

Annual governance report

North London Waste Authority

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit that is complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

I expect to issue an unqualified opinion on the financial statements once the Authority has provided a letter of management representations and approved the statements. I include a copy of my draft report at appendix 1.

The Authority presented its draft financial statements on 28 June 2012, in line with regulatory requirements. The statements were complete and supported by comprehensive working papers. I also received the Authority's Whole of Government Accounts return on time and examined this alongside my work on the financial statements.

During my audit I identified a few minor errors and areas for clarification. Management responded quickly to my comments and the financial statements now contain no unadjusted misstatements. These changes have no overall effect on the financial position of the Authority or the group.

Value for money

I have completed my assessment against the value for money criteria specified by the Audit Commission and intend to issue an unqualified conclusion. This will state the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. I describe the work I performed on page 7.

Certificate

I identified no other matters arising during my audit and had none brought to my attention by local government electors. So I plan to issue my certificate and close the 2011/12 audit year once the Authority has provided a letter of management representations and approved the financial statements.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, which I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

Next steps

I ask the Authority to approve the letter of representation (appendix 2) before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Significant risks and my findings

I reported to you in my Audit Plan dated 20 April 2012 the significant risk that I identified relevant to my audit of your financial statements. In the table below I report to you my findings against this risk.

Table 1: Risks and findings

Risk	Finding
Group Accounts	
Your subsidiary, London Waste Limited, prepares its accounts under UK Generally Accepted Accounting Practice (GAAP). Therefore, you will have to undertake significant consolidation adjustments as you report under the International Financial Reporting Standards (IFRS). This creates a risk of missed or mistaken consolidation adjustments.	I reviewed the audit report of London Waste Limited's auditors, PKF, and ensured the audited figures were fairly consolidated within the group accounts. I used the expert advice of the Authority's valuer Wilkes, Head and Eve to confirm the valuation of London Waste Limited's assets. The work I have completed assures me the Authority has fairly stated its group accounts.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with good practice requirementsⁱ; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

My audit identified no significant weaknesses in internal control that I must report.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including:

- Qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statement disclosures.
- Matters that other auditing standards specifically require I communicate to you. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest including any significant difficulties and notable matters I discussed with management.

I have no matters I wish to report.

Whole of Government Accounts

I am pleased to note the Authority's response to comments in my 2010/11 Annual Audit Letter in its early presentation of a comprehensive and well-supported 2011/12 Whole of Government Accounts return. I reviewed the return alongside my work on the financial statements and plan to issue my report to the National Audit Office immediately after finishing my audit. The National Audit Office specifies the extent of my review and the nature of my report.

I have no significant matters to report to you, or the National Audit Office, on your 2011/12 Whole of Government Accounts return.

ⁱ Good practice as set out within the Delivering Good Governance in Local Government Framework published by the Chartered Institute of Public Finance Accounting and the Society of Local Authority of Chief Executives (the CIPFA/SOLACE framework)

Value for money

I am required to consider the Authority's arrangements to secure economy, efficiency and effectiveness.

For 2011/12, the Audit Commission has determined the scope of my work on value for money at the Authority is to:

- review the Annual Governance Statement;
- review the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- complete any other risk-based work as suitable.

As I reported in my Audit Plan dated 20 April 2012:

- I am not aware of any relevant work of other relevant regulatory bodies or inspectorates; and
- I have not identified any significant risks requiring specific risk-based work.

I have reviewed your Annual Governance Statement and I have no matters to report.

Fees

I reported my planned audit fee in my Audit Plan dated 20 April 2012.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit ⁱ	30,450	30,450
Non-audit work	none	None
Total	30,450	30,450

ⁱ The Audit Commission has paid a rebate of 8 per cent (£2,436) to reflect attaining internal efficiency savings, reducing the net amount paid by the Authority to the Audit Commission to £28,014.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORTH LONDON WASTE AUTHORITY

Opinion on the financial statements

I have audited the financial statements of North London Waste Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of North London Waste Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Financial Adviser and auditor

As explained more fully in the Statement of the Financial Adviser’s Responsibilities, the Financial Adviser is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me 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 the Authority and Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Financial Adviser 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 of the financial position of North London Waste Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission. For 2011/12 the Commission has determined that the scope of my work on value for money at the Authority is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as suitable.

The Audit Commission has determined these criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission, I am satisfied that, in all significant respects, North London Waste Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of North London Waste Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Philip Johnstone

District Auditor

Audit Commission
1st Floor, Millbank Tower
London
SW1P 4HQ

XXX September 2012

Appendix 2 – Draft letter of management representation

North London Waste Authority - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of North London Waste Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement was made to correct a material misstatement in the prior period financial statements. This affects the comparative information disclosed in the prior year financial statements. The misstatement in 2010/11 arose following changes to the presentation of some items, made to improve clarity and to better reflect the requirements of the Code of Practice on Local Authority Reporting. Some 2010/11 comparative figures were restated to reflect the changes. The restatements had no impact on total Comprehensive Income and Expenditure or the General Fund Balance. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of North London Waste Authority

I confirm that this letter has been discussed and agreed by the Board on North London Waste Authority on XXX September 2012.

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

At North London Waste Authority for 2011/12 I considered items over £971,000 to be material. I also considered the sensitivity of items beneath this value when considering their materiality.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Trivial or Non-Trivial

Trivial items are those whose omission or misstatement would have no effect on the economic decisions of users of the financial statements. At North London Waste Authority for 2011/12 I considered items under £9,000 to be trivial (though considering the sensitivity of items below this threshold). A non-trivial item is one above this threshold but not material.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission. The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. If I find the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Weaknesses in internal control

A weakness in internal control exists when:

- the audited body designs, sets up or uses a control in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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- any director/member or officer in their individual capacity; or
- any third party.

