

Annual Audit Letter

East London Waste Authority

INSIDE THIS LETTER

PAGE 2

- The purpose of this Letter
- Objectives of our audit
- Key messages

PAGES 3 - 5

- Accounts
- Financial aspects of corporate governance
- Performance management

PAGES 5 - 6

- Grants
- Audit fees
- Future audit work
- Status of our Annual Audit Letter
- Closing remarks

PAGES 7 - 8

Appendix 1

- Auditor's statutory report on the best value performance plan

Reference:	East London Waste Authority 2003-04 Annual Audit Letter_FINAL
Date:	22 December 2004

The purpose of this Letter

This Annual Audit Letter to members summarises the significant issues and conclusions from our 2003/2004 audit and comments on other current issues.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

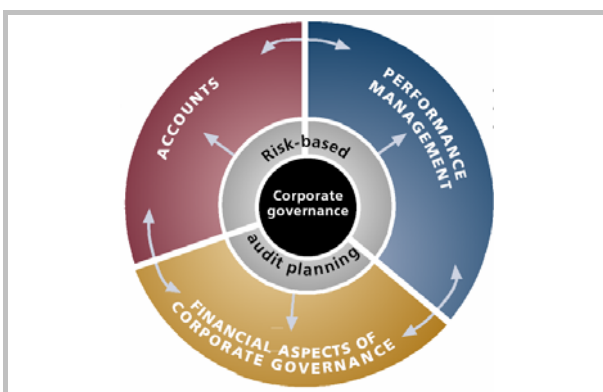
Objectives of our audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice. We adopt a risk-based approach to planning our audit and our work has focused on your significant financial and operational risks that are relevant to our responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities, as shown in Exhibit 1.

EXHIBIT 1

The three main elements of our audit objectives



Accounts

- opinion

Financial aspects of corporate governance

- financial standing
- systems of internal financial control
- standards of financial conduct and the prevention and detection of fraud and corruption
- legality of transactions.

Performance management

- best value performance plan
- performance information
- use of resources.

Key messages

Accounts

We gave an unqualified opinion on the Authority's accounts on 30 November 2004. Our audit identified a number of issues to be considered when preparing the 2004/2005 accounts.

Financial aspects of corporate Governance

The Authority adopts a medium to long-term approach to financial planning. Reserves are being accumulated to smooth the impact of the PFI contract costs and pending waste legislation.

Internal financial control will be improved in 2004/2005 with the processing of all significant transactions through one ledger.

The Authority's overall arrangements to prevent and detect fraud and corruption and to ensure the legality of financial transactions are adequate.

Performance management

We gave an unqualified opinion on the Authority's best value performance plan on 7 December 2004.

The Authority's arrangements for managing and monitoring the PFI contract are generally satisfactory.

Accounts

We gave an unqualified opinion on the Authority's accounts on 30 November 2004. Our audit identified a number of issues to be considered when preparing the 2004/2005 accounts.

Members approved the Authority's financial statements on 19 July 2004.

This was the first year that the Authority was required to produce a statement of internal control (SIC). National guidance relating to the preparation of the SIC was only issued in April 2004. Consequently, 2003/2004 can be viewed as a transitional year. As good practices and further guidance emerge, we expect the Authority to review and develop the internal processes for its preparation.

Working papers provided to support the accounts were generally adequate. We required the Authority to make two amendments to the draft accounts to ensure compliance with the Statement of Recommended Practice (SORP):

- PFI grant income disclosed in the Revenue Account was adjusted to recognise total grant due for 2003/2004. Unutilised grant at year end was then appropriated to the PFI reserve
- the cash flow statement needed restating to exclude accrued items of income and expenditure.

Auditors are required by professional standards (Statement of Auditing Standards (SAS) 610) to report certain matters arising from the audit to those charged with governance, in this case, the Authority itself. This year, our audit did not identify any issues that required reporting under SAS 610. However, there are a number of issues that the Authority needs to consider when preparing the 2004/2005 accounts:

- obtaining a professional valuation for the four closed landfill sites
- disclosure notes should be reviewed to ensure they are relevant and appropriate
- the status of the Authority's relationship with Aveley Methane Ltd should be reviewed to clarify whether it is a subsidiary or an

associate company; the appropriate accounting treatment should then be applied

- progress against the action points disclosed in the SIC should be evaluated.

We gave an unqualified audit opinion on the accounts on 30 November 2004. At the same time, we issued our certificate closing the 2003/2004 audit.

Financial aspects of corporate governance

Financial standing

The Authority adopts a medium to long-term approach to financial planning. Reserves are being accumulated to smooth the impact of the PFI contract costs and pending waste legislation.

The Authority set an operational revenue budget of £27.8m for 2003/2004. A further £1m contingency was allocated for abandoned vehicles and anticipated increases in waste volumes. In the event, waste volumes were lower than forecast and only £0.2m of the contingency was utilised. The Authority reported a surplus of £4.3m for the financial year.

As at 31 March 2004, the balance on the revenue reserve was £4.4m. The Authority also maintains a PFI contract reserve to reduce the impact of anticipated cost increases for the PFI contract in future years. The balance on this reserve at year end was £2.8m. Although the level of total revenue reserves appears high, the Authority has forecast that there will be significant cost implications arising from government recycling and waste reduction targets. Revenue reserves are being accumulated to help minimise the need for large year on year levy increases when these costs are realised. This demonstrates the Authority's medium to long-term approach to financial planning.

Our review of budgetary control identified scope to improve the presentation of budget monitoring information by recognising clearly the total PFI grant income due and received throughout the year. This will provide greater

transparency and align the format of budget reporting with the statement of accounts.

Systems of internal financial control

Internal financial control will be improved in 2004/2005 as all significant transactions will be processed through one ledger.

In 2003/2004, the Authority used the financial systems of the four constituent councils to process its transactions. Since the introduction on the PFI contract in December 2002, the number of transactions has decreased substantially. Therefore, from April 2004, all significant financial transactions are being recorded exclusively on one financial ledger system, maintained by the London Borough of Redbridge. This should provide greater clarity, supporting internal control and more timely financial reporting.

Internal audit services for the Authority are provided by the London Borough of Redbridge's internal audit team. A five year audit plan was agreed with Members in 2003. The plan includes coverage of all key financial systems over this period.

In 2003/2004, Internal Audit conducted a high level review of corporate governance arrangements and the system for internal control, to support the disclosure required in the statement of accounts. Internal Audit reported that arrangements were generally adequate, although reliance is placed on data from the PFI contractor for costing purposes and there is no independent check on their information systems. The extent to which constituent councils monitor the reuse and recycling centres (RRC) is also unclear and there is a lack of regular reporting to the Authority. A review of the contractor's management information system is included in Internal Audit's 2004/2005 plan.

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

Overall arrangements to maintain standards of financial conduct and to prevent and detect fraud and corruption are adequate.

In partnership with Internal Audit, we held a workshop for the Authority's officers and monitoring officers from the constituent councils. The workshop was aimed at raising fraud awareness and considering the risks specific to officers' roles. The session was well-received and enabled officers to think through where and how fraud could occur, and what arrangements could be put in place to minimise the risk.

Our review of the overall control environment has not identified any areas of concern to report to Members.

Legality of transactions

The Authority's overall arrangements to ensure the legality of financial transactions are adequate.

We reviewed the Authority's overall arrangements to ensure the legality of transactions with financial consequences and we did not identify any areas of concern.

Performance management

Best value performance plan

We gave an unqualified opinion on the Authority's best value performance plan on 7 December 2004.

Our audit is undertaken in two discrete but interlinked elements. The findings from each element are set out below.

Best value performance plan

The Authority published its best value performance plan (BVPP) by the deadline of 30 June 2004. We assess the extent to which the BVPP complies with statutory requirements as to its content and distribution. The Plan was considered compliant with statutory requirements in all significant respects. We issued an unqualified opinion on the BVPP on 7 December 2004.

Best value performance indicators

We assess whether the best value performance indicators (BVPis) are compiled in accordance

with the guidance and the indicator disclosed is consistent with source documents.

Our audit did not include any reservations on the accuracy or systems for producing the BVPIs, although some minor adjustments were made. These have been published on the Authority's website.

Use of resources

The Authority's arrangements for managing and monitoring the PFI contract are generally satisfactory.

The Authority signed a 25-year PFI contract in December 2002, with a total value that could exceed £1 billion. The new working arrangements were embedded quickly and the Authority liaised closely with the contractor to ensure that the planned outcomes are delivered successfully. In 2004, we reviewed the robustness of the Authority's arrangements for managing the PFI contract.

Our overall conclusion is that the Authority's arrangements for monitoring the contract are satisfactory. We found that the Authority has established procedures to ensure that the contractor is delivering efficient and quality services and payments are made on the basis of certifiable performance. We did, however, recommend that the Authority verifies whether the contractor is implementing its quality management system completely.

The roles and responsibilities for contract management at the Authority are defined clearly and satisfactory procedures exist for reporting performance to the Board. The contractor operates a total information management system which captures performance information on a real-time basis.

The arrangements for monitoring and managing residents' complaints were generally adequate, although signage at the RRCs could be improved. There is also scope to introduce an internal review of complaints received to establish whether appropriate action has been taken in response. Recommendations have been agreed with officers to address these issues.

Grants

The Authority completed and submitted the required 2002/2003 grant claim returns in a timely manner. There were no issues arising from our work.

Audit fees

Exhibit 2 sets out our latest estimate of the actual fee for 2003/2004, on the basis that work remains in progress.

EXHIBIT 2

Audit fee update

Audit area	Plan 2003/2004	Anticipated fee
Accounts	£14,000	£14,000
Financial aspects of corporate governance	£6,000	£6,000
Performance	£8,000	£8,000
Total fee per 2003/2004 plan	£28,000	£28,000
Grant claims (1)	£2,500	£2,500
TOTAL AUDIT FEE	£30,300	£30,300

(1) The grant claim audit is ongoing and the actual fee reported is our current estimate of the likely fee for the 2003/2004 certification work.

Future audit work

The Audit Plan for 2004/2005 has been discussed and agreed with officers. We will be commencing work on the agreed programme shortly.

Status of our Annual Audit Letter

Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit Letters are prepared by appointed auditors and addressed to Members and officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Closing remarks

This Letter has been discussed and agreed with the Finance Director. A copy of the Letter will be provided to all Members.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.

Availability of this letter

This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Jon Hayes
District Auditor

Date: 22 December 2004

Status of our reports to the Authority

Our annual audit letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. Annual audit letters are prepared by appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Auditors' Statutory Report on the Best Value Performance Plan

Auditors' Report to the East London Waste Authority on its Best Value Performance Plan for 2004/2005

Certificate

We certify that we have audited the East London Waste Authority's (the Authority's) best value performance plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Authority and the Auditors

Under the Act, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Authority's auditors, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan
 - whether the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming our opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work, we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion, we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy us that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where we have qualified our audit opinion on the plan, we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In our opinion, the East London Waste Authority has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission / Secretary of State

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of our work:

- We do not recommend that the Audit Commission should carry out a best value inspection of the East London Waste Authority under section 10 of the Local Government Act 1999
- We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Sharon Martin
Audit Manager
Audit Commission
1st Floor
Millbank Tower
Millbank
SW1P 4QP

Date: 7 December 2004