

Annual governance report

North London Waste Authority

Audit 2010/11

DRAFT

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Key messages	3
Audit opinion	3
Financial statements	3
Value for money	4
Independence	4
Next steps	5
Financial statements	6
Opinion on the financial statements	6
Other matters to report	7
Follow up of 2009/10 recommendations	9
Value for money	10
Appendix 1 Draft independent auditor's report to Members of North London Waste Authority	11
Opinion on the Authority and Group accounting statements	11
Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources	12
Certificate	13
Appendix 2 Amendments to the draft financial statements	14
Appendix 3 Unadjusted misstatements in the financial statements	15
Appendix 4 Draft letter of representation	16
Appendix 5 Glossary	18

Dear Members

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Managing Director, Financial Adviser and Head of Finance on 7 September 2011 and updated it as we resolved remaining issues.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 9);
- note the adjustments to the financial statements set out in this report (appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (appendix 3); and
- approve the letter of representation for the Authority before I issue my opinion and conclusion (appendix 4).

Yours faithfully

Philip Johnstone
District Auditor

22 September 2011

Key messages

This report summarises the findings from the 2010/11 audit which is substantially 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.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Important weaknesses in internal control	No	8

Table 2: **Key messages - value for money**

Value for money	Results	Page
Proper arrangements to secure value for money	Yes	10

Audit opinion

- 1 I expect to complete all outstanding work before 22 September 2011 when this report is due at the North London Waste Authority board.
- 2 If any more matters arise in finishing the remaining work I will update the board at its meeting. I will also circulate a final version of this report immediately before issuing my opinion.
- 3 Subject to satisfactory completion of the remaining work I plan to issue an unqualified opinion on the financial statements. I include a copy of my draft report at appendix 1.

Financial statements

- 4 The Authority presented draft financial statements on 30 June 2011, in line with Accounts and Audit Regulation requirements.
- 5 My audit identified some disclosure matters and a material error in the draft financial statements, which officers have amended as noted on page 8.

The error and the disclosure matters have no effect on the overall financial position of the Authority or the group.

6 Also noted on page 8, the group financial statements incorporate two unadjusted errors originally reported to London Waste Limited by its auditors, PKF. The effect of these unadjusted errors is to overstate the group's expenditure by £521,000, but there is no overall affect on the group's financial position.

Value for money

7 I have completed my assessment against the criteria specific 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 include a draft wording for my report at appendix 1.

Independence

8 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including Ethical Standard 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

9 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

DRAFT

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. I do not design my audit to identify all matters that might be relevant to you.

10 I ask the Board to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 9);
- note the adjustments to the financial statements set out in this report (appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3); and
- approve the letter of representation for the Authority before I issue my opinion and conclusion (appendix 4).

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 Authority 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

11 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.

12 The outstanding matters regard completing the following areas of audit work:

- Approval of the final version of the financial statements and receipt of letters of representation;
- Review of consolidation of London Waste Limited's financial statements into the Authority's group accounts;
- Review of information received from the Authority's valuers Wilkes, Head and Eve on the reported property asset values in the authority and group statements; and
- Review of year-end creditor balances.

13 My work in these areas continues and I expect to have completed all outstanding matters when the Board meets. I will provide an update to the Board, including details of any matters arising from outstanding work. I will also circulate a final version of this report immediately before issuing my opinion.

Key areas of judgement and audit risk

14 In my audit plan presented to the Board in June 2011 I identified specific risks and areas of judgement I have considered as part of my audit. In table 3, below, I set out these risks and detail my findings.

Table 3: **Key areas of judgement and audit risk**

Showing audit findings in each area

Issue or risk	Finding
International Financial Reporting Standards	
Local Authorities must prepare their financial statements under International Financial Reporting Standards from 2010/11 onwards. While this presents many presentational changes there will be cause to review significant lease arrangements and asset valuations.	I reviewed the authority's financial statements against disclosure requirements of the revised Local Government Code. My review identified a few minor changes necessary to comply with disclosure requirements, but no significant matters. Management has incorporated those changes into the final financial statements. I am satisfied by my review the authority has fairly stated its accounts under the new Code.
IFRS: Group accounting	
The most notable risk arising from the Code's introduction of IFRS is your consolidation of group accounts. This is because London Waste Limited does not produce its financial statements under these standards. Instead it prepares accounts to a different set of accounting policies; UK Generally Accepted Accounting Practice or GAAP as allowed by the Companies Act 1985.	The authority sought expert advice from PKF, London Waste Limited's auditors, on consolidating the financial statements. On the key issue of asset valuation, it also sought professional advice from Wilkes, Head & Eve. My work reviewing the consolidation is continuing, and in particular I have not yet completed my work on valuation advice provided by Wilkes, Head & Eve. I expect to have completed this work when I present this report to the board and will update and report on any significant findings.

Source: Audit Plan 2010/11, continuing audit planning and audit findings

Other matters to report

15 Under international auditing standards, there are several areas on which I must report any findings. I set these out in the table below alongside my conclusion on whether I have any matters to report.

Table 4: **Areas I must report to the Board**

Noting where I have matters to report

International auditing standards area	Matters to report?
Errors in the financial statements	
Uncorrected non-trivial errors	Yes (see paragraphs 16-17)
Corrected material errors	Yes (see paragraphs 18-19)

International auditing standards area	Matters to report?
Internal control and other matters	
Important weaknesses in internal control	None
Matters on the quality of the financial statements	None
Accounting practices, policies, statements and disclosures	Yes (see paragraph 20)
Significant difficulties met during the audit	None
Significant matters discussed with management	None

Source: International Auditing Standards 260 and 265 and audit findings

Uncorrected non-trivial errors

16 In my review, I identified no non-trivial errors in the financial statements of the authority that management did not correct. However, in their work on the financial statements of London Waste Limited, PKF did identify two uncorrected non-trivial errors. The authority has carried forward London Waste Limited's accounts unadjusted for these findings so both form uncorrected errors in the authority's group financial statements. As reported by PKF, these matters are:

- An over accrual of transport and disposal costs for 2009 leading to a misstatement of £407,000 in the 2010 financial statements, and
- An estimated extrapolated misstatement of £114,000 arising from overstatement of stock balance.

17 I set out more detail on these errors in appendix 3, alongside the next steps the authority should take in preparing its letter of representation. As shown in appendix 3, neither of these matters affects the overall financial position of the group.

Corrected material errors

18 The Authority's draft financial statements recorded the accrued interest of £1.43 million on its long-term borrowing as part of its revenue creditors balance. This disclosure is contrary to the requirements of International Accounting Standard 39 (Financial Instruments: Recognition and Measurement) as set out by the Code of Practice on Local Authority Accounting. These standards direct that authorities must disclose accrued interest alongside the loan balance rather than as a separate creditor.

19 Management has amended this disclosure in the final financial statements. The amendment creates a material difference from draft in both the long-term borrowing and revenue creditors balances within the balance sheet, but has no overall affect on the financial position of the Authority. I set out the amendment in more detail in appendix 2.

Accounting practices, policies, statements and disclosures

20 My review identified a few changes to disclosures in the draft accounts needed to comply with the Local Government Code. None of these disclosure amendments affect the financial position of the authority and comprise:

- Extra disclosures on the creditors balance;
- Alteration of accounting policies to clarify the bases used by the authority in its valuation of the London Waste Limited investment and Pinkham Way asset; and
- Expansion to the note on audit fee in note 2 confirming that all fees are in respect only to the statutory audit of the authority.

Letter of representation

21 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation. As noted above, the letter asks for specific representations on the uncorrected non-trivial errors brought forward from London Waste Limited's financial statements.

Follow up of 2009/10 recommendations

22 My 2009/10 Annual Governance Report made two recommendations to the Authority aimed at improving the utility of its financial statements and effectiveness of its internal procedures. In table 5, below, I set out progress made by the Authority in 2010/11 towards fulfilling these recommendations.

Table 5: **2009/10 Recommendation**

Progress on implementation in 2009/10

2009/10 recommendation	Implemented?	2010/11 Findings
R1 Continue to improve and strengthen the internal controls and financial reporting of the Authority by, for example: <ul style="list-style-type: none">■ Implementing recommendations of internal audit;■ Expanding the capacity of the finance team; and■ Continue to seek expert advice on specific transactions.	Yes	The authority had its first full year of examination by London Borough of Camden's internal audit service in 2010/11 and continues to act on the recommendations received, as noted in its Annual Governance Statement. The authority has expanded its finance team in 2010/11 and sought expert advice appropriately, for example in its consolidation of London Waste Limited's financial statements.
R2 Revise processes underpinning the note on related parties to collect information on relevant relationships.	Yes	I reviewed the authority's related party disclosure note in its financial statements and am satisfied it is fairly stated.

Source: 2009/10 Annual Governance Report and 2010/11 audit findings

Value for money

I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

23 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. I set out my conclusion on each of the criteria below.

Table 6: **Value For Money Conclusion Assessment Criteria**

2010/11 assessment

Criterion	Met?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Risk management and internal control	Yes

Source: *Value for Money Conclusion Guidance October 2010 and audit findings*

24 I intend to issue an unqualified conclusion stating the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Appendix 1 Draft independent auditor's report to Members of North London Waste Authority

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of North London Waste Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting 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 Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware

of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of North London Waste Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

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.

Auditor's responsibilities

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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the criteria for other local government bodies published by the Audit Commission in October 2010.

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 in October 2010, 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 ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Authority and Group 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

tbc September 2011

Appendix 2 Amendments to the draft financial statements

I identified the following misstatement during my audit and management have adjusted the financial statements. I bring it to your attention to help you in fulfilling your governance responsibilities.

Table 7: **Adjusted material misstatement**

Showing account entries

Unadjusted misstatement	Account entry	Group comprehensive income and expenditure statement		Group balance sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
To show accrued interest as part of outstanding loan balance.	DR Other creditors and provisions - revenue			1,430	
	CR Long term borrowings				1,430

Source: Audit findings

Appendix 3 Unadjusted misstatements in the financial statements

PKF identified the following misstatements during their audit of London Waste Limited. The Authority has not adjusted the financial statements on consolidation and so the errors are present within the Authority's group financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 8: **Unadjusted non trivial misstatements**

Showing account entries

Unadjusted misstatement	Account entry	Group comprehensive income and expenditure statement		Group balance sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
Over accrual of transport and disposal costs in 2009	DR Cultural, environmental, regulatory and planning services	407			
	CR General fund balance				407
Overstatement of stock balance (extrapolated)	DR Cultural, environmental, regulatory and planning services	114			
	CR Current assets				114
Totals		521	0	0	521

Source: PKF report on the audit of financial statements of London Waste Limited for the year ended 31 December 2010

Appendix 4 Draft letter of representation

To: Philip Johnstone
District Auditor

North London Waste Authority - Audit for the year ended 31 March 2011

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 2011. All representations cover the Authority's accounts and group accounts included within the financial statements.

Compliance with the statutory authorities

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

Supporting records

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

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 that 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 North London Waste 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 requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Specific representation - unadjusted misstatements in the authority's group financial statements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Signed on behalf of North London Waste Authority

I confirm that this letter has been discussed and agreed by the Board of North London Waste Authority on 22 September 2011

Appendix 5 Glossary

Audit opinion

On completion of the audit of accounts, the auditor gives an opinion on the financial statements, including:

- whether they 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 them 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 choose to set out these concerns in a qualified opinion. An unqualified opinion signals I have no such concerns.

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.

Material

A material item is one whose omission or misstatement could influence the economic decisions of users taken based on the financial statements. At North London Waste Authority for 2010/11 I considered items over £917,000 to be material. I also considered the sensitivity of items beneath this value when considering their materiality.

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 2010/11 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.

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 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.

Abbreviations used in this report

ES1: Ethical Standard 1 of the Audit Practices Board

IAS: International Accounting Standard

IFRS: International Financial Reporting Standards

DRAFT