KPMG

cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

North London Waste Authority

September 2015

FINAL

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at North London Waste Authority ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in June 2015, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for this took place during August 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work and we included early findings in our Interim Audit Report/letter 2014/15. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing the prior year's recommendation and confirm this has been fully implemented.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit identified a total of four audit adjustments with a total value of £22.86 million. These adjustments had no impact on the Authority's general fund balance, an increase of £640k on the surplus on provision of services, and no impact on the Authority's net worth, as at 31 March 2015. The Authority also made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund from these presentational adjustments. We have included a list of the significant audit adjustments, which have all been amended by the Authority in the financial statements, in Appendix 2. Additionally, the group financial statements incorporate two unadjusted errors originally reported to LondonWaste Limited (LWL) by its auditors, BDO. The effect of these unadjusted errors would be to decrease the group's surplus by £105k and decrease the net assets by £105k. We provide further information on this unadjusted misstatement in Appendix 2. We also seek specific management representations that the effect of this unadjusted misstatement is immaterial. We have provided a template to the Head of Finance for presentation to the Authority. We require a signed copy of your management representations before we issue our audit opinion. We have raised three recommendations arising from our audit of the Authority's financial statements, which are summarised in Appendix 1.
Key financial statements audit risks	We identified the following key financial statements audit risks in our 2014/15 External audit plan issued in June 2015: ▪ Fraud risk from management override of controls; and ▪ Fraud risk over revenue recognition. We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.
Accounts production and audit process	The Authority has implemented the recommendation in our *ISA 260 Report 2013/14* relating to the financial statements. The Authority has processes in place for the production of the accounts which are appropriate. However, during this year's audit we identified some issues which meant that it was not always straightforward to trace the numbers in the accounts back to relevant supporting documentation due to the working papers provided. While we were still able to complete our testing during the original planned timescales, the process could be simplified to enable more clarity in terms of the figures included in the draft financial statements. We have made a recommendation in Appendix 1 that the Authority reviews the production of working papers as part of the accounts close down process to identify where improvements can be made.

Headlines

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is complete except for our finalisation procedures. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have performed our work over the VFM conclusion as outlined in our External audit plan 2014/15 issued in June 2015. We have worked with officers throughout the year to discuss these VFM areas and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in relation to the procedures we are required to complete in relation to VFM. In relation to our 2013/14 VFM audit (following the Authority's decision not to proceed with the procurement process being followed for a Waste Service Contract and a Fuel Use Contract), we have undertaken a detailed review of the procurement process. This review was necessary to meet our VFM conclusion responsibilities in forming a view on whether, in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014. In undertaking our review we have considered what we consider to be four key questions and have concluded for each question that the Authority's actions and decisions were not unreasonable. Further details are included in Section 4 of this report.
Certificate	We cannot issue a certificate and close the audit because of ongoing correspondence with local government electors relating to 2012/13 and the procurement process that was being followed for a Waste Service Contract and a Fuel Use Contract (as referred to in the VFM Conclusion headline above). Following the very recent conclusion of our detailed review of the procurement process, we expect to be in a position to conclude on the matters raised by the local government electors. We cannot formally conclude the audit and issue an audit certificate until we have completed consideration of the above matters. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Financial Statements
Proposed opinion and audit differences

Our audit identified a total of four audit adjustments.

The impact of these adjustments is:

- **No impact on the general fund account as at 31 March 2015;**
- **To increase the surplus on the provision of services for the year by £640k; and**
- **No impact on the net worth of the Authority as at 31 March 2015.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Authority on 25th September 2015.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1 million. Audit differences below £37k are not considered significant.

Our audit identified four significant audit differences, which we have set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

The audit of LondonWaste Limited's (LWL's) accounts identified two unadjusted audit differences. LWL's auditors, BDO, reported this difference to LWL's Board in April 2015.

The Authority has not adjusted its financial statements for these audit differences on consolidation and so the differences are also present within the Authority's group financial statements. We bring this to your attention to help you in fulfilling your governance responsibilities. These audit differences are:

- An overcharge of £83k bad debt expense; and
- An under accrual of £22k income.

The effect of these unadjusted audit differences would decrease the group's surplus by £105k and decrease the net assets by £105k. We discussed this with management, who have declined to amend the group accounts so as to maintain consistency with LWL.

The tables on the right illustrate the total impact of the adjusted audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2015.

Movements on the General Fund 2014/15

£'000	Pre-audit	Post-audit	Ref (App.2)
Surplus on the provision of services	6,169	6,809	2 a-e
Other Comprehensive Expenditure and Income	(26)	(666)	2 a-e
Adjustments between accounting basis & funding basis under Regulations	(2,463)	(2,463)	-
Transfers from earmarked reserves	(1,000)	(1,000)	-
Increase in General Fund	**2,680**	**2,680**	

Balance Sheet as at 31 March 2015

£'000	Pre-audit	Post-audit	Ref (App.2)
Property, plant and equipment	11,144	26,344	1
Other long term assets	134,592	119,392	1
Current assets	17,398	17,398	-
Current liabilities	(35,673)	(36,464)	3
Long term liabilities	(46,176)	(45,385)	3
Net worth	**81,285**	**81,285**	
General Fund	15,422	15,422	-
Other usable reserves	1,439	1,439	-
Unusable reserves	64,424	64,424	-
Total reserves	**81,285**	**81,285**	

Financial Statements (continued)
Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

Of the agreed audit adjustments we have identified, the most significant in monetary value are as follows:

- The re-assessment of the investment property (waste transfer station and yard at Hornsey Street, Islington) as Property, Plant and Equipment (PPE) on the basis that the assets are being used to deliver the Authority's services (carrying value is £15.2 million);
- As a result of the reclassification of Hornsey Street from Investment Property to PPE, a depreciation charge was processed through the accounts and reflected in the Capital Adjustment Account. The net result is an increase of £640k to the surplus on provision of services and increase of £640k other comprehensive expenditure; and
- The Group gross income and gross expenditure was understated by £209k due to incorrect treatment of the rental income due from LWL to the Authority.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Section three

Financial Statements (continued)

Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
Management override of controls Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements (continued)
Accounts production and audit process

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14.*

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2015.
Quality of supporting working papers	The Authority has processes in place for the production of the accounts which are appropriate. However, during this year's audit we identified some issues which meant that it was not always straightforward to trace the numbers in the accounts back to relevant supporting documentation due to the working papers provided. While we were still able to complete our testing during the original planned timescales, the process could be simplified to enable more clarity in terms of the figures included in the draft financial statements. We have made a recommendation in Appendix 1 that the Authority reviews the production of working papers as part of the accounts close down process to identify where improvements can be made.

Element	Commentary
Response to audit queries	Officers resolved all audit queries in a reasonable time. This ensured that the audit was completed efficiently and within agreed timescales.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by BDO on the financial statements of LWL. The group financial statements contain two unadjusted errors originally reported to LWL by BDO, detailed in Appendix 2. We seek management representations that the effect of these unadjusted misstatements in the group accounts is immaterial.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*.

Financial Statements (continued) Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North London Waste Authority for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP, North London Waste Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Authority. We require a signed copy of your management representations before we issue our audit opinion.

As noted above, the letter asks for specific representations on the uncorrected audit adjustments included in the group accounts.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2014/15 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

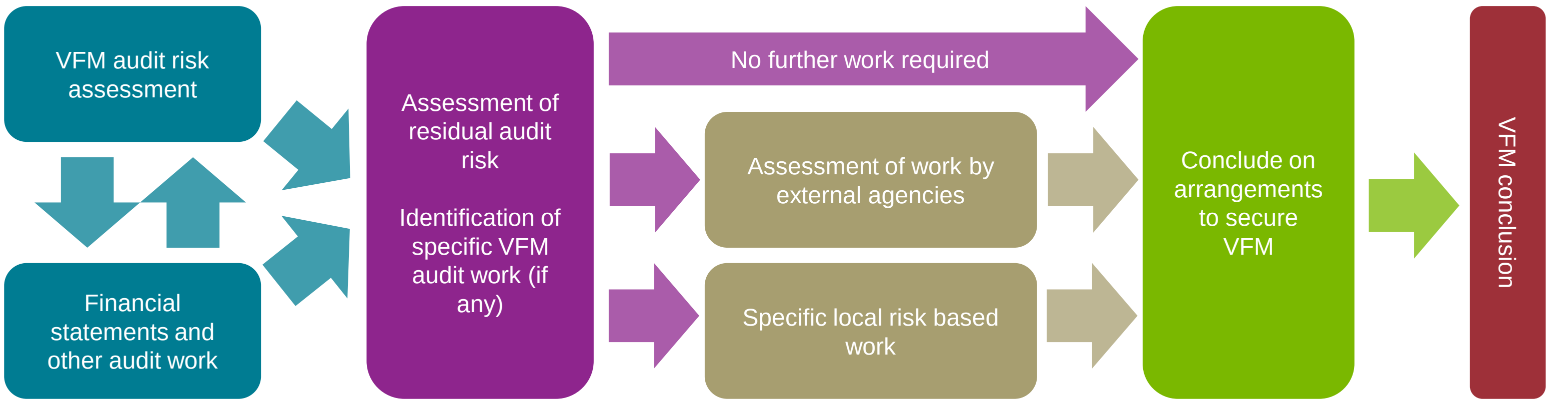
We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.



VFM conclusion (continued)

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

In relation to our 2013/14 VFM audit (following the Authority's decision not to proceed with the procurement process being followed for a Waste Service Contract and a Fuel Use Contract), we have undertaken a detailed review of the procurement process. This review was necessary to meet our VFM conclusion responsibilities in forming a view on whether, in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

In undertaking our review we have considered what we consider to be four key questions. The table below summarises our conclusions on each these questions.

Question	Conclusion
Q1 Was the Authority's decision to embark on the procurement as framed correct/ appropriate?	**We consider that the case for the procurement to be undertaken was both rational and not unreasonable.** We consider that the Authority employed appropriate advisers, undertook a detailed options appraisal and officers presented members of the Authority with appropriate information to be able to make informed decisions.
Q2 Were there appropriate review processes in place to review/re-consider the procurement at the right time?	**We consider that the Authority's review processes in place to reconsider the procurement during the process were not unreasonable**. We consider that the appointment of the Managing Director, establishment of the Member Officer steering group and the establishment of the peer review group were key developments that helped to strengthen and provided effective challenge to the procurement process.

Question	Conclusion
Question 3 - When the decision to stop the procurement was taken, was it unreasonable?	**We consider that the decision to stop the procurement was not unreasonable.** We consider that members received appropriate information from officers and professional advisers that enabled them to make an informed decision. Also we attended the 26 September 2013 meeting and witnessed the decision by members of the Authority to stop the procurement.
Question 4 - Were the amounts paid to the two remaining bidders appropriate and reasonable following the decision to stop the procurement?	**We consider that the decision and the amounts paid by the Authority to the two unsuccessful bidders was not an unreasonable decision.** We consider that the Authority has the appropriate legal powers to make payments of this nature and there was an appropriate negotiation process undertaken by the Authority to reduce the cost involved.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Quality of working papers** During the audit we identified some issues in the ease of tracing the numbers in the accounts back to relevant supporting documentation due to the working papers provided. While we were still able to complete our testing during the original planned timescales, the process could be simplified to enable more clarity in terms of the figures included in the draft financial statements. We recommend the Authority review the production of working papers as part of the accounts close down process and ensure these are of a good quality and can be independently understood and followed.	**Agreed - Head of Finance – February 2016** Although the working papers produced were similar to those presented in prior years it is acknowledged that the presentation of some papers can be improved so that the information is clearer. Working papers will be reviewed in advance of the next set of accounts.

Appendix 1: Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	**Formal review of Authority Risk Register** The Authority has a risk register which is formally reviewed and updated on an annual basis at the September Authority meeting. However there is currently no periodic review of the risk register during the financial year to ensure the risks are still relevant and also to ensure that the actions in place to mitigate the risks remain appropriate. We recommend the Authority introduces a quarterly review of the risk register, to be completed by Senior Management to ensure this governance document remains relevant to the activities at the Authority.	**Agreed – Managing Director - Immediately** The Authority has a number of risk registers. There is a high level register that is reviewed by the Authority at its September meeting and a number of other risk registers which are reviewed by Members at the Members' Finance working Group which meets in advance of the Authority meeting. Individual managers have been updating these registers during the year, when appropriate. The review of risk registers has now been added as a standing item to the Senior Managers Meeting, which meets every 6 weeks to ensure that they are reviewed regularly.
3	3	**Impairment Review** Prior to 2014/15 the Authority had undertaken an annual valuation of the land held in the accounts as PPE following its acquisition in 2011 with the expectation that there would be a significant change in how it was used by the Authority relating to a major procurement exercise for the long term management of waste. However, this expectation has now changed as the procurement has been stopped and the land was no longer expected to have a significant change in use by the Authority in the next 5 years. The Authority has therefore reverted to having a valuation every 5 years in accordance with the Code of Practice on Local Authority Accounting. As a consequence of this change to periodic valuations, we would expect management to undertake a formal impairment review annually to demonstrate that the balance held in the accounts is not materially overstated. This is a requirement of the Code (para. 4.7.2.9). However this did not occur in 2014/15. We recommend the Authority undertake a formal annual impairment review of the PPE balance to assess whether there are any indications of an impairment (or other material movement in valuation) on an annual basis and ensure that the financial statements reflect any material changes.	**Agreed – Head of Finance – March 2016** As part of the discussion to change the valuation frequency, the possibility of an impairment was discussed and it was agreed that no factors had changed that would have affected the valuation of the land (last undertaken in 2014). This should have been documented but it was not on this occasion. This was an omission and officers will ensure that best practice is followed in future.

Appendix 2: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £37,000.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Authority). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of North London Waste Authority Council's financial statements for the year ended 31 March 2015. It is our understanding that these will be adjusted.

No.	Impact (£'000)				Basis of audit difference
	Income and Expenditure Statement		Balance Sheet		
	Dr	Cr	Dr	Cr	
1			PPE £15,200	Investment Property £15,200	The Hornsey Street property was classified as an investment property in the 13/14 and 14/15 accounts, however review of the activities undertaken at this property confirmed this is not an investment property as the property facilitates the provision of services for NLWA and therefore this property should be treated as PPE.
2a		OCI – Investment Property Change in FV £2,400	PPE £2,400		This entry reverses the impairment charge against Hornsey Street property which was charged when it was classified as an investment property.
2b	Gross Expenditure £1,760			PPE £1,760	As a result of the reclassification of Hornsey Street from Investment Property to PPE, a depreciation charge was processed through the accounts and reflected against the PPE balance.
2c			Revaluation Reserve £1,760	CAA £1,760	The depreciation charged was reversed out of the General Fund through the CAA.

Appendix 2: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £37,000.

It is our understanding that all of these will be adjusted.

No.	Impact (£'000)				Basis of audit difference
	Income and Expenditure Statement		Balance Sheet		
	Dr	Cr	Dr	Cr	
2d	OCI – deficit on revaluation £640			PPE £640	The net impairment applicable to the Hornsey Street property as a result of the revaluation undertaken on 31/03/2015 was £640k. This ensures the PPE balance accurately reflects the value of the property as at 31/03/2015.
2e	Finance income £104	Gross Income £104			Reclassifying the Hornsey Street property required the rents receivable in the year to be moved from finance income to gross income.
3			Long Term Borrowing £791	Short Term Borrowing £791	The interest payments for the long term borrowings had been incorrectly classified as long term liabilities, however the repayment was due in April 2015.
4	Group gross income £209	Group gross expenditure £209			Rental income due from LWL to NLWA was incorrectly netted off against expenditure rather than eliminated at gross value as an inter-company balance.
	£2,713	**£2,713**	**£20,151**	**£20,151**	**Total impact of adjustments**

Appendix 2: Audit differences (continued)

The cumulative impact of uncorrected audit differences is £105k.

This is below our materiality level of £1 million.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of North London Waste Authority's financial statements for the year ended 31 March 2015.

No.	Impact (£'000)				Basis of audit difference
	Income and Expenditure Statement		Balance Sheet		
	Dr	Cr	Dr	Cr	
1	-	Bad Debt Expense £83	Trade receivables £83	-	This adjustment was identified by BDO during the LWL year end audit and remains unadjusted in the group accounts.
2	-	Revenue £22k	Accruals £22	-	This adjustment was identified by BDO during the LWL year end audit and remains unadjusted in the group accounts.
	-	**£105**	**£105**	**-**	**Total impact of adjustments**

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Authority.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 3: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of North London Waste Authority for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and North London Waste Authority its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 4: Materiality and reporting of audit differences

For 2014/15 our materiality is £1 million for the Authority's accounts.

We have reported all audit differences over £37,000 million for the Authority's accounts to the Authority.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit, as a result of the fraud reported at LWL.

Materiality for the Authority's accounts was set at £1 million which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Authority

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £37,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

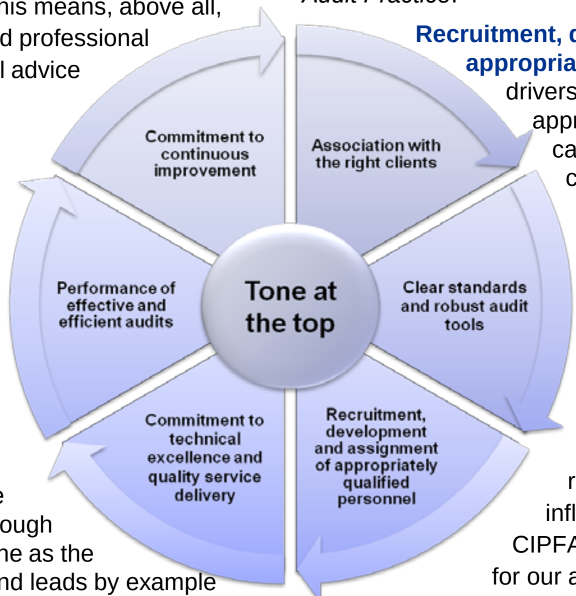
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.



We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Philip Johnstone as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

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