
North London Waste Authority

Annual Audit Letter

November 2006

This report has been prepared on the basis of the limitations set out on page 13.

Contents

| | Page |
|---|-------------|
| 1. Executive summary | 3 |
| 2. Performance management | 5 |
| 3. Financial aspects of corporate governance | 7 |
| 4. Auditing the accounts | 9 |
| 5. Next year's audit plan | 11 |
| 6. Statement of responsibility | 13 |

1. Executive summary

We summarise our key conclusions from this year's audit process, grouped according to our key responsibilities as set out in the Audit Commission's Code of Audit Practice.

1.1 Introduction

The Audit Commission's Code of Audit Practice ("the Code") lays down the requirements for auditors in carrying out their audits of local authorities and the National Health Service. Following advice from the Audit Commission, we are required to apply the full Code to waste disposal authorities.

Although we are required to consider each of the areas covered by the full Code, we have not carried out detailed audit work in all of these. This is because the Authority has devolved many of its operational functions to a joint venture company, LondonWaste Limited. As the Authority is committed to this contract for a twenty year period there is little discretion over some areas of its operations, and some of the objectives are therefore met only through high level work at the Authority itself.

The Code also requires us to prepare an annual audit letter summarising our work on each objective.

1.2 Performance management

We expect to issue an opinion that the Best Value Performance Plan (BVPP) met the contents and publication requirements set out in statute.

The Authority achieved its statutory performance standard of recycling and composting 17% of the household waste stream.

Attention needs to be given to the Authority's performance in respect of Best Value Performance Indicator (BVPI) 82a (total tonnage of household waste arising – percentage recycled), and BVPI 82b (total tonnage of household waste arising – percentage composted) in view of the increasing local targets over the next two years.

We have concluded that the Authority's arrangements for managing its performance appear to be operating satisfactorily.

We have concluded that performance indicator information sent to the Audit Commission was 'fairly stated'.

No specific local studies were proposed this year.

1.3 Financial aspects of corporate governance

The Authority has continued to manage its expenditure within budget. Future budgeting processes should continue to incorporate monitoring of the level of reserves.

Members should continue to consider the implications of the EU Waste Incineration Directive.

The Authority should continue to maintain and review its internal control and risk management arrangements during 2006/07.

There have been no reported incidences of fraud or corruption during the year.

1.4 Auditing the accounts

We issued an unqualified audit report on the 2005/2006 accounts in September 2006, stating that, in our opinion, the accounts present fairly the Authority's financial position and financial performance in the year to 31 March 2006. We would like to thank the Financial Advisor and his team for their hard work in achieving this.

We have completed all of the requirements of the International Standards of Auditing (UK and Ireland) satisfactorily, and there are no areas to report to you.

No questions or objections were received during the year.

We have not yet completed our testing of the North London Integrated Compost Project grant but will perform our work to enable the grant to be certified in December 2006.

1.5 *Next year's audit plan*

The Authority should continue to consider actively the impact on the Authority in future years from the EU Waste Incineration Directive and in particular from the required refurbishment of the Edmonton Incinerator.

The anticipated date for audit completion is 30 September in 2006 and we will inform you of any changes to this timetable.

2. Performance management

We have concluded our audit work and expect to issue an unqualified audit report on the Best Value Performance Plan (BVPP) shortly. We have issued an unqualified audit opinion on the BVPIs.

2.1 Performance management and the BVPP

The guidance issued by the ODPM in February 2004 reaffirmed that Performance Plans should become the focus of authorities' improvement planning.

We are required to audit the Waste Authority's BVPP under Section 7 of the Local Government Act 1999. We must comment on whether the BVPP complies 'in all significant respects' with statutory guidance. In carrying out our audit work, we have also taken account of the outcome of our work on the Authority's Best Value Performance Indicators, (BVPIs), and other performance-related work we have carried out at the Authority to the extent that this work is relevant in our overall assessment of the Plan.

The Authority has again delivered the BVPP before the statutory deadline.

We have concluded our audit work and believe that the BVPP complies in all significant respects with statutory guidance. We expect to issue an unqualified audit report.

2.2 BVPI targets

We compared the recycling and composting BVPIs with the standard targets as follows.

The Authority achieved its statutory performance standard of recycling and composting 17% of the household waste stream.

In respect of BVPI 82a (total tonnage of household waste arising – percentage recycled), we noted that the Authority recycled 15.27% of its

waste, exceeding its local target of 14%. The local target increases to 17% in 2006/2007 and 19% in 2007/2008, and so attention again needs to be given to performance in ensuring this local target is met in future years.

In respect of BVPI 82b (total tonnage of household waste arising – percentage composted), the Authority composted 5.62% of its waste, which exceeded its local target of 4%. Given that the local target rises to 6% in 2006/2007 and 7% in 2007/2008, we recommend that attention again needs to be given to performance in ensuring this local target is met in future years.

2.3 Performance management

Our brief review of the Authority's arrangements for managing its performance has confirmed that the arrangements appear to be operating satisfactorily.

2.4 Performance information

Performance indicators are one of the key mechanisms for managing the Authority's performance. We carried out audit work on the Authority's performance indicators for 2005/2006 and have confirmed that the performance indicators reported by the Authority to the Commission are 'fairly stated'.

2.5 Use of resources studies

We have considered the Audit Commission's letter of guidance as to the applicability of national Value for Money studies to Joint Waste Disposal Authorities. This year there were no such applicable studies and therefore no inspections were carried out.

Our planning noted no areas of risk that indicated the need for specific local studies. This, together with the fact that most of the Authority's functions are tied in to a long-term contract, led us to decide not to suggest any local studies. Should members consider that they would benefit from any such studies in future years we would be glad to discuss this with them.

2.6 *Key issues and recommendations for member attention*

- *The Authority achieved its statutory performance standard of recycling and composting 17% of the household waste stream.*
- *Attention needs to be given to the Authority's performance in respect of BVPI 82a (total tonnage of household waste arising – percentage recycled), and BVPI 82b (total tonnage of household waste arising – percentage composted) in view of the increasing local targets over the next two years.*
- *We have concluded that the Authority's arrangements for managing its performance appear to be operating satisfactorily.*
- *We have concluded that Performance Indicator information sent to the Audit Commission was 'fairly stated'.*
- *No specific local studies were proposed this year.*

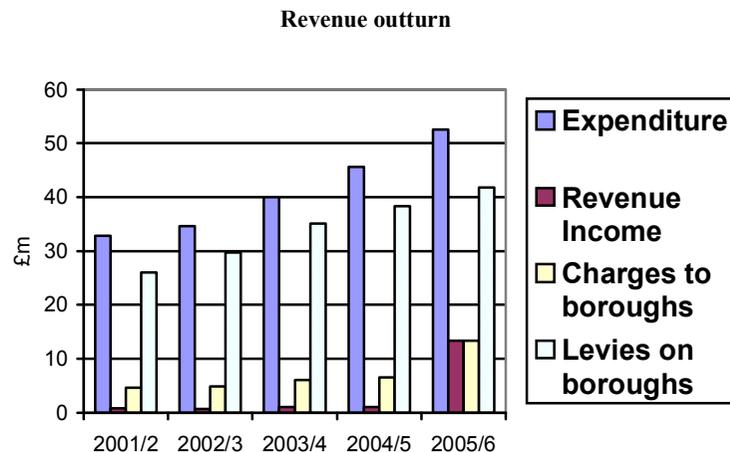
3. Financial aspects of corporate governance

The Authority has continued to demonstrate its ability to manage within budgetary limits. Future budgets will need to continue to monitor the level of reserves.

3.1 Overall financial standing of the Authority

3.1.1. Financial performance in 2005/2006

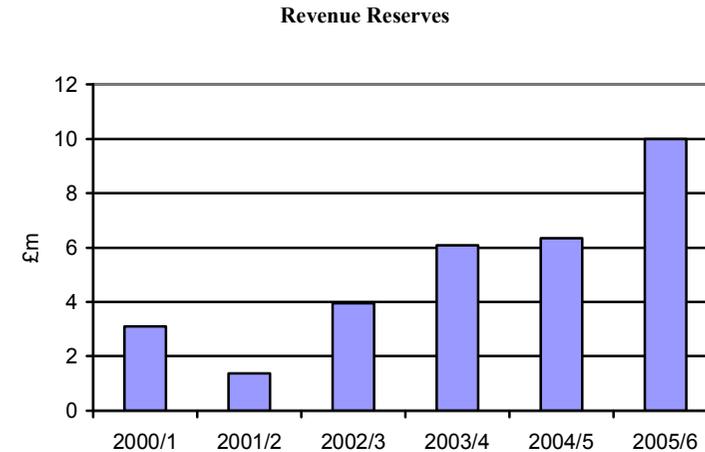
Our general assessment of the financial standing of the Authority is that it is presently satisfactory. The Authority has again demonstrated its ability to manage within budgetary limits and the surplus reported arose largely from one-off credits that were not foreseeable when the budget was composed.



3.1.2. Outturn in 2005/2006 and future funding

Budgetary performance has remained good in the first six months of the current financial year.

Next year's budgetary process is under way with the final levy for 2006/2007 due to be set shortly.



Future budgets will need to continue to take account of the level of reserves available.

3.2 Systems of internal control

In carrying out our audit of the North London Waste Authority we rely on the work carried out in our audit of the London Borough of Camden, on whose fundamental financial systems the Authority's transactions are recorded. We were able to conclude that the main financial systems of the Council were adequate for the purposes of the Authority's audit.

3.3 Information technology and systems

Again, we carried out a review of the overall general computer controls at the London Borough of Camden, which supported that computer

generated information for those systems shared with Camden Council provided reliable information for our audit of the financial statements.

3.4 **Internal audit**

For those systems which are shared with the London Borough of Camden, we have taken account of Internal Audit's findings to avoid any unnecessary duplication. No specific Internal Audit reports were issued for the Waste Authority.

3.5 **Statement of Internal Control**

The Authority included a Statement of Internal Control alongside its 2005/2006 accounts, which reflected compliance with full internal control arrangements had been achieved in the year. The Authority acknowledged the need to keep under review its controls and risk management arrangements and to take action where necessary, such as providing training for members, and the ongoing review of the Risk Register.

3.6 **Standards of financial conduct and prevention and detection of fraud and corruption**

We have performed audit work to assess the adequacy of the overall arrangements at the Authority for preventing and detecting fraud and corruption. This has included:

- discussions with key officers at the lead authority over the controls in place in their own systems for the prevention and detection of fraud.

There have been no reported incidences of fraud or corruption during the year.

3.7 **Legality**

We have performed audit work to review the arrangements at the Authority for securing the legality of its transactions and activities. This has included:

- a review of the Authority's minutes; and
- liaison with the Monitoring Officer regarding the procedures in place to ensure the legality of transactions.

We are satisfied that the arrangements within the Authority are satisfactory in this area.

3.8 **Key issues and recommendations for member attention**

- *The Authority has continued to manage its expenditure within budget. Future budgets should continue to monitor the level of reserves.*
- *Members should continue to consider the implications of the EU Waste Incineration Directive.*
- *The Authority should work in 2006/2007 to keep under review its internal control and risk management arrangements. Members should monitor progress on this.*
- *There have been no reported incidences of fraud or corruption during the year.*

4. Auditing the accounts

We issued an unqualified opinion on the Authority's accounts for the year ended 31 March 2006 in September 2006.

4.1 2005/2006 accounts

We issued an unqualified audit opinion on the accounts in September 2006.

4.2 Accounting developments

This was the third year where the financial statements were required to incorporate the relevant pension costs and provisions required to reflect the new pension accounting arrangements under FRS17.

This was also the third year in which a statement on internal control was required to be disclosed in the accounts.

There were no other significant accounting developments in 2005/06.

4.3 ISA Pluses – change to audit approach

As reported to you in our letter on the conclusion of the 2004/05 audit, the 2005/06 accounts were audited for the first time under the International Standards of Auditing (UK and Ireland).

The main changes to our approach as a result of the new requirements were:

ISA plus 240

- Makes the presumption that revenue recognition is a specific risk.
- Requires the performance of certain audit procedures to address the risk of fraud due to management override of controls.

- Management should represent it has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

ISA plus 260

- The auditor should consider whether the two way communication between the auditor and those charged with governance has been adequate for an effective audit.

ISA plus 300

- Introduces the concept of the strategic audit plan.

ISA plus 315

- Will require us to gain a deeper understanding of the control environment.
- Requires the auditor to evaluate the design of a control and determine whether it has been implemented.
- Understand the financial reporting process.

ISA plus 700

- Revises the wording of our audit report.

In addition, our regulator, the Professional Oversight Board for Accountancy and its Audit Inspection Unit have confirmed to us that their working assumption is that if it is not documented, then the procedure was not performed.

We have completed all of the requirements of the International Standards of Auditing (UK and Ireland) satisfactorily, and there are no areas to report to you.

4.4 *Questions and objections from local electors*

No objections or questions have been received from local electors this year.

4.5 *Grants Audits*

We have not yet completed our testing of the North London Integrated Compost Project grant but will perform our work to enable the grant to be certified in December 2006.

4.6 *Key issues and recommendations for member attention*

- *We issued an unqualified audit opinion on the accounts in September 2006.*
- *There were no accounting developments during the year.*
- *No questions or objections were received during the year.*

5. Next year's audit plan

5.1 *Managed audit*

The 'managed audit' is an arrangement under which external auditors are able to reduce the extent of their detailed work and divert their attention to, say, other areas of priority through being able to place reliance on management's own systems of internal control and management processes. Internal Audit's coverage is a key factor for consideration in this context.

We will continue to share Internal Audit's findings on those financial systems of the London Borough of Camden which the Authority uses to record its financial transactions.

We will continue to seek to rely on relevant internal controls to minimise the amount of audit effort and cost required to form our opinion on the financial statements.

We will carry out a thorough review of the statements for compliance with relevant standards and guidance.

5.2 *Use of resources*

As a single purpose authority, North London Waste Authority is not covered by the Comprehensive Performance Assessment framework. Accordingly we do not expect further changes to the Best Value regime, but will continue to monitor developments.

5.3 *Group Accounts*

The Authority will continue to be required to meet the requirements of issuing group accounts in accordance with UK GAAP. This will require consideration and re-assessment of relationships with other entities on an ongoing basis to establish any impact on the accounts.

5.4 *EU Waste Incineration Directive and the Edmonton Incinerator*

It is clear that the Waste Incineration Directive is a major issue for the Authority and its partner because it requires significant modifications to LondonWaste Limited's energy-from-waste facility at Edmonton.

A replacement with two new boilers will cost £80 - £90 million. Refurbishment will cost £15 – £20 million. The Authority and SITA have chosen refurbishment.

The Authority's partner, SITA, will make no contribution to the costs. The deed of variation to the contract between the Authority and LondonWaste Limited, the joint venture, states how the Authority will contribute towards costs of environmental legislation such as this, and that these costs are to be funded out of the dividend due to the Authority. The Authority's contribution in any one year is therefore limited to the dividend payment that it receives from LondonWaste Limited. If no dividend is paid, the debt is rolled up to following years until discharged by future dividend payments. The Authority's liability lapses in December 2014. Therefore, LondonWaste Limited will be responsible for raising the finance themselves. If they cannot raise enough finance, then SITA would have to help LondonWaste Limited in the form of guarantees and/or loans, but would not advance funds in the form of additional share capital.

This is clearly an area of fundamental importance to the Authority's future and we will continue to keep these developments under close review during 2007.

There will be an impact on LondonWaste Limited's operations while these modification works on the Edmonton incinerator are carried out. There will be a restriction of capacity, thus increasing the need for landfill and hence increased landfill charges for LondonWaste Limited. We understand that LondonWaste Limited will be able to recoup some costs from North London Waste Authority but this is limited to an increase in landfill tax and is capped.

The Authority should continue to consider actively the impact on the Authority in future years from the EU Waste Incineration Directive and

in particular from the required refurbishment of the Edmonton Incinerator.

We will keep the matter under review during the year given the potential financial impact on the Waste Authority.

5.5 *Future accounts timetable*

The current guidance is that that 2006/07 accounts will need to be prepared and approved by 30 June and audited by 30 September.

This is in line with the timetable for the 2005/06 accounts, but the accounts closedown process and member meetings will need to be planned to ensure this timetable is met.

5.6 *Key issues and recommendations for member attention*

- *The Authority should continue to consider actively the impact on the Authority in future years from the EU Waste Incineration Directive and in particular from the required refurbishment of the Edmonton Incinerator.*
- *The Authority should continue to give consideration to the key controls over the specified areas of revenue recognition, segregation of duties, related party transactions, journal posting and preparation of financial statements.*
- *Review the accounts closedown timetable for the annual accounts to ensure the timetable is met.*

6. Statement of responsibility

We view this report as part of our service to you for use as members 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.

We take responsibility for this report which is prepared on the basis of the limitations set out below.

Deloitte & Touche LLP
24 November 2006

Contacts:**Greg Comminos – Partner** (gcomminos@deloitte.co.uk)**Telephone: 01727 839000****Andrea Ragless - Manager** (aragless@deloitte.co.uk)**Fax: 01727 831111**

Our audit work has been performed in accordance with the Audit Commission's Code of Audit Practice. The limitations of our audit work and the respective responsibilities of auditors and the Audited Body in respect of the audit are set out in the Audit Commission's publication "Statement of Responsibilities of Auditors and of Audited Bodies". This report has been prepared solely for the use of the North London Waste Authority and may not be reproduced in whole or in part or copied to any other party, other than publication of the letter in its entirety to meet the legal requirement to publish our annual audit letter or as part of the committee papers of the Authority. Copies of this annual audit letter have been sent to the Audit Commission. No responsibility to any third party (including without limitation, the Audit Commission) is accepted.

The matters raised in this report are only those that came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Any system of internal control can provide only reasonable, not absolute, assurance against material loss to the Authority or material misstatements in the financial accounts. The Authority should assess recommendations for improvements for their full impact before they are implemented.