

# Annual Governance Report

North London Waste Authority

Audit 2009/10

**September 2010**

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
  - any third party.
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Dear Members

## **2009/10 Annual Governance Report**

I am pleased to present my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Authority's Financial Adviser on 8 September 2010 and updated it as issues have been resolved.

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 7 to 10);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 3).

Yours faithfully

Martin Searle  
Engagement Lead  
September 2010

# Key messages

This report summarises the findings from the 2009/10 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.

<b>Financial statements</b>	<b>Results</b>	<b>Para</b>
Unqualified audit opinion	Yes	1
Draft financial statements free from material error	No	3
Adequate internal control environment	Yes	17
<b>Value for money</b>	<b>Results</b>	<b>Para</b>
Adequate arrangements to secure value for money	Yes	6

## Audit opinion

- 1 My work on the financial statements is nearing completion. I expect to give an unqualified audit opinion by 30 September 2010 that the statements give a true and fair view of the financial position of the Authority. A draft of my report is included in appendix 1.

## Financial statements

- 2 The Authority submitted financial statements for audit in line with agreed timetables. The statements were complete and working papers generally good.
- 3 I base my statement in the table above that the draft accounts contained errors on the material nature of the amendments necessary to the group financial statements in consolidating the transactions of London Waste Limited. In the group statements the disclosed gross income of the group has increased from £11.9 million to £50.3 million and disclosed gross expenditure increased from £49.1 million to £81.8 million. The group cash flow statement has also been consolidated to accord with the accounting requirements of a grouped entity. Ultimately this is an issue of consolidating transactions already disclosed separately in the separate statements of the Authority or London Waste Limited to ensure compliance with group accounting requirements.
- 4 The most significant other adjustment is the inclusion of a note on officer remuneration.
- 5 These adjustments do not affect the overall financial position of the Authority which remains as reported to the Authority in June.

## Key messages

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### Value for money

- 6** I am satisfied, having regard to the criteria specified by the Audit Commission that in all significant respects the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010. I include the text of my proposed value for money conclusion at appendix 1.
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### Independence

- 7** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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# 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. My audit is not designed to identify all matters that might be relevant to you.**

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**8** I ask the Authority to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 3).

# 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.**

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## Opinion on the financial statements

- 9 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.
  - 10 The outstanding matters relate to approval of the accounts by the Board and receipt of appropriate management representations as outlined in appendix 2.
- 

## Errors in the financial statements

- 11 Auditing standards require that I bring to Members' attention any errors in the financial statements except those that are clearly trivial. I must also distinguish between errors that have been amended by management and those that have not.
- 12 I am pleased to report that management has amended the financial statements for all errors identified by my audit.
- 13 The group income and expenditure account in the draft financial statements did not consolidate the income and expenditure of London Waste Limited and so understated the income and expenditure of the group. Management has now amended the statements to show the full income and expenditure of the group in 2009/10. This changes the disclosed gross income of the group from £11.9 million to £50.3 million and gross expenditure from £49.1 million to £81.8 million.
- 14 Similarly, the group cash flow statement did not consolidate the cash flows of London Waste Limited and so understated cash flows of the group. Management has now amended the statement to show the full cash flows of the group in 2009/10. This amendment changes the disclosed net cash inflow of the group from £6.7 million to £3.8 million.
- 15 However, to clarify, these are issues of consolidation and so do not indicate the group undertook any transactions other than those already disclosed separately in the statements of the Authority or London Waste Limited.
- 16 The amendments set out above do not affect the overall financial position which remains as reported to the Authority in June.

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### Important weaknesses in internal control

- 17** My audit has identified no material weaknesses in the Authority's internal control environment. However, as in previous years I have identified an aspect of accounting processes that the Authority should address.
- 18** The preparation, authorisation and action of all Authority journals and financial reporting is undertaken by one officer. This increases the risk of error as the officer's work is subject to limited or no review before processing into the Authority's financial system. I undertook a more a detailed testing strategy to mitigate the risk of a material misstatement going undetected. My understanding is that the Authority is looking to recruit a second finance officer to eliminate this risk in the near future.
- 19** The Authority has taken steps to improve its financial reporting processes during the year. This has included obtaining external expert advice on specific accounting treatments and formalising the involvement of the London Borough of Camden's internal audit service. I recommend that the Authority continues investigating ways to improve its internal controls and financial reporting.

### Recommendation

- R1** Continue to improve and strengthen the internal controls and financial reporting of the Authority by, for example:
- implementing the recommendations of internal audit;
  - expanding the capacity of the finance team; and
  - continue to seek expert advice on specific transactions where appropriate.

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### Letter of representation

- 20** Before I issue my opinion, I am required by auditing standards to ask you and management for written representations about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation..

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### Key areas of judgement and audit risk

- 21** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. These were set out in my Audit Plan reported to the Board in June 2010. I set out my findings in these areas in the table below:

**Table 1 Key areas of judgement and audit risk**

Findings of audit work

Issue or risk	Finding
In December 2009 the Authority bought the remaining 50 per cent of London Waste Limited and intends to run it as an arms-length subsidiary.	I subjected the accounting treatment of this transaction to specific separate review and concluded that it is fairly stated.
The Authority's capital programme has stepped up during 2009/10 with major land transactions and associated prudential borrowing plans.	I reviewed the Authority's capital transactions during 2009/10 and concluded they are fairly stated.
The Authority is embarking on a large procurement exercise.	Ultimately we concluded that there is no requirement to refer to the procurement process in the 2009/10 accounts. I continue to review current project plans and monitor progress.

Audit Opinion Plan

**Accounting practice and financial reporting**

**22** I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2 Financial Reporting Matters**

Non-numeric matters arising from my audit

Issue or risk	Finding
A revision to Accounts and Audit Regulations for 2009/10 requires that authorities disclose the remuneration of key staff. The Authority's draft financial statements omitted this note.	Guidance was unclear on whether this requirement applied to the Authority given its employment structure. However, management has decided in the interests of transparency to include the relevant information within its financial statements at note 24.
The Authority's process for identifying related party transactions disclosed in note 14 does not seek information on relationships of senior officers or Members.	I recommend that the Authority improve its processes for future years to assure itself that all relevant disclosures are made. Further comments are made below.

Audit of financial statements 2009/10

- 23** At present the Authority compiles its note on related party transactions by identifying other bodies related to the Authority and recording relevant transactions. However, Financial Reporting Standards (FRS8) requires that the Authority also considers the relationships any of the individuals responsible for its control (that is, Members and senior officers) might have with other bodies. An example given in the SoRP guidance note is a situation where a Chief Executive holds a pecuniary interest in a sporting association that receives a grant.
- 24** Based on my work examining note 14 I am satisfied it is not materially misstated. I gain further assurance here from the management representation I request in my letter of representation in appendix 2. However I recommend for future years that the Authority revise its processes to assure completeness of its related party disclosure.

<b>Recommendation</b>	
<b>R2</b>	Revise processes underpinning the note on related party transactions to collect information on any relevant relationships of officers and Members.

**Follow up of 2008/09 recommendations**

- 25** The Annual Governance Report 2008/09 made two recommendations designed to assist the Authority in improving its financial processes. I summarise the progress made by the Authority in implementing these recommendations in the table below.

**Table 3 2008/09 Recommendations**

Progress on implementation in 2009/10

Recommendation	Implemented?	Findings
<b>R1</b> The Authority should consider methods for the authorisation of journals to minimise the risk of error.	Being addressed	As detailed above, processes for journal authorisation were unchanged in 2009/10, however, the Authority is taking steps to recruit an additional officer to effect improved control in 2010/11.
<b>R2:</b> Formalise processes in relation to internal audit work to support the Annual Governance Statement.	Yes	The Authority commissioned LB Camden's Internal Audit to review its financial processes to inform its Annual Governance Statement (AGS). In the first year this work was not concluded prior to Board approval of the AGS, although ultimately no amendments were required. The Authority is in discussion with LB Camden internal audit on scheduling the 2010/11 reviews to allow for final results to inform the AGS.

Annual Governance Report 2008/09

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# Value for money

I am required to decide whether the Authority put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

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## Value for money conclusion

- 26** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of these areas in table 4.
- 27** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

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### Table 4 Value For Money Conclusion Criteria

2009/10 assessment

Criteria	Met
<b>Managing Finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes

Value for Money Conclusion Guidance January 2009

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# 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 they have been prepared properly and in accordance with the relevant accounting rules.

## Qualified/unqualified opinion

If the auditor has concerns on whether the accounts do give a true and fair view, or are materially non-compliant with the relevant accounting rules he or she may choose to set out these concerns in a qualified opinion. An unqualified opinion indicates the auditor has no such concerns.

## Audit closure certificate

By issuing the certificate I state that I have completed all statutory requirements associated with the audit. This marks the point when I have fulfilled all of my responsibilities for the audit of the period covered by the certificate, including the consideration of any objections raised by local government electors. Once a certificate is issued no objections for that year of account may be made.

## Objections

Under the Audit Commission Act local government electors have the right of objection to any item of accounts. On accepting an objection I must consider whether it would be appropriate to use any of my statutory powers regarding the matter raised.

## Material

A material item is one whose omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. At the North London Waste Authority for 2009/10 I considered items over £982,000 to be material. I also considered the sensitivity of items beneath this value when considering their materiality.

## Trivial/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 the North London Waste Authority for 2009/10 I considered items under £9,000 to be trivial (though having regard to the sensitivity of items below this threshold). A non-trivial item is one above this threshold but not material.

## Glossary

### 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.

### Annual Governance Statement

A statement prepared by the Authority summarising its internal control environment. It is prepared in accordance with guidance produced by the CIPFA and SOLACE.

### Abbreviations

**AGS:** Annual Governance Statement

**CIPFA:** Chartered Institute of Public Finance and Accountancy

**FRS:** Financial Reporting Standard

**IFRS:** International Financial Reporting Standards

**KLoE:** Key line of enquiry

**SOLACE:** Society of Local Authority Chief Executives

**SoRP:** Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice

# Appendix 1 – Independent auditor’s report to Members of the North London Waste Authority

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## Opinion on the accounting statements

I have audited the Authority and Group accounting statements and related notes of the North London Waste Authority for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, 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 the 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Financial Adviser and auditor

The Financial Adviser's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

## Appendix 1 – Independent auditor’s report to Members of the North London Waste Authority

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword only. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

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**Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

**Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria for other local government bodies specified by the Audit Commission and published in January 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

**Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to criteria for other local government bodies specified by the Audit Commission and published in January 2009, and the supporting guidance, I am satisfied that, in all significant respects, the North London Waste Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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**Certificate**

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

Martin Searle  
Engagement Lead  
Audit Commission

September 2010

# Appendix 2 – Draft letter of representation

To: Martin Searle  
Engagement Lead  
Audit Commission  
1st Floor, Millbank Tower  
LONDON SW1P 4HQ

## North London Waste Authority - Audit for the year ended 31 March 2010

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers and members of the North London Waste Authority, the following representations given to you in connection with your audits of the Authority's financial statements for the year ended 31 March 2010.

### Compliance with the statutory authorities

We acknowledge our 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: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Authority and for making accurate representations to you.

### Supporting records

All the accounting records have been made available to you for the purpose of your audits and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Member meetings, have been made available to you.

### Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our 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; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the 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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

We confirm the reasonableness of the significant assumptions within the financial statements. For fair value assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

We are not aware of any significant unrecognised assets.

## Appendix 2 – Draft letter of representation

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our accounts.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Signed on behalf of the North London Waste Authority

Moira Gibb  
Clerk

Date:

Mike O'Donnell  
Financial Adviser

Date:

Clyde Loakes  
Chairman

Date:

# Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 Recommendations</b>						
8	R1 Continue to improve and strengthen the internal controls and financial reporting of the Authority by, for example: <ul style="list-style-type: none"> <li>• Implementing the recommendations of internal audit;</li> <li>• Expanding the capacity of the finance team; and</li> <li>• Continue to seek expert advice on specific transactions where appropriate.</li> </ul>	3	Financial Adviser	Yes		March 2011
10	R2 Revise processes underpinning the note on related party transactions to collect information on any relevant relationships of officers and Members.	2	Financial Adviser	Yes		March 2011

# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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