



**North London Waste Authority
Report on the 2005 Audit
October 2005
Final Report**

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Executive summary

Introduction

We have pleasure in setting out in this document our report to the North London Waste Authority for the year ended 31 March 2005 for discussion at the meeting scheduled for 19 October 2005. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2005. 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 now completed our audit in accordance with our Audit Plan presented to you in April 2005 and we are issuing an unqualified audit opinion.

Executive summary (continued)

Key areas of judgement and audit focus

We have identified the following key judgement areas as being critical to the 2005 accounts:

Transfer of activities from Ashburton Grove to Hornsey Street

As part of the Arsenal FC regeneration programme, NLWA were given a long term lease (999 years) at a new facility at Hornsey Street in place of the old property at Ashburton Grove, from July 2004. We have reviewed that the accounting treatment adopted is appropriate and in accordance with the SORP.

New payment arrangement with LondonWaste Ltd

During the year LondonWaste Ltd negotiated amended terms with NLWA so that they received payment on a monthly basis rather than annually. As part of this new arrangement, NLWA have charged LondonWaste Ltd interest for the lost income that would have been generated if they held the money until the year end. We have reviewed the agreement and the amount of interest charged to ensure it is at a rate commensurate with that of a third party at arms length.

Recycling Creditors

The prior year creditor was found to be overstated by £900,000 and so this is an area that we have tested with greater focus due to its judgemental nature.

Legislative review provision

LondonWaste Ltd has incurred additional costs due to the changes made by the government relating to the disposal of hazardous waste. A provision has been recognised by NLWA as they are expecting LondonWaste Ltd to recharge them an element of these costs under the terms of their contract.

Creditors relating to prior years

It was noted that there are several creditors still unpaid relating to prior years' compensation reviews that are still not yet resolved. We have discussed and reviewed these creditors in detail in order to determine whether they are still a valid liability and held at an appropriate value.

Executive summary (continued)

Audit adjustments

For the 2005 consolidated financial statements our materiality was £345,000 (2004 £308,000). This is consistent with our determination of planning materiality previously advised to the Audit Committee.

As outlined in our Audit Plan presented to the Audit Committee in April 2005, we report all individual identified misstatements in excess of 2% of materiality (£6,900), whether recorded by management or not, and other identified errors in aggregate. We consider identified misstatements in qualitative as well as quantitative terms.

Identified unadjusted misstatements reduce profit before tax and net assets by £45,643.

Management have concluded that the total impact of the unadjusted misstatements, both individually and in aggregate, is not material in the context of the consolidated financial statements taken as a whole. Full details of the audit adjustments whether recorded or not are included in Appendix 2.

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 regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired. We have also considered our position for the year commencing on 1 April 2005 and confirm that we comply with APB Ethical Standards.

1. Key areas of judgement and audit focus

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

Matters that give rise to the need for specific representation in the Group management representation letter or that result in an audit adjustment are highlighted in the 'Deloitte Response' section for each issue.

Key issue	Background
Transfer from Ashburton Grove to Hornsey Street	<p>As part of the Arsenal FC redevelopment programme, NLWA were offered a new facility at Hornsey Street in place of the existing property at Ashburton Grove.</p> <p>This transfer of properties occurred in July 2004, with the old Ashburton Grove asset being disposed of and removed from the balance sheet. The Hornsey Street facility has been included on the balance sheet at the valuation provided during the transaction.</p> <p>This new facility will be subject to revaluation every five years from the date it was donated, and at any point where there is indication that its current value is materially different to the book value.</p>
	Deloitte Response
	<p>We have tested this addition by agreeing the valuation and ownership to the documents supporting the transfer. We have concluded that there is no indication of impairment during 2004/05 and so it is considered appropriate to include in the accounts at this original valuation.</p>

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

Key issue	Background
New payment terms with LondonWaste Ltd	<p>The NLWA receives monthly remittance of levies from the boroughs which earns interest until it is necessary to pay waste disposal contractors. In the case of LondonWaste Ltd the contract provides for the payment for waste disposal services on a monthly basis. This does not apply to claims made by the Company under the legislative and compensation price review provisions in the contract which are paid one year in arrears.</p> <p>LondonWaste Ltd negotiated with NLWA during 2004/05 to implement monthly payments in order to aid their cashflows.</p> <p>NLWA have agreed with LondonWaste Ltd that they will be charged a fee in order to replace the interest that NLWA would have earned on their bank deposits had they held the money until the year end.</p>
	Deloitte Response
	<p>We have reviewed the agreement with LondonWaste Ltd detailing this new payment method. We have seen that the decrease in creditors and cash appears reasonable in light of the new arrangements. We have also generated an expectation for the interest charged to LondonWaste Ltd, and found that this appears to be at a rate that would be charged to a third party at arms length.</p> <p>No issues were identified with the accounting treatment.</p>

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

Key issue	Background
Recycling Credits	<p>It was identified during the 2003/04 audit that the provision made for recycling credits to be paid to the boroughs was overstated by £900,000.</p> <p>We have therefore focussed additional attention on this judgemental area during the 2004/05 audit.</p>
	<p style="text-align: center;">Deloitte Response</p> <p>We have reviewed the calculation of the recycling credits year end liability. It was found that this calculation used some known data and some estimated costs at budgeted fees.</p> <p>We have concluded that the basis of the expectation for the liability is reasonable and uses all known information available at the time of producing the accounts. It is therefore considered that the liability recognised for recycling creditors does not appear to be materially misstated.</p>

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

Key issue	Background
Legislative review provision	<p>The government introduced changes to the method of disposing of hazardous waste in July 2004. This has resulted in the disposal of hazardous waste being limited to specialist sites, and so LondonWaste Ltd has incurred additional costs in order to meet these requirements.</p> <p>Under the terms of the agreement, LondonWaste Ltd can recharge NLWA for certain of these additional costs. NLWA have therefore recognised a provision for the expected liability.</p>
	<p style="text-align: center;">Deloitte Response</p> <p>The amount due to be paid has not yet been agreed, as legal advice is still being sought to determine how much is rechargeable under the terms of the contract.</p> <p>We have reviewed the basis of the provision calculation, which uses information provided by LondonWaste Ltd on their activities in disposing of hazardous waste. It is therefore to be expected that this is the information from which they will make a claim.</p> <p>The assumptions and figures used in calculating the provision appear to be reasonable, and it is concluded that it is probable that NLWA will have to pay some part of the additional costs to LondonWaste Ltd.</p> <p>We have concluded that the provision does not appear to be materially misstated.</p>

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

Key issue	Background
Creditors relating to prior years	It was identified during the audit that several of the creditors relate to prior years. This is because they are compensation review liabilities which have not yet been agreed with the other party. The process of obtaining and validating data and methodology is continuing and therefore the liability continues to be recognised.
	Deloitte Response
	We have discussed these old creditors with the client, and obtained an understanding of the process that was carried out in order to write back some creditors that were no longer valid, reduce the liability for those items where supporting documentation or payments had been received in the year, and to retain these liabilities where the resolution process is still ongoing or supporting documentation is outstanding.

2. Accounting and internal control systems

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.

We did not identify any material weaknesses in the financial control environment that require reporting to the Audit Committee.

Results of liaison with internal audit

We have enquired as to whether internal audit carried out any investigations specific to the Waste Authority in the year, but found that there had been no reports issued.

As part of our testing for the London Borough of Camden's statutory audit, we have reviewed the internal audit reports issued during the year on the systems that are common with the Waste Authority.

Whilst we have not relied on the findings of internal audit to adjust our audit approach, we use this information to identify whether there are any specific areas of risk that we need to address during our audit, and it also aids in our review of the Statement of Internal Controls as disclosed in the financial statements.

3. Other matters for communication

Other SAS requirements

Statements of Auditing Standards (“SAS”) require we report on the following additional matters:

SAS	Matter
610	Fraud and error (by exception)
610	Compliance with law and regulations (by exception)
620	The auditors’ right and duty to report to regulator (by exception)
130	Going concern issues
150	Subsequent events
160	Other information in documents containing audited financial statements
460	Related party issues

We consider that there are no matters in respect of the above to bring to your attention.

ISA plus

On 17 December 2004, the Auditing Practices Board (“APB”) published 30 International Standards on Auditing (UK & Ireland) (“ISA plus”) which align UK Auditing Standards with International Auditing Standards while the “plus” element incorporates certain elements of previous UK Statements of Auditing Standards. These changes will impact the North London Waste Authority accounts for 2005/06 onwards.

The key changes are:

- ISA plus 240 – “The Auditors’ Responsibility to consider fraud in an audit of financial statements”
- ISA plus 260 – “Communication of audit matters with those charged with governance”
- ISA plus 300 – “Planning an audit of financial statements”
- ISA plus 315 – “Understanding the entity and its environment and assessing the risk of material misstatement”

3. Other matters for communication (continued)

The most significant changes which will require additional audit hours are:

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.

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.

We have also given consideration to our independence and objectivity under APB Ethical Standards in respect of the year commencing on 1 April 2005.

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 any closely-related person) is allowed to hold a financial interest in any of our UK audit clients;• require that professional staff (or any closely-related person) 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 closely related persons) 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)

We summarize below our findings on independence issues from our 2004/05 audit of the Authority.

Specific independence issues and safeguards

We have not identified any threats to objectivity and independence, including consideration of all relationships between the audit client, its directors and senior management and its affiliates and the audit firm (including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates).

It is Deloitte policy that engagement partners are rotated from clients every 7 years.

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 period commencing (insert first day of new period) we confirm that we comply with APB Ethical Standards for that period.

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 2004/05 period is included in Appendix 3.

5. Annual assessment of the external auditor

Under the July 2003 Combined Code guidance on Audit Committees you are recommended to assess annually our qualification, expertise, resources and independence and the effectiveness of the audit process.

This assessment would cover all aspects of the audit service provided by us and include a report on our own internal quality control procedures.

To assist your annual assessment of us we have separately provided to you information as suggested in the Institute of Chartered Accountants' in England and Wales ('ICAEW') guidance for Audit Committees on Evaluating your Auditors.

6. Responsibility statement

We emphasise that our consideration of the North London Waste 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 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.

Deloitte & Touche LLP

Chartered Accountants

St Albans

5 October 2005

Appendix 1: Draft letter of representation

Dear Sirs

We confirm to the best of our knowledge and belief, the following representations given to you in connection with your audit of the company's financial statements for the year ended 31 March 2005.

1. There have been no significant transactions with related parties, other than those disclosed to you in the draft accounts and we are not aware of any other such matters required to be disclosed in the financial statements whether under Financial Reporting Standard 8 or other requirements. We have confirmed this with all key managers and other individuals who are in a position to influence or are accountable for the stewardship of the Authority.
2. The disclosures given in the financial statements regarding control of the entity are correct.
3. 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.
4. We acknowledge our responsibilities for the accounting and internal control systems that are designed to prevent and detect fraud and error.
5. We are not aware of any significant facts relating to any frauds or suspected frauds known by management that may have affected the Authority.
6. 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.
7. 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.

8. All minutes of members' meetings during and since the financial year have been made available to you.
9. We acknowledge as members our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you.
10. There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion in of a note thereto. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.
11. We confirm that 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 North London Waste Authority

Appendix 2: Audit adjustments

Unadjusted misstatements

The following unadjusted misstatements were identified during the course of our audit:

		(Credit)/ charge to current year profit and loss £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in prior year retained earnings £'000	Increase/ (decrease) in turnover £'000
Non-Judgemental					
Consultancy creditor not recorded	[1]	12,314	(12,314)	-	-
Fridges and Freezers creditor not recorded	[1]	33,329	(33,329)	-	-
Total		45,643	(45,643)	-	-

We will obtain written representations from the Authority confirming that after considering all these unadjusted items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

[1] Both adjustments raised result from our review of invoices received post year end. These two invoices were identified as relating to 2004/05, but not included in expenses or liabilities.

Adjusted misstatements

There have been no adjustments proposed by the auditors that have been processed by the client.

Appendix 3: Analysis of professional fees

The professional fees earned by Deloitte in the 2004/05 period were £24,400.

This is split between:

Financial aspects of corporate governance	£1,800
Accounts Opinion	£17,000
Performance Management	£5,600

Deloitte.

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Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

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