildings at 31 March 2012 was in accordance with applicable guidance.

Outcome

Following clarification from the Council's valuer, Land and Property Services (LPS), on the indices presented by them to the Department of Environment (DoE) for the revaluation of Land and Buildings the Council subsequently amended its financial statement to correct this and the net book value of the Land and Buildings assets in the Councils Balance Sheet was reduced by £6.7m. An amount of £0.8m was taken to the Comprehensive Statement of Income and Expenditure (CIES) and £7.5m to the Revaluation Reserve.

We are content the adjustments identified in Section 3 relating to the revaluation exercise the carrying amount determined for Land and Buildings at 31 March 2012 was in accordance with applicable guidance.

Section 2

Audit Findings

Financial Reporting and Accounting Policies

- 2.1 The Financial Statements are required to comply with the Code of Practice on Local Authority Accounting in accordance with the Accounts Direction issued by the Department of the Environment.
- 2.2 In this section we draw to your attention our review of qualitative aspects of the accounting practices and financial reporting. This includes any significant changes or issues in respect of the accounting policies; estimates; judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period. We also review the overall balance and clarity of information contained in the Explanatory Foreword.
- 2.3 A number of minor presentational adjustments were required to the financial statements submitted for audit.
- 2.4 During the audit:
- The accounting policies were considered appropriate to the particular circumstances of the Council, judged against the objectives of relevance, reliability, comparability and understandability. For example We note the new accounting policy on heritage assets and all other accounting policies have remained consistent with the prior year. We are content with the appropriateness of the accounting policies judged against the objectives of relevance, reliability, comparability and understandability.
 - All transactions were correctly recorded in the correct period.
 - Following the review of the appropriateness of accounting estimates and judgements in relation to provisions, provisions were found to be overstated – see Section 3.
 - There are no material risks which have a potential effect on the financial statements which have not been disclosed in the financial statements.
 - The financial statements are not affected by any unusual transactions including non-recurring profits and losses recognised during the period.
 - There are no apparent misstatements in the other information in the document containing the audited financial statements or material inconsistencies between it and the audited financial statements.
 - There were no significant difficulties encountered during the audit.

Review of information in the Explanatory Foreword

- 2.5 We review information in the Explanatory Foreword only to the extent that we confirm it is consistent with the financial statements and our understanding of the business. Except as noted in the audit opinion, the Explanatory Foreword is not subject to our audit opinion.
- 2.6 The Explanatory Foreword was considered to be consistent with our understanding of the business, and was in line with the other information provided in the financial statements.

Internal Control

- 2.7 No material weaknesses in the design and implementation of internal control have come to our attention during the course of the audit.

Section 2

Audit Findings

- 2.8 We have reviewed the Governance Statement and in our opinion, it fairly reflects our understanding of the state of internal control systems within the entity during the year and the changes made to the Governance Statement during the course of the audit.

Observations & Recommendations

- 2.9 This section outlines the findings arising from our audit, as well as management's response and target date for implementation to these recommendations.

- 2.10 We have included the significant, important and best practice findings arising from our audit which are defined as:

- Priority 1 – significant issues for the attention of senior management which may have the potential to result in material weakness in internal control.
- Priority 2 – important issues to be addressed by management in their areas of responsibility.
- Priority 3 – issues of a more minor nature which represent best practice.

Other issues of a more minor nature have been sent to the Head of Financial Services.

- 2.11 As outlined in our Audit Strategy our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

Index of recommendations

Issues raised

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Section 2

Audit Findings

1. Declarations of Interest

Observation
<p>All Councillors were requested by Human Resources to make a related party return, however at the time of audit, only 14 out of 22 Councillors had done so.</p> <p>This point was also raised in the 2010-11 Report to Those Charged with Governance.</p>
Implication
Disclosures of related parties in the financial statements may be incomplete.
Priority Rating
1
Recommendation
The Council should highlight the importance to all Councillors of disclosing all related party interests. The Council should clearly demonstrate compliance with IAS 24.
Management Response
Accepted
Target for Implementation
March 2013

2. Grant Expenditure Testing

Observation
<p>We noted that the council approved funding for an event subject to the organisation meeting the terms and conditions on the letter of offer, in line with normal practice.</p> <p>After the event, the council demonstrated good practice by completing an evaluation of the event and sending an evaluation form to the organisation in question. However, we noted that the event did not meet some of the criteria outlined in the letter of offer and the organisation did not submit invoices for all expenditure incurred during the event as requested by the Council. Despite these issues, the Council still paid the full amount of the grant (£7,000).</p>
Implication
There is a risk that the Council is not sufficiently monitoring grant funding which may set a precedent for non-adherence to terms and conditions by grantee bodies and lead to irregular expenditure.
Priority Rating
2
Recommendation
Until the grant-receiving body fully complies with the terms and conditions set out in the letter of offer, the Council should withhold all or part of the agreed funding.
Management Response
Accepted in Principle
The Council seeks to develop close working relationships with the organisations it wishes to assist with

Section 2
Audit Findings

<p>funding, it needs to maintain flexibility in managing grant awards to maximise the benefits of funding awards. The Council monitors all funding awards.</p> <p>The Council has received all the information required for the grant application reviewed</p>
Target for Implementation
On going

3. Credit Card Receipts Missing

Observation
<p>During testing of a sample of items of expenditure incurred on the corporate credit card, there were several occasions where receipts were not provided to support the expenditure (value of £143.85).</p>
Implication
<p>There is a risk that inappropriate expenditure may be incurred.</p>
Priority Rating
2
Recommendation
<p>Although the examples noted were small value, all corporate credit card holders should keep receipts to support the expenditure they have incurred on the card. These receipts should be forwarded to finance to be kept in a folder along with the statements and claim forms to ensure that a full audit trail is maintained.</p>
Management Response
<p>Accepted</p> <p>The Council has a robust monitoring process of credit card expenditure independent of the card holder. All spend is checked that that it has been incurred in accordance with financial regulations and on behalf of the Council.</p>
Target for Implementation
On-going

Section 2 Audit Findings

4. Post Project Evaluations

Observation
A Board or Panel is established for major projects and, in the event of overspends, these are reported to the relevant committee and then to the Council. Post Project Evaluations are however not being completed on all occasions – only when it is a requirement of a grant application.
Implication
Where projects are not evaluated post completion, there is a risk that the Council may not be formally learning important lessons and applying these when undertaking future projects.
Priority Rating
2
Recommendation
Post project evaluations are an important part of good financial and project management, leading to better future decisions and use of resources. The Council should ensure that post project evaluations are carried out with proportionate effort to each project undertaken. Findings of these evaluations should be reported to the relevant committee with significant issues identified taken to Council.
Management Response
Accepted in principle
Target for Implementation
On-going

5. Pitch Resurfacing at Ardmore Recreation Centre

Observation
We reviewed the tender process in respect of the pitch resurfacing project at Ardmore Recreation Centre. Following initial tender specification, some works (floodlight remedial works) were subsequently not considered necessary and were therefore omitted from the scheme. There was no formal note of whether this was a major change of project and could potentially lead to a future procurement challenge.
Implication
The Council may be at risk of legal challenge from unsuccessful bidders where subsequent amendments are made.
Priority Rating
2
Recommendation
Where there are significant changes to tender specifications, the Council should formally consider whether the project needs to be re-tendered to ensure it complies with best practice.
Management Response

Section 2 Audit Findings

Accepted in principle
We accept the findings of the audit but we did not view the remedial repair to floodlighting as 'a significant change' to the tender specification hence little need to re-tender. The key element of the specified work was indeed the artificial surface which required a specialist contractor.
Target for Implementation
On-going

6. Cash receipts

Observation
<p>We identified that the first three lodgements (worth £1,787.40) appearing in the April bank statement (bulk lodgement) related to March income but were not included within the 2011-12 financial year.</p> <p>We note that at the year-end, finance undertake a manual review of receipts posted to the system in early April to determine which of these relate to March income to ensure items are captured in the correct financial year. The first two items noted above were simply overlooked during this manual review, however the third item was not included as it was not posted to the Cash Management System (CMS) by the site until May (after the manual review had been carried out) following query by finance during their reconciliations.</p> <p>From our sample testing of Registration Income, we also noted a delay in lodgement in respect of one item tested. Monies received for the week ending 24 February 2012 were not lodged to the bank until 09 March 2012.</p>
Implication
There is a risk that income may not be complete and that cut-off may not be correctly applied. Delay in lodgement of cash to the bank may increase the risk of theft, loss or error.
Priority Rating
2
Recommendation
<p>All sites should ensure that cash receipts are lodged to the bank and income posted to the Cash Management System on a timely basis. Postings should include a description (i.e. date of takings) to enable finance to easily identify the period to which the income relates.</p> <p>At the end of each month, external council locations should submit system reports to Finance detailing their daily takings throughout the month (cash, cheques and credit cards) and confirming that all amounts have been posted appropriately to CMS. These should be held on file in Finance for use in resolving queries arising during Finance's monthly reconciliations. At the year-end, Finance should use the March/April reports to carry out checks on their application of cut off and ensure that all income relating to that financial year is correctly captured.</p>
Management Response
Accepted Processes are continually reviewed
Target for Implementation
On-going

Section 2
Audit Findings

7. Southern Group Environmental Health Committee - group Councils slow to pay

Observation
<p>Armagh City and District Council is the lead Council on the Southern Group Environmental Health Committee. At the year end, the Council was owed £211k from one Council and £68k from another in respect of services provided by this Committee.</p>
Implication
<p>Reduced cash flow for Armagh City and District Council.</p>
Priority Rating
<p>3</p>
Recommendation
<p>For cash flow management purposes, the Council should ensure that other Councils are held to the same payment terms as normal trade creditors.</p>
Management Response
<p>Accepted</p>
Target for Implementation
<p>On-going</p>

8. Title Deeds

Observation
<p>Armagh City and District Council use the Oakleaf Estate Terrier system which contains details of title deeds held by Council. All relevant documents have been scanned onto this system. The Council also maintain hard copies of these records in its strong room. However we noted that the filing cabinets in which the title deeds are stored are neither fire-proof nor locked.</p> <p>This point was also raised in the 2010-11 Report to Those Charged with Governance.</p>
Implication
<p>As all members of staff have access to the strong room, there is a potential risk of important legal documents going missing. Title deeds may also be damaged or destroyed in the event of a fire as they are not stored in an appropriate cabinet.</p>
Priority Rating
<p>2</p>

Section 2
Audit Findings

Recommendation
Title Deeds should be stored in fire-proof filing cabinets which are locked and access to these should be restricted to Property Management staff.
Management Response
Accepted Systems are currently under review
Target for Implementation
On-going

9. Contracts

Observation
Our testing indicated that the Council is currently providing services under two expired contracts; recycling services under a contract which expired at end March 2012, and occupational health services for employees under a contract which expired at 30 April 2010. We note however that tendering processes are currently underway in respect of both services. In addition, we understand that provision for legal services for employee-related matters has never been tendered. The same firm has been used for many years.
Implication
The Council may be at risk of legal challenge where it is not operating under properly tendered contracts. In addition there is a risk that the Council is not receiving best value for money.
Priority Rating
2
Recommendation
In the event of a contract being extended beyond the agreed termination date or a proposal for goods or services to be bought by single tender action, these proposals should be approved in advance by the Chief Executive with a formal paper to Council justifying why this is necessary. The Council should also review its legal services provision to ensure that it is operating within procurement guidelines and receiving best value for money.
Management Response
Accepted Following an internal audit report contract management within the Council is being reviewed with new systems to be put in place. Legal services are currently being reviewed.
Target for Implementation
2013

Section 2

Audit Findings

10. Physical Verification of Assets

Observation
Not all assets are tagged and movement of assets to other departments is not always documented. In addition, the Council does not carry out any physical verification checks on assets.
Implication
Failure to both adequately physically verify assets and review the security controls of fixed assets increases the risk of misappropriation.
Priority Rating
2
Recommendation
The council should implement a system of both tagging assets and then performing rotational spot checks to improve the custodial controls over fixed assets.
Management Response
Accepted Council intends to review the system of maintaining asset inventories and developing a system for recording assets. It is intended to do this as a joint process with Banbridge and Craigavon Council's to ensure that the preferred system will meet the needs of the new Council
Target for Implementation
Options to be considered 2013

11. Approval of Exit Packages

Observation
We were unable to confirm the approval of four exit packages totaling £158k awarded during 2011-12. The Council has advised that this approval was granted at the Executive Meeting on 02 February 2012 however this has not been recorded in the minutes. While formal payback period workings have not been prepared we understand that the payback period should be under 2 years.
Implication
There is a lack of audit trail surrounding Council approval of the award of exit packages.
Priority Rating
2

Section 2
Audit Findings

Recommendation
The Council should ensure that such decisions and approvals are appropriately recorded within the formal Council minutes and that business cases are available to ensure that a full audit trail is maintained.
Management Response
Accepted All exit packages were approved by Council Committee, however as personnel issues they were not minuted in the detail required for the audit trail.
Target for Implementation
On-going

12. Property Dispute

Observation
To date Council has incurred £93k in legal fees associated with a property matter.
Implication
Cost/benefit considerations may not be taken into account in the extent of legal fee expenditure incurred.
Priority Rating
2
Recommendation
Council should keep legal fees under review and consider. Given the level of fees to date the Council should seek abated rates from its advisers. Council should also be able to clearly demonstrate that value for money is being delivered in the handling of this dispute.
Management Response
Accepted in principle. The property issue has been regularly reviewed by Council and Council actions are in accordance with decisions made by Council.
Target for Implementation
On-going

Section 2

Audit Findings

13. Procurement Self-Assessment Checklist

Observation
<p>During the year NIAO asked the Council to complete a Procurement Self-Assessment Checklist and from this we note the following:</p> <ul style="list-style-type: none"> • Key fraud indicators per HM Treasury and NIAO are not reviewed against contracts in place to form a view as to whether any fraud indicators may be present. • Currently the entity's procurement policies and procedures are not fully documented. • Council is not periodically provided with a list of ongoing contracts with expiry dates. • We note that where the Purchasing Officer proposes to accept a quotation other than the lowest or the specified number of quotations has not been obtained, or the expenditure is of an unusual nature then the circumstances are reported in writing to the Strategic Director of Corporate Services. However this is not also reported to Council.
Implication
<ul style="list-style-type: none"> • Potential fraud may not be challenged. • Council may not be informed of breaches in standing orders – potential increase for error in the application of procurement rules. • Expiry dates may be missed and contracts extended which may not provide value for money. • Council are not asked to ratify breaches in standing orders.
Priority Rating
2
Recommendation
<ul style="list-style-type: none"> • Council should periodically consider key fraud indicators against existing contracts. • While we understand that a procurement policy and procedure guidance document is to be implemented this should be introduced as soon as possible. • Council should be periodically provided with a list of ongoing contracts for review. • All procurement which is not in line with standing orders should be approved by Council.
Management Response
<p>Accepted in principle</p> <p>Council's financial regulations and procurement guidance are currently being reviewed for introduction in January. Contract management procedures are under review with new systems to be introduced in 2013.</p>
Target for Implementation
2013

- 2.12 In accordance with International Standards on Auditing we have to consider significant weaknesses identified in our prior year audit. We have therefore reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those charged with Governance. Our findings are set out in Annex C – Implementation of Prior Year Recommendations. The Audit Committee should continue to track progress on all recommendations, including Priority 2 and Priority 3 points.

Section 3 Identified Misstatements

- 3.1 This section contains details of adjustments made to the financial statements during the course of the audit, as well as unadjusted misstatements which are not considered material in the context of the financial statements as a whole.
- 3.2 We do not consider that the adjusted or unadjusted misstatements indicate a significant weakness in accounting or control which needs to be reflected in the Governance Statement.

Significant adjustments made to the financial statements

- 3.3 As a result of our audit, adjustments were made to the financial statements presented for audit. The adjustments are shown below. The presentation of this information enables those charged with governance to assess the extent to which the financial statements presented for audit have been subject to change as a result of the audit process.

Audit adjustments³

Reason adjustment is required	Proposed by	Account area	CIES		BS	
			Debit	Credit	Debit	Credit
			£	£	£	£
Incorrect Disclosure of additions	NIAO	Investment Properties			5,859	
		Community Assets				5,859
Revaluation of Keady Swimming Pool	NIAO	Revaluation Reserve			10,000	
		Surplus Assets				10,000
Single Status provision overstated	NIAO	Provisions			200,000	
		Surplus/Deficit in provision of services		200,000		
Landfill Closure provision overstated	NIAO	Provisions			102,574	
		Surplus/Deficit in provision of services		102,574		

³ Above the clearly trivial threshold of £2,700 defined in the Audit Strategy.

Section 3 Identified Misstatements

NBV of Buildings revised	NIAO	Buildings				6,700,000
		Capital Adjustment Account				800,000
		Revaluation Reserve			7,500,000	
Overall Total				302,574	7,818,433	7,515,859
Net Effect				302,574	302,574	

- 3.4 We have also made a number of other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the Code of Practice on Local Authority Accounting.

Unadjusted misstatements or uncertainties arising from the audit

- 3.5 We are obliged to bring to your attention the misstatements found during the course of the audit that have not been corrected, unless they are 'clearly trivial', which we have identified as below £2,700. There were no unadjusted errors noted by NIAO.

Provisional Audit Findings

Section 4

Other Matters of Governance Interest

- 4.1 International Standard on Auditing 260 requires us to communicate with those charged with governance any other audit matters of governance interest. These include matters which have come to our attention which may present future risks, enhance overall governance or where those charged with governance might wish to seek assurance on controls and processes.

Fraud

- 4.2 We are required by Auditing Standards to report to you if we identify a fraud or obtain information that indicates that a fraud may exist. We found no such instances during our testing.
- 4.3 In addition, we are not aware of material weaknesses in the design or implementation of internal controls to prevent and detect fraud.
- 4.4 In the course of our audit we have not identified any suspected or non-compliance with the laws and regulations.

Going concern

- 4.5 In the course of our audit, we have not identified any material uncertainties relating to events and conditions that may cast doubt on the entity's ability to continue as a going concern.

Management of personal data

- 4.6 The Council is required to comply with the Data Protection Act 1998 in the handling and storage of personal data and those charged with governance should ensure they have made sufficient enquiries of management to form a view on whether there were any significant specific data incidents which should be disclosed in the Governance Statement. We are unaware of any data handling incidents during the year. Confirmation of this is sought within the letter of representation (Annex A).

Statement on personal data

- 4.7 During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We can confirm that we have discharged those responsibilities communicated to you in accordance with the requirements of the Data Protection Act 1998.

Disagreements with management

- 4.8 There are no audit disagreements with management, about matters that individually or in aggregate could be significant to the financial statements to report.

Co-operation with other auditors

Internal Audit

- 4.9 Internal Audit performed a variety of audit assignments across various business areas within Armagh City and District Council in 2011-12. Although we have not placed specific reliance on the work of internal Audit we do rely on it as a high level control within the Council. Their work is valuable and we have considered carefully all of their reports once they have been issued. We have followed up with them any issues emerging that were of relevance or interest to our audit of the annual accounts.

Deficiencies in internal control

- 4.10 No deficiencies in internal control were brought to the attention of the audit team that have not been disclosed in the Annual Governance Statement or included in this report or in the minor issues sent to the Chief Financial Officer.

Section 4

Other Matters of Governance Interest

Independence, integrity & objectivity of auditors

- 4.11 The NIAO's policy to ensure independence, integrity and objectivity of our auditors was set out in our Audit Strategy. Overall, the threat to the audit arising from issues affecting our independence, integrity and objectivity is low, and the safeguards in place ensure that the likelihood of any impact is low.
- 4.12 We have complied with APB Ethical Standards and, in our professional judgement, we are independent and our objectivity is not compromised. There are no relationships between NIAO and Armagh City and District Council that we consider to bear on our objectivity and independence.

Reliance on other experts

- 4.13 We have relied on the work of Hymans Robertson (Actuary) in respect of the valuation of the pension liability at note 20 to the financial statements. We have also relied on the Land & Property Service in respect of providing indices for revaluation purposes for Property, plant and equipment.

Other matters of interest

- 4.14 We noted that post year end a tribunal case went to the High Court in respect of an employee dismissal some years ago. This employee was awarded out of court damages. This is a matter we will keep under review and we will ascertain if Council has identified any lessons learned as a result of this case.

Complaints procedure

- 4.15 NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Chief Executive of the audited body can then write directly to the Comptroller and Auditor General. He will ensure that a further review of the case will be undertaken

[Client Letterhead]

The Local Government Auditor
Northern Ireland Audit Office
106 University Street
BELFAST
BT 7 1EU

LETTER OF REPRESENTATION: ARMAGH CITY AND DISTRICT COUNCIL 2011-12

I acknowledge as Chief Financial Officer of the Council my responsibility for preparing accounts that give a true and fair view of the state of affairs, income and expenditure and cash flows of the Council for the year ended 2011-12.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Department of the Environment (DOE), including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and prepare the accounts on a going concern basis on the presumption that the Council will continue in operation.

I confirm that for the financial year ended 31 March 2012:

- having considered and enquired as to Council compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Council to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- all Related Parties and Related Party Transactions involving Councillors and senior staff of the Council have been properly disclosed.

All material accounting policies as adopted are detailed in note 1 to the accounts.

INTERNAL CONTROL

I acknowledge as Chief Financial Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with DOE guidance on the Governance Statement.

Annex A – Letter of Representation

FRAUD

I acknowledge as Chief Financial Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the Council and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

ASSETS

General

All assets included in the Balance Sheet were in existence at the reporting period date and owned by the Council and free from any lien, encumbrance or charge, except as disclosed in the accounts. The Balance Sheet includes all long term assets owned by the Council.

Long Term Assets

All tangible and intangible assets capable of being used for a period which could exceed one year are capitalised. Valuations are carried out every five years by an independent valuer. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the operations of the Council.

A review for impairment of land and property whether carried at historic cost or valuation should be carried out if events or changes in circumstances indicate that the carrying amount of the land and property may not be recoverable. I confirm that land and property has been adjusted for any material changes to their value.

Current Assets

On realisation in the ordinary course of the Council's operations the other current assets in the Balance Sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to Council which are known, or may be expected, to be irrecoverable.

LIABILITIES

General

All liabilities have been recorded in the Balance Sheet. There were no significant losses in the year and no provisions for losses were required at the year end.

Provisions

Provision is made in the financial statements for:

- Single status settlement costs.
- Expected costs of closure and aftercare costs of the Council's landfill site which was closed in 1994. While a final decision has not been made as to whether to acquire the part of the landfill site which is not in Council ownership, I am satisfied that the provision is fairly stated to cover the estimated fencing and aftercare costs for this site.

Adequate provision has been made at Note 18 in the financial statements for these costs.

Annex A – Letter of Representation

Contingent Liabilities

The Council have not noted any contingent liabilities in their accounts. I am not aware of any pending litigation other than that already notified which may result in significant loss to the Council, and I am not aware of any action which is or may be brought against the Council under the Insolvency (Northern Ireland) Order 1989 and the Insolvency (Northern Ireland) Order 2005.

OTHER LIABILITIES

Results

I am not aware that Armagh City and District Council is liable for any financial penalties levied under the European Landfill Directive and the Landfill Allowances Scheme (Northern Ireland) Regulations 2004.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Council, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

No unadjusted errors have been brought to my attention.

Events after the Balance Sheet date

Except as disclosed in the accounts, there have been no material changes since the Balance Sheet date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

John Briggs
Chief Financial Officer
Armagh City and District Council
Date:
29 October 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARMAGH CITY AND DISTRICT COUNCIL

I have audited the financial statements of Armagh City and District Council for the year ended 31 March 2012 under the Local Government (Northern Ireland) Order 2005. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the Members of Armagh City and District Council in accordance with the Local Government (Northern Ireland) Order 2005 and for no other purpose, as specified in the Statement of Responsibilities issued by the Chief Local Government Auditor.

Respective responsibilities of the Chief Financial Officer and the independent auditor

As explained more fully in the Statement of Council's and Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year. My responsibility is to audit the financial statements in accordance with the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice issued by the Chief Local Government Auditor. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Armagh City and District Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Armagh City and District Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on 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 2011-12, of the financial position of Armagh City and District Council as at 31 March 2012 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.

Opinion on other matters

- In my opinion the information given in the Explanatory Foreword for the financial year ended 31 March 2012 is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- The Annual Governance Statement:

Annex B – Audit Report

- does not reflect compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12;
- does not comply with proper practices specified by the Department of the Environment;
- is misleading or inconsistent with other information I am aware of from my audit; or
- adequate accounting records have not been kept; or
- the statement of accounts is not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit.

Certificate

I certify that I have completed the audit of accounts of Armagh City and District Council in accordance with the requirements of the Local Government (Northern Ireland) Order 2005 and the Local Government Code of Audit Practice issued by the Chief Local Government Auditor.

*Louise Mason
Local Government Auditor
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU*

31 October 2012

Provisional Audit Findings

Annex C - Implementation of Prior Year Recommendations

We reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those Charged with Governance. We have summarised the response and provided our evaluation, based on the audit work we have undertaken.

No.	Recommendation	Management Implementation
1.	Section 59 approval to use capital receipts	Approval was received from the DOE.

The Audit Committee should ensure that it is content that other recommendations made in our prior year Report to those Charged with Governance have been actioned by management. The Audit Committee should also ensure that adequate arrangements are in place to track all recommendations.

Provisional Audit Findings