

Annual Audit Letter

North London Waste Authority

Audit 2009/10

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit contains two parts:

- **the audit of your financial statements (pages 4 to 5);**
and
- **my assessment of your arrangements to achieve value for money (pages 6 to 7).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Authority's financial statements on 24 September 2010. The Authority then published the audited statements on its [website](#) before the end of September; and so met the deadline set by the Accounts and Audit Regulations.

2 The Authority's approach to the audit remained helpful and professional throughout, forging a positive link with my audit team. This cooperative approach helped me achieve an efficient audit and, coupled with planned improvements in internal control, leaves the Authority well-placed to deal with future audits.

Value for money

3 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 use of resources for the year ended 31 March 2010. I issued an unqualified value for money conclusion alongside my opinion on the financial statements

4 My conclusion recognises the improvements made by the Authority in internal control during 2009/10. These include formalising the engagement with LB Camden's Internal Audit Service and a commitment to strengthen the finance team in 2010/11.

Current and future challenges

5 In common with all public sector bodies the Authority is responding to a tighter fiscal environment. Management project a surplus in 2010/11 but recognise the financial pressures being experienced by the constituent boroughs. The Authority has managed finances well in the past and it will be important to continue to keep financial performance and future years' projections under scrutiny to preserve balanced budgets and a sound financial position.

6 Following the October Comprehensive Spending Review the government announced that it is to withdraw PFI credits relating to the Authority's proposed waste services contract. Management are assessing the impact of this announcement and will report to the Authority in due course.

7 So far the contract procurement process has placed significant demands on the Authority. It has also underlined the importance of reliable financial information drawn from a strong control environment. I am encouraged by the Authority's actions to improve controls and seek added expertise in 2009/10 and the plans to further strengthen arrangements in 2010/11 and onwards.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important to account for its stewardship of public funds.

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 24 September 2010.

Overall conclusion from the audit

8 I issued an audit report containing an unqualified opinion on the financial statements on 24 September 2010. This allowed the Authority to meet the Accounts and Audit Regulations requirements and publish the statements before 30 September.

9 This was a challenging year for producing financial statements as the Authority had to account for the purchase of London Waste Limited and deal with changes to accounting requirements. The Authority sought expert help in dealing with these requirements.

10 My Annual Governance Report (presented to the Authority's September meeting) noted material adjustments from the draft financial statements the Authority approved on 30 June 2010. These adjustments were to consolidate the full income and expenditure of the group (London Waste Limited and the Authority) in the group financial statements and did not result in a change to the reported financial position of the Authority.

11 The Authority also made changes to improve the quality of the financial statements. This included adding information on senior officers' pay.

Audit certificate

12 I have several statutory powers to consider when completing my work, for example to hear an objection or report separately in the public interest. No matters came to my attention during the audit that required the use of these powers, therefore I issued the formal certificate alongside my opinion to close the 2009/10 audit.

Significant weaknesses in internal control

13 My audit identified no material weaknesses in internal control. I did, however, report that weaknesses in journal controls and separation of duties recorded in previous years remained an issue to address. Internal Audit also raised these matters in their recommendations. The Authority responded positively and has expanded the finance team with the intention of improving internal control as recommended.

Whole of Government Accounts

14 I issued an unqualified opinion on your Whole of Government Accounts return on 29 September 2010. The Authority altered the draft return to reflect audit amendments to the main statements. I submitted the return before the CLG deadline.

IFRS in local government

15 Like all public bodies, the Authority must present its 2010/11 financial statements in line with International Financial Reporting Standards (IFRS). The Audit Commission's [national reports](#) into IFRS readiness, underline that this will be a significant task for many authorities.

16 To implement IFRS the Authority will need to review leasing and service delivery arrangements as well as prepare restated 2009/10 financial statements. It is important the Authority has plans to address this restatement and take on expert advice and involve auditors as soon as possible. My team has begun discussions with the Head of Finance on the likely scope and nature of restatements necessary.

17 The Authority should set up a project plan, looking to restate the 2009/10 statements as soon as possible. This plan should involve continuing engagement with auditors and, where appropriate, seeking external advice and support.

Recommendation

R1 Progress plans for IFRS restatement, including early engagement with auditors.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

VFM conclusion

18 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Commission specifies the relevant criteria for the VFM conclusion each year.

19 The table below is a summary of my findings for each of the criteria specified by the Audit Commission.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Risk management and internal control	Yes
Good governance	Yes
Managing resources	
Natural Resources	Yes

Audit Commission Value for Money Guidance January 2009

20 I issued an unqualified conclusion stating the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

21 My review noted in particular the improvements the Authority made in internal control arrangements. These included formalising arrangements with LB Camden's Internal Audit to review internal control as well as seeking specific external technical advice on key accounting matters.

Current and future challenges

Economic downturn

22 The economic downturn is having a significant impact on public finances and the bodies that manage them. The Authority is forecasting a £4.5 million surplus for 2010/11 but recognises the continuing threat of inflationary pressures and the need for savings among its constituent Boroughs. The Authority has managed finances well in the past, and given the pressure on public sector finances it remains very important for the Authority to keep financial performance under scrutiny and take the necessary action to maintain a balanced budget and sound financial position. I note that a member-led Finance Working Group has been established to maintain scrutiny of finances.

Recommendation

R2 Continue to:

- monitor the financial position and delivery of 2010/11 targets; and
 - keep the projected medium-to-longer term financial position under review.
-

Closing remarks

23 I discussed and agreed this letter with the Financial Adviser, Managing Director and Head of Finance. I will present this letter to the Authority and will provide copies to all members. I list below other reports issued in the year, which include more details on matters raised in this Letter.

Report	Date issued
Opinion audit plan	March 2010
Annual governance report	September 2010

Reports noted in audit plan 2009/10

24 The Authority has taken a positive and helpful approach to our audit. I wish to thank the Financial Adviser and Head of Finance in particular for their support and cooperation during the audit.

Martin Searle
Engagement Lead
November 2010

Appendix 1 Audit fees

Audit area	Fees earned 2009/10
Financial statements and annual governance statement	£22,500
Value for money	£8,500
Total audit fees	£31,000

Audit fee letter April 2009

I was able to complete my audit within the agreed audit fee of £31,000. All fees earned in 2009/10 were for work under the Code of Audit Practice.

Appendix 2 Glossary

Annual governance statement

A statement prepared by the Authority summarising its internal control environment. The Board prepares the statement to guidance produced by CIPFA and SOLACE.

Governance is about how bodies ensure they are taking the right decisions, in the right way, for the right people. It is also about how they ensure they take those decisions in a timely, inclusive, open, honest and accountable manner.

It includes the internal safeguards, cultures and values, which direct and control bodies and how they account to, engage with and lead their communities.

The annual governance statement is a public report by the Authority on the extent of its compliance with its own local governance code. This includes how it has overseen the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, I must give my 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 for the year in question; and
- whether the Board has properly prepared the statements, following the relevant accounting rules; and

Qualified or unqualified opinion

If I have concerns on whether the accounts do give a true and fair view, or are materially non-compliant with the relevant accounting rules I may decide to set out these concerns in a qualified opinion. An unqualified opinion signals I have no such concerns.

Value for money conclusion

My conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Audit closure certificate

A certificate that confirms I have completed the audit following statutory requirements. This marks the point when I have fulfilled all of my responsibilities for the audit of the period covered by the certificate, including considering any objections raised by local government electors.

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 correct to use any of my statutory powers about the matter raised. I received no such correspondence in 2009/10.

Abbreviations

CIPFA: Chartered Institute of Public Finance and Accounting

IFRS: International Financial Reporting Standards

PFI: Private Finance Initiative

SOLACE: Society of Local Authority Chief Executives

SoRP: Statement of Recommended Practice (for Local Authority Accounting)

VFM: Value for Money Conclusion

Appendix 3 Action Plan

Recommendations

Recommendation 1

Progress plans for IFRS restatement, including early engagement with auditors.

Responsibility	Head of Finance
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Priority	High
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Date	by June 2011
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Comments	Agreed.
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Recommendation 2

Continue to:

- monitor the financial position and delivery of 2010/11 targets; and
- keep the projected medium-to-longer term financial position under review.

Responsibility	Financial Adviser
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Priority	High
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Date	Ongoing through 2010/11
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Comments	Agreed. The Authority has now established a Member Finance Working Group charged with ensuring effective financial scrutiny.
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