

Annual Audit Letter  
**East London Waste  
Authority**

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**DISTRICT AUDIT**

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| <b>Reference:</b> | MIL02LO00502 AAL FINAL  |
| <b>Author:</b>    | Kash Pandya – District Auditor<br>Dean Parker – Audit Manager |
| <b>Date:</b>      | December 2002   |



## The purpose of this Letter

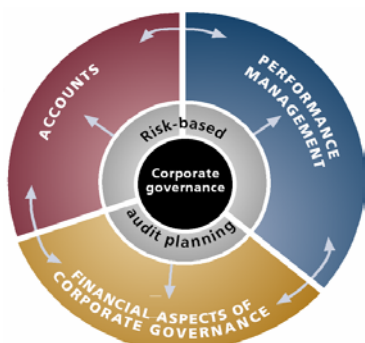
This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2001/2002 and comments on other current issues.

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.

## Audit objectives

Our audit is structured around the three main objectives set out below:

### THE THREE MAIN AUDIT OBJECTIVES



At a more detailed level the audit has covered the following Code of practice objectives:

### Accounts

- Opinion

### Financial aspects of corporate governance

- Legality of financial transactions
- Financial standing
- Systems of internal financial control
- Standards of financial conduct, and the prevention and detection of fraud and corruption

### Performance management

- Use of resources
- Best Value Performance Plans
- Performance information

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Authority to maximise the benefits of the integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher audit risk.

## Background to the audit

This has been a demanding year for the Authority. Against a background of continuing financial constraints, it has been working in partnership with the four constituent Councils to deliver the Integrated Waste Management Strategy and associated PFI contract. This will, when in place, significantly alter the way in which the Authority manages itself. In the longer term, the contract should also result in a transfer of financial risks to the operator and more certainty for the Authority's financial planning. The timetable the Authority set itself for signing the contract was challenging and there has been some slippage against it. There have also been some associated adverse short term financial implications. However, officers and Members are taking action to address these and are hopeful that the contract will be signed by the end of December 2002.

## Status of our Annual Audit Letter 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 or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any director or officer in their individual capacity, or to any third party.*

## KEY MESSAGES

### Accounts

We gave an unqualified audit opinion on the Authority's accounts on 12 December 2002. We also provided our view on the Authority's proposed accounting treatment for its Integrated Waste Management Services PFI contract on 16 July 2002.

### Financial aspects of corporate governance

In 2001/2002 the Authority had a small overspend of £311k against a net budget of £19.312m. As a result of slippage in finalising the PFI agreement, and new responsibilities for the disposal of fridges, the Authority's financial health has deteriorated in 2002/2003. This is a matter of concern and we welcome the package of financial measures approved by the Authority to bring the revenue position back into balance by the year end. Prudence and caution will need to be maintained to ensure that cost pressures are adequately controlled and budgeted for and reserves are restored to a level recommended by your Treasurer.

The Authority maintains effective systems of internal financial control and generally satisfactory arrangements for ensuring the legality of transactions with financial consequences, for maintaining standards of conduct, and for preventing and detecting fraud and corruption.

### Performance management

We gave an unqualified opinion on the Best Value Performance Plan on 12 December 2002.

The Authority continues to demonstrate its commitment to Best Value through its PFI procurement process. However, the Authority will need to review its performance management framework once the new contract is in place.

The Authority's systems for producing performance information and arrangements for securing economy, efficiency and effectiveness in the use of the resources at its disposal are satisfactory.

## Section 1

### Accounts

*We gave an unqualified audit opinion on the Authority's accounts on 12 December 2002. We also provided our view on the Authority's proposed accounting treatment for its Integrated Waste Management Services PFI contract on 16 July 2002.*

- **Opinion**

Members approved the Authority's financial statements on 18 September 2002. The working papers provided to support the accounts were of a high quality and officers responded quickly to audit queries. We were therefore able to give an unqualified audit opinion on the accounts on 12 December 2002 without the need for significant amendments.

Since March 2002, the Authority has been finalising the detailed contract documentation with a view to awarding a 25 year Integrated Waste Management Services (IWMS) PFI contract to its preferred bidder, Shanks Waste Services Ltd.

As we reported in last year's Annual Audit Letter, this contract will change significantly the way that the Authority both delivers and accounts for its services. We held a number of discussions with officers during the year about the accounting implications of the scheme. The Authority's view is that, based on the proposed structure of the PFI scheme, no newly created fixed assets will be included within its balance sheet.

In July 2002 we provided our audit view on this proposed accounting treatment. We concluded that, on the basis of the evidence before us, we would not be minded to challenge the Authority's accounts on this basis.

## Section 2

## Financial aspects of corporate governance

*In 2001/2002 the Authority had a small overspend of £311k against a net budget of £19.312m. As a result of slippage in finalising the PFI agreement, and new responsibilities for the disposal of fridges, the Authority's financial health has deteriorated in 2002/2003. This is a matter of concern and we welcome the package of financial measures approved by the Authority to bring the revenue position back into balance by the year end. Prudence and caution will need to be maintained to ensure that cost pressures are adequately controlled and budgeted for and reserves are restored to a level recommended by your Treasurer.*

*The Authority maintains effective systems of internal financial control and generally satisfactory arrangements for ensuring the legality of transactions with financial consequences, for maintaining standards of conduct, and for preventing and detecting fraud and corruption.*

*We considered:*

- Financial standing
- Legality of financial transactions
- Systems of internal financial control
- Standards of financial conduct, and the prevention and detection of fraud and corruption

### Financial standing

As reported in its financial statements, the Authority had a small overspend of £311k in 2001/2002 against a net budget of £19.312m. This overspend was primarily due to increased costs related to the IWMS contract and its new responsibility for the disposal of fridges. As a result, balances as at 31 March 2002 decreased to £403k.

These financial pressures have continued into 2002/2003. At its meeting of 4 December 2002 the Authority received a Section 114 report from the Treasurer identifying a projected revenue deficit for 2002/2003 of £2.1m and a potential

revenue reserves deficit of £1.08m by 31 March 2003. This is a matter of concern but we welcome the Authority's recent approval of a package of measures to bring the revenue position into balance by the year end. Members should continue to support the Treasurer's financial strategy and will need to consider restoring balances to a more prudent level as part of the budget setting process for 2003/2004.

### Legality of financial transactions

Our review of the overall control environment, Board meeting minutes and consideration of new legislation and the procurement process for the new waste management contract has not identified any areas of concern that we need to report to Members.

No local electors raised issues with us during the course of our audit.

### Systems of internal financial control

The Authority uses the financial systems of the four constituent Councils for processing its transactions. As part of an agreed programme of integrated audit coverage the Internal Auditors of each Borough have carried out detailed financial controls testing in significant areas, for example contract tipping costs and payroll costs. We have reviewed this work as appropriate and placed reliance on its findings.

### Standards of conduct, and the prevention and detection of fraud and corruption

The Authority had no reported cases of fraud and corruption in 2001/2002. The Authority's arrangements for ensuring proper standards of financial conduct and for the prevention and detection of fraud and corruption continue to be generally sound.

The Local Government Act 2000 introduced a new ethical framework for local authorities. The provisions of the Act do not apply specifically to Joint Waste Disposal Authorities. However, the Authority's legal adviser confirmed that he was aware of the implications of the Act and that this was being considered in the context of ELWA.

## Section 3

**Performance management**

*We gave an unqualified opinion on the Best Value Performance Plan on 12 December 2002.*

*The Authority continues to demonstrate its commitment to Best Value through its PFI procurement process. However, the Authority will need to review its performance management framework once the new contract is in place.*

*The Authority's systems for producing performance information and arrangements for securing economy, efficiency and effectiveness in the use of the resources at its disposal are satisfactory.*

*We considered:*

**Best Value**

- Performance information
- Use of resources

**Best Value**

The Authority's third Best Value Performance Plan (BVPP) met all the statutory requirements and our unqualified opinion on the BVPP is attached as an appendix.

Last year we reported that the Authority continued to demonstrate its commitment to Best Value through its PFI procurement process and recommended that the performance management framework would need to be reviewed following the letting of the PFI contract. As a result of the delays in signing the contract the same situation exists this year. The Authority has decided that a Performance Monitoring officer will need to be appointed to manage the new contract but this appointment has yet to be made. The Authority will need to ensure that this appointment is made soon after contract completion and that its review of the performance management framework includes a consideration of the way in which data is collected and monitored, to ensure that contract performance standards can be maintained.

**Performance information**

We provided our audit opinion on the Authority's outturn Best Value Performance Indicators (BVPIs) for 2001/2002 on 16 October 2002. Our

opinion did not include any reservations on the accuracy or systems for producing the BVPIs.

**Use of resources**

As part of our annual audit work, we review the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our review and assessment of audit risks, the Authority's overall control environment and Board meeting minutes did not identify any major areas of concern that we need to report to Members.

## Section 4

**Future audit work**

The Audit Commission has decided to change its audit planning year end from October to March. In order to achieve this change, the next audit plan will cover a 17 month period, from November 2002 to March 2004, covering the audit years 2002/03 and 2003/04.

Our approach to audit planning will be the same as last year, being that of a risk based approach. A plan will be prepared during December and discussed with the Clerk and Treasurer in January.

## Section 5

**Closing remarks**

I would like to take this opportunity to express my appreciation for the assistance received from officers and Members during the course of our work. Our aim is to provide a high standard of audit service that makes a practical and positive contribution to the work of the Authority. We recognise the value of your co-operation and support.



Kash Pandya  
District Auditor

Date: 20 December 2002



## Independent Auditor's Report to East London Waste Authority on its Best Value Performance Plan for the year 2002/3

### Certificate

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

### Respective Responsibilities of the Authority and the Auditor

Under the Local Government Act 1999 (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 auditor, I am required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that I have done so, and:

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

I planned and performed my work so as to obtain all the information and explanations which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with legislation and statutory guidance.

In giving my opinion I am 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. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me 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 I have qualified my audit opinion on the plan I may recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

**Unqualified Opinion**

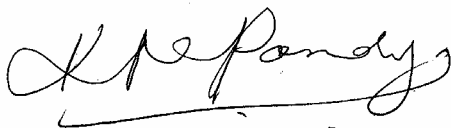
In my opinion, East London Waste Authority has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance.

**Recommendations on referral to the Audit Commission/ Secretary of State**

I am required each year to recommend whether, on the basis of my 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 my work:

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

**Kash Pandya****District Auditor****20 December 2002**

