

**North London Waste Authority
Report on the 2008 Audit**

16 September 2008

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Executive summary

Introduction

We have pleasure in setting out in this document our report to the Members of North London Waste Authority for the year ended 31 March 2008. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2008. This summary is not intended to be exhaustive but highlights the most significant matters that have come to our attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

We have substantially completed our audit in accordance with our Audit Plan which was presented to you in May 2008.

Certain procedures are still outstanding at the time of writing this report and need to be finalised before we can finalise our audit opinion:

- final internal review procedures on the Accounts;
- completion of post balance sheet events review;
- receipt of legal letter; and
- receipt of representation letter.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from the completion of these matters.

On satisfactory completion of the outstanding matters, we anticipate issuing an unqualified audit opinion.

Executive summary (continued)

Key areas of judgement and audit focus	<p>We have identified the following key judgement areas as being critical to the 2008 accounts:</p> <p>Accounting for Landfill Allowance Trading Scheme</p> <p>We have performed a review of the methods of calculation and the information used in order to reach the accounting treatment and related disclosures in the accounts.</p> <p>Pensions Accounting</p> <p>We have considered the requirements for the Authority to make full disclosures for the pension liability recognised in the accounts.</p>
	<p>Other Key areas of judgement and audit focus</p> <p>Further discussion on the above key matters is included in the detailed section on the Key areas of judgement and audit focus on page 4, together with discussion of the following other key areas of judgement and audit focus identified in our audit plan:</p> <ul style="list-style-type: none">• Annual Governance Statement• Best Value Performance Indicators

Executive summary (continued)

Audit adjustments

For the 2008 financial statements our materiality was £560,000. This is consistent with our determination of planning materiality previously advised to the Members.

As outlined in our Audit Plan presented in May 2008, we report all individual identified misstatements in excess of £11,000 and other identified errors in aggregate. We consider identified misstatements in qualitative as well as quantitative terms.

The identified unadjusted misstatements are set out in the appendix to the letter of representation at the end of this report, and total a £393,750 reduction to the income and expenditure account.

Accounting and internal control systems

We did not identify any material weaknesses in the financial reporting environment.

Independence

In our professional judgement we are independent within the meaning of APB Ethical Standards and the objectivity of the audit engagement partner and audit staff is not impaired. Details of our consideration of independence, including fees for non-audit services, are included in section 4.

1. Key areas of judgement and audit focus

The results of our audit work on key issues and judgements are set out below.

Key issue	Background
Landfill Allowance Trading Scheme	<p>This is the third year in which the Landfill Allowance Trading Scheme (LATS) has impacted on the NLWA accounts. The scheme needs to be accounted for in accordance with the LAAP guidance issued, recording income, expenditure, assets and liabilities in the accounts gross.</p>
	<p style="text-align: center;">Deloitte Response</p> <p>We have reviewed the accounting treatment and concluded that this is in accordance with the guidance issued by CiPFA. We have audited the figures used, and have concluded that the disclosures in the accounts are appropriate. As there was a surplus of income over expenditure in the year, a LATS fund has been created to carry this surplus forward into future years to fund the expected future landfill allowance requirements.</p>

Key issue	Background
Pensions accounting	<p>As NLWA does not have contributing employees, only the pension liability for the added years element of past employees is disclosed in the accounts.</p>
	<p style="text-align: center;">Deloitte Response</p> <p>We have consulted the guidance on the requirements for NLWA, and the requirement is that the accounts should also disclose the assumptions that were used by the actuary in reaching the liability calculation. This information has been disclosed in the accounts.</p> <p>Full FRS17 disclosures are not required.</p>

1. Key areas of judgement and audit focus (continued)

Key issue	Background
Annual Governance Statement	<p>In reviewing the Authority's published Annual Governance Statement, we consider the overall arrangements you have in place to ensure:</p> <ul style="list-style-type: none">• the legality of transactions that might have significant financial consequences;• the financial standing of the authority;• systems of internal control; and• standards of financial conduct and the prevention and detection of fraud and corruption. <p>It is your responsibility to put adequate arrangements in place. We review these arrangements, reporting where appropriate.</p> <p>The Authority relies on the financial systems of the London Borough of Camden.</p>
	Deloitte Response
	<p>We have reviewed the Annual Governance Statement in the accounts and have not identified any inconsistencies with our knowledge of the Authority.</p> <p>As part of our audit of the London Borough of Camden, we have reviewed the general computer controls and the internal audit reports issued in the year.</p>

1. Key areas of judgement and audit focus (continued)

Key issue	Background
Best Value Performance Indicators	We are required to issue an opinion on the Best Value Performance Indicators 2007/08 by the end of September 2008 and report in our audit opinion on the Best Value Performance Plan 2007/08, on which we reported in December 2007.
	Deloitte Response
	We have completed our work in verifying the information disclosed as the Best Value Performance Indicators and do not anticipate that there will be any issues in meeting the deadline.

2. Accounting and internal control systems

For controls considered to be 'relevant to the audit' we evaluated the design of the controls and determined whether they had been implemented ("D& I"). The controls that are determined to be relevant to the audit were those:

- where we planned to obtain assurance through operating effectiveness;
- relating to identified risks (including this risk of fraud in revenue recognition) or areas of audit focus (as detailed in section 1); and
- where we considered we would be unable to obtain sufficient audit assurance through substantive procedures alone.

For the purpose of our financial statements audit, we were able to identify relevant controls and to assess the overall control environment as conducive for control reliance for audit purposes. This included consideration of the relevant financial systems and controls operated by the London Borough of Camden.

There were no control weaknesses or observations identified from our audit work to report to you.

Results of liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the relevant findings of internal audit and concluded that their findings had no impact on our audit approach.

3. Other matters for communication

Other requirements of International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") require we report on the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720	Other information in documents containing other audited financial statements

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

4. Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond auditing standards, and ensures the objectivity of our judgement is maintained.
- We report annually to the Authority our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board for Accountancy (POBA) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POBA, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POBA and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. The AIU and QAD do not publish individual inspection reports and we are not permitted to disclose details of their findings.

4. Independence policies and procedures (continued)

Independence policies	<p>Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.</p> <p>Amongst other things, these policies:</p> <ul style="list-style-type: none">• state that no Deloitte partner or immediate family member is allowed to hold a financial interest in any of our UK audit clients;• require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client;• state that no person in a position to influence the conduct and outcome of the audit or any immediate family member should enter into business relationships with UK audit clients or their affiliates;• prohibit any professional employee from obtaining gifts from clients unless the value is clearly insignificant; and• provide safeguards against potential conflicts of interest.
Remuneration and evaluation policies	<p>Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.</p>

4. Independence policies and procedures (continued)

Specific independence issues and safeguards

There were no threats to objectivity and independence identified.

Confirmation of independence

In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired. In respect of our consideration of the retention of the audit engagement for the periods commencing 1 April 2007 and 1 April 2008 we confirm that we comply with APB Ethical Standards.

Use of auditors for non-audit services

We are not aware of any inconsistencies between APB Ethical Standards and the Authority's policy for the supply of non audit services or of any apparent breach of that policy.

An analysis of professional fees earned by Deloitte in the period from 1 April 2007 to 31 March 2008 is noted below:

	2008 £	2007 £
Financial Accounts audit	18,580	18,040
Financial Aspects of Corporate Governance	2,000	1,910
BVPP and Performance Data Quality	4,000	5,940
Whole of Government Accounts	1,550	1,500
Total	26,130	27,390

5. Responsibility statement

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use as Directors for corporate governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. In the event that a third party asks to see this report, please ask for our consent before releasing it.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

St Albans

16 September 2008

Appendix 1: Draft letter of representation

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of North London Waste Authority for the year ended 31 March 2008 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of North London Waste Authority as of 31 March 2008 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with applicable accounting framework.

We confirm, to the best of our knowledge and belief, the following representations.

- 1) All the accounting records have 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 accounting records. All other records and related information, including minutes of all Authority meetings, have been made available to you.
- 2) We acknowledge our responsibilities for the design and implementation of internal control to prevent and detect fraud and error.
- 3) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 4) We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Authority involving:
 - a. management
 - b. employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
- 5) We have disclosed to you 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.
- 6) We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
- 7) There are no outstanding legal claims against the Authority.
- 8) Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including

consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority. Any significant changes in those values since the balance sheet date have been disclosed to you.

- 9) We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the reporting entity and confirm that we have disclosed in the financial statements all transactions relevant to the Authority and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 "Related party disclosures" or other requirements.
- 10) We confirm that we are of the opinion that the Authority is a going concern, that we have disclosed to you all relevant information of which we are aware and which relates to our opinion, and that all relevant facts are disclosed in the financial statements.
- 11) We have considered the uncorrected misstatements detailed in the appendix to this letter. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole
- 12) We confirm that:
 - The Local Government Pension Scheme, as administered for the Authority by the London Pensions Fund Authority (LPFA), is the only scheme of retirement benefits operated by the Authority;
 - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
 - all settlements and curtailments have been identified and properly accounted for;
 - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
 - the actuarial assumptions underlying the valuation of the scheme liabilities accord with the Authority's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
 - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology;
 - The amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Board of Directors

Appendix – unadjusted likely misstatements

Dr expenses 393,750

Cr provisions 393,750

To adjust the provision for the rent review to reflect the expected outcome to the negotiations per the external consultant

Deloitte.

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