

Annual Audit Letter

North London Waste Authority

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit has two parts:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have included only significant recommendations in this report. The Authority has accepted these recommendations.

| Key audit risk | My findings |
|---|-------------|
| Unqualified audit opinion | Yes |
| Proper arrangements to secure value for money | Yes |

Audit opinion and financial statements

- I issued an unqualified conclusion on the Authority's financial statements on 22 September 2011. This is before the 30 September deadline set out in the Accounts and Audit Regulations 2011.
- I reported one material and a small handful of non-trivial amendments to the draft financial statements. I also reported good progress made by the Authority in carrying out my predecessor's 2009/10 recommendations.

- I issued an unqualified conclusion on the Authority's Whole of Government Accounts Return on 31 October 2011; after the deadline of 30 September set by the Department of Communities and Local Government.

Value for money

- Alongside my audit opinion I issued an unqualified value for money conclusion. This stated the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Completion of my audit

- Following issue of my opinion and value for money conclusion I completed my audit and issued the completion certificate.

Current and future challenges

| Area | Comments |
|--|--|
| Procurement | <p>The Authority is running a major procurement exercise to tender its main waste management contract once the existing arrangement with London Waste Limited (LWL) expires at the end of 2014. The procurement has faced major complexities during 2010/11, the most significant being the Government's decision in October 2010 to withdraw Private Finance Initiative credit support. The Authority, after careful consideration, has decided to continue the procurement. This will continue to affect the Authority's business, even before it lets the contract, in ways including its management of LWL and gaining and managing a property portfolio to support the eventual contract.</p> |
| Economic downturn and pressure on the public sector. | <p>The Authority has agreed its budget for 2011/12 and is on course to deliver a surplus of around £10 million that it will use to reduce pressure on the levy to member councils in future years. However, the Authority will be aware its member councils are working within tight financial constraints over the next three years and will need to ensure continuing adequate management of any surplus to limit the amount payable by member councils.</p> |

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified conclusion on the Authority's financial statements on 22 September 2011. This is before the 30 September deadline set out in the Accounts and Audit Regulations 2011.

I reported one material and a few non-trivial amendments to the draft financial statements. Management noted and corrected these errors within the final published set of financial statements.

The audit of the LWL financial statements undertaken by its external auditors identified two non-trivial errors within those statements that LWL management declined to amend. To preserve consistency between the parent and subsidiary the Authority did not amend these matters itself when consolidating its group financial statements. I reported these errors, with a gross value of £521,000, to Members in my Annual Governance Report but decided they had no material impact on the overall financial statements.

I issued an unqualified conclusion on the Authority's Whole of Government Accounts Return on 31 October 2011. This was after the deadline of 30 September set by the Department of Communities and Local Government. The delay in certification resulted from the need to restate the Return to show in full the position of the NLWA group, including LWL.

My audit identified no misstatements not identified by management or any other matters I wished to bring to the attention of the Board.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. My overall conclusion is the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

I set out my conclusion on each of the areas below.

Value for money criteria and key messages

| Criterion | Met? |
|--|------|
| Managing finances | |
| 1. Financial planning and financial health. | Yes |
| 2. Understanding costs and achieving efficiencies. | Yes |
| 3. Financial reporting | Yes |
| Governing the business | |
| 4. Risk management and internal control | Yes |

Closing remarks

I have discussed and agreed this letter with the Managing Director, Financial Adviser and the Head of Finance. I will present this letter at the Board on 13 December 2011 and will provide copies to all board members.

I include more detailed findings, conclusions and recommendations in the areas covered by my audit in the reports issued to the Board during the year.

| Report | Date issued |
|---------------------------|----------------|
| Annual audit plan 2010/11 | June 2011 |
| Annual Governance Report | September 2011 |

The Authority has taken a positive and helpful approach to my audit. I wish to thank the Authority's staff for their support and cooperation during the audit.

Philip Johnstone
District Auditor
November 2011

Appendices

Audit fees

| Fee category | Audit Commission Scale Fee | Fee Proposed at North London Waste Authority | Final fee at North London Waste Authority | Variance between proposed and final fee |
|----------------|----------------------------|--|---|---|
| Scale fee | £45,264 ⁱ | £35,000 | £35,000 | - |
| Non-audit work | - | - | - | - |
| Total | £45,264 | £35,000 | £35,000 | - |

Glossary

Audit opinion

On completion of the audit of accounts, I give an opinion on the financial statements, including:

- whether the accounts give a true and fair view of the financial position of the audited body and its spending and income; and
- whether the audited body has prepared its accounts properly and by the relevant accounting rules.

Qualified or unqualified opinion

If I have concerns on whether the accounts do give a true and fair view, or are materially non-compliant with the relevant accounting rules I may set out my concerns in a qualified opinion. An unqualified opinion signals I have no such concerns.

ⁱ The scale fee reflects the type, size and location of the audited body. The regulatory arm of the Audit Commission sets the scale fee centrally. I base the proposed fee on my assessment of local risk.

Audit closure certificate

This is a certificate that I have completed the audit following statutory requirements. This marks the point when I have fulfilled all of my responsibilities for the audit of the period covered by the certificate. These responsibilities include my consideration of any matters that might require exercise of my statutory powers under the Audit Commission Act 1998.

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.

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 its 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.

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November 2011