

# Annual Governance Report

East London Waste Authority

Audit 2007/08

September 2008



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary

## Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

## Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements by 30 September 2008.
- 4 The financial statements of the Council and its Group that were submitted for audit were complete and supported by adequate working papers. However, the audit trail for the Pension Fund was not easy to follow and the investment income working papers did not agree to the draft Accounts. We also identified one material error in the Pension Fund draft financial statements.

## Value for Money

- 5 We expect to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

## Next steps

- 6 We ask the Statement of Accounts Committee to:
  - consider the matters raised in the report before publishing the financial statements;
  - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
  - agree the proposed action plan.

# Financial statements and Annual Governance Statement

- 7 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members, you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you publish the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
  - our views about the Council's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit and reported to you in our 2007/08 Audit and Inspection Plan. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Changes to CIPFA's Statement of Recommended Practice (SORP).	Overall, the Council complied with the new requirements included in the 2007 SORP. The Council took steps to address the key areas of risk. On-going liaison with audit and the early production of reformatted items of account helped to facilitate this process.

## Financial statements and Annual Governance Statement

Issue or risk	Finding
The preparation of Group Accounts to reflect the Council's relationship with the ALMO, established on 1 April 2007.	Our audit of the Group Accounts did not identify any material or non-trivial errors.

### Draft representation letter

- 11** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
  - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures; and
  - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate.
- 12** Appendix 1 contains the draft of the letter of representation we seek from you.

**Accounting policies and financial reporting**

- 13 We considered the qualitative aspects of your financial reporting and have identified the following issue to raise with you.

**Table 2 Accounting policies and financial reporting**

Issue	Finding
<p>Government grants deferred account (GGDA): The SORP requires deferred grants and contributions to be matched to the specific asset which they finance and to make releases from the GGDA in line with the depreciation of that asset. Authorities should demonstrate to which particular assets the balance on the GGDA relates. CIPFA clarified the SORP requirements in LAAP Bulletin 73 issued in April 2008.</p>	<p>The year end balance on the Authority's GGDA was £111,579k. While the Authority has matched the balance on the GGDA to service areas and can identify the type of asset which it funded (for example, IT equipment), it has not analysed the balance to match it to specific assets. The analysis performed by the Council to date has provided us with assurance that there is not a material error in the GGDA.</p>

**Recommendation**

- R1** Review the government grants deferred account and match the balance to specific assets for the 2008/09 financial statements.

**Errors in the financial statements**

- 14 We identified the following errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 15 Management has agreed to adjust the financial statements for the error identified on the net value of forward currency contracts shown in Appendix 2. However, because the error is material, we are reporting it to you.

**Recommendation**

- R2** Ensure that the net value of forward currency contracts is included in the draft financial statements of the Pension Fund in future years.

- 16 Our audit of the year end bank reconciliation identified a misclassification relating to housing rental income. A balance of £972,000 included in Cash and Bank in the balance sheet should have been classified as a Debtor. The Council has amended the financial statements for this misclassification.

**Recommendation**

- R3** Classify correctly the reconciling items on the main bank account reconciliation.

## Financial statements and Annual Governance Statement

### The audit report

- 17 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

### Material weaknesses in internal control

- 18 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

**Other matters**

20 There are no other matters that auditing standards require me to report to you.

21 We have identified the following matters that we require you to consider.

**Table 3 Other matters**

Issue or risk	Finding
Pension Fund working papers	The audit of the Pension Fund took longer than expected as the working papers did not reconcile fully to the draft financial statements. The working papers contained errors relating to investment income which made the reconciliation of movements in the year to Fund Manager reports problematic. The Council subsequently prepared revised investment income working papers that reconciled to the Fund Manager reports and the draft financial statements.

Recommendation
R4 Ensure that the audit trail between the Pension Fund financial statements and the Fund Manager reports is clear and complete.

# Value for money

- 22 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 23 We have assessed the arrangements of the Council as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.

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# Formal audit powers

24 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

25 We have not and do not propose to exercise these powers.

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# Independence

- 26 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 27 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 28 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 29 We identified a possible conflict of interest in relating to a member of the audit team and took action to ensure that the conflict did not occur.

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## Audit fees

- 30 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

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**Table 4     Audit fees**

	<b>Plan 2007/08</b> <b>£</b>	<b>Actual 2007/08</b> <b>£</b>
Financial statements and Annual Governance Statement	193,320	193,320
Value for Money	145,310	145,310
National Fraud Initiative	1,300	1,300
<b>Total Audit Fees</b>	<b>339,930</b>	<b>339,930</b>

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- 31 The analysis above shows that we contained our audit fee within the totals you have already agreed.

### Our arrangements to ensure independence and objectivity

32 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 5.

**Table 5 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• 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; and</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> <li>• gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

# Appendix 1 – Draft representation letter

To: Jon Hayes  
District Auditor  
1st Floor, Millbank Tower  
Millbank  
LONDON  
SE1P 4HQ

## London Borough of Redbridge - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other [insert relevant details eg; directors, officers, officials] of the London Borough of Redbridge, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2008. All representations cover the Authority's accounts, Group Accounts and Pension Fund accounts included within the financial statements.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Authority and for making accurate representations to you.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the fair values assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require/do not require adjustment to the fair value measurement.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

## Appendix 1 – Draft representation letter

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### Post balance sheet events

Since the date of approval of the financial statements by the Statement of Accounts Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of the London Borough of Redbridge

I confirm that the this letter has been discussed and agreed by the Authority on [date]

Signed

Name

Position

Date

## Appendix 2 – Adjusted misstatements

- 1 The following misstatement was identified during the course of our audit and the financial statements have been adjusted by management. We bring this to your attention to assist you in fulfilling your governance responsibilities.

		Fund Account		Net Assets Statement	
Adjusted misstatements	Nature of misstatement	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Investment Income	The net gain on forward currency contracts at year end had not been recorded in the draft financial statements.		1,088	1,088	

# Appendix 3 – Draft audit report

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## Independent auditor's report to the Members of the London Borough of Redbridge

### Opinion on the accounting statements

I have audited the Authority and Group accounting statements, pension fund accounts and related notes of the London Borough of Redbridge for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority and Group accounting statements and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Redbridge in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Director of Finance and Resources and auditor

The Director of Finance and Resources' responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements, pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year;
- the financial position of the Group and its income and expenditure for the year; and

- the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures. I read other information published with the Authority and Group accounting statements, pension fund accounts and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements, pension fund accounts and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements, pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements, pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements, pension fund accounts and related notes.

### Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended;
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Group as at 31 March 2008 and its income and expenditure for the year then ended; and
- the pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, the London Borough of Redbridge made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 3 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes  
District Auditor  
Audit Commission  
1st Floor, Millbank Tower  
Millbank  
LONDON  
SE1P 4HQ

September 2008

## Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Review the government grants deferred account and match the balance to specific assets for the 2008/09 financial statements.	3	Jan Grant	Yes	CIPFA guidance was not issued until after the year-end and given the time it will take to match grants previously received to individual assets it was therefore not possible to do this for 2007/08. However, work is now underway to undertake this exercise and the SORP requirements will be fully met for 2008/09 Accounts.	2008/09 closedown
6	R2 Ensure that the net value of forward currency contracts is included in the draft financial statements of the Pension Fund in future years.	3	Jan Grant	Yes	Processes will be put in place to ensure that forward currency contracts are included in the draft statements of the Pensions Fund in future years.	2008/09 closedown
6	R3 Classify correctly the reconciling items on the main bank account reconciliation.	3	Jan Grant	Yes	The Authority's main bank accounts have always been fully reconciled. The classification of reconciling items in the main bank account reconciliation will be updated in future to facilitate auditing.	2008/09 closedown
8	R4 Ensure that the audit trail between the Pension Fund financial statements and the Fund Manager reports is clear and complete.	3	Jan Grant	Yes	The audit trail between the Pension Fund financial statements and Fund Mangers' reports has now been improved and the processes now put in place will ensure the continuation of this.	2008/09 closedown

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# The Audit Commission

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, covering the £180 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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