

Annual Governance Report

East London Waste Authority

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Purpose of this document	4
Key messages	5
Audit status	6
Accounts and Statement on Internal Control	7
Unadjusted misstatements	7
Adjustments to the financial statements	7
Accounting practices	7
Systems of internal control	8
Use of resources	9
Work performed	9
Data quality work	10
Best value performance plan	10
Audit fee update	11
Appendix 1 – Action plan	12
Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity	13
Appendix 3 – Audit reports issued	14
Appendix 4 – Proposed auditor’s report	15
Independent auditor’s report to the Members of East London Waste Authority	15
Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources	17
Appendix 5 – Management representation letter	19
Appendix 6 – Value for money conclusion	22

Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case, the Authority) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for circulation to the Authority prior to the issuing of our opinion. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - note the recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that was circulated to you on 24 July 2007. Reports issued during the year are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is now complete. We propose issuing an unqualified audit opinion on 26 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 26 September 2007 (a draft report is attached at Appendix 4).

Audit status

- 9 At the date of issue of this report our detailed audit is complete.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and Statement on Internal Control

- 11 Our work on the financial statements is now complete.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The proposed letter of representation, which we have discussed with the Finance Director, has been attached as Appendix 5.

Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of Members.

Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. There were no adjustments to the financial statements that require reporting to Members.

Accounting practices

- 17 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting. We have no issues to bring to Members' attention.

Systems of internal control

- 18 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We have not identified any material weaknesses during the course of our work.
- 19 During the year, we completed our triennial review of Internal Audit. Internal audit services are provided by the London Borough of Redbridge. We found that the service complies with CIPFA standards. From 1 June 2007, the Authority employed its own staff. Payroll services are to be provided by the London Borough of Barking and Dagenham (LBBD) and the payroll system will be subject to regular review by the Borough's own internal auditors. Arrangements will need to be put in place to inform the Authority of the outcome of such reviews, where relevant to ELWA staff, to support Members' consideration internal control.

Recommendation

R1 Ensure that the findings of internal audit reviews of the LB Barking and Dagenham payroll system are communicated to the Authority where they are relevant to ELWA staff.

- 20 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 21 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

Use of resources

Work performed

- 22 The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Authority's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- a review of the Authority's arrangements in respect of the value for money criteria specified by the Audit Commission;
 - data quality work; and
 - the best value performance plan.
- 23 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 6. While our work has not identified any significant weaknesses that would result in a qualification of individual criteria, we have identified areas where arrangements could be strengthened and these are set out below.

Risk management arrangements

- 24 During the year, the Authority has continued to develop its approach to risk management. Responsibility for identified risks is now allocated to a named officer. The risk register has been updated and a risk matrix has been produced to support the prioritisation of risks. To support further the embedding of risk management, reports to Members to support key strategic and policy decisions, such as the Service Delivery Plans, should include a risk assessment. This should summarise the key risks considered in formulating the plans, the risks inherent in the plan and the risks associated with taking no action.

Recommendation

R2 Reports to Members on key strategic and policy decisions should include a risk assessment.

Data quality work

- 25 We are currently completing our data quality review and will report our findings to the relevant officers. This work covers our audit of the Authority's published best value performance indicators (BVPIs). To date, there are no issues to report to Members.

Best value performance plan

- 26 Our work in respect of the Authority's 2006/07 best value performance plan (BVPP) was reported in the 2006 Annual Audit Letter. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 27 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

Table 1

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	£16,700	£16,700
Use of Resources	£16,200	£16,200
Total Audit Fees	£32,900	£32,900
WGA	£1,900	£1,750

- 28 The analysis above shows that our audit fee has been contained within the totals you have already agreed.

Appendix 1 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Ensure that the findings of internal audit reviews of the LB Barking and Dagenham payroll system are communicated to the Authority where they are relevant to ELWA staff.	1	Finance Director	Yes	Internal Audit to co-ordinate. The ELWA internal audit service is provided by the London Borough of Redbridge who is already liaising over relevant issues with their colleagues at the London Borough of Barking and Dagenham. Regular dialogue will be maintained.	October 2007
10	R2 Reports to Members on key strategic and policy decisions should include a risk assessment.	2	Authors of reports	Yes	To be phased in during 2007/08 to allow for familiarisation and feedback.	Implemented fully in 2008/09

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	May 2006	May 2006	Authority
Opinion audit plan	July 2007	July 2007	Management
BVPP report	December 2006	December 2006	Authority
Annual governance report	September 2007	September 2007	Authority
Opinion on financial statements	September 2007	September 2007	Authority
Use of resources conclusion	September 2007	September 2007	Authority
Annual audit letter	November 2007		Authority

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the Members of East London Waste Authority

Opinion on the financial statements

I have audited the financial statements of East London Waste Authority for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of Movement in General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to East London Waste Authority 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 Finance Director and auditor

The Finance Director’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements 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 financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

Jon Hayes
District Auditor

Audit Commission
1st Floor
Millbank Tower
Millbank
London, SW1P 4HQ
26 September 2007

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

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, East London Waste Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best value performance plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 19 December 2006. 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.

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, SW1P 4HQ
26 September 2007

Appendix 5 – Management representation letter

To: Jon Hayes, District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London,
SW1P 4HQ

East London Waste Authority - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other [*insert relevant details e.g.; directors, officials, officers*] of East London Waste Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2007.

I acknowledge my responsibilities under the relevant statutory authorities to prepare the Authority's financial statements in accordance with proper practices as defined in relevant legislation or guidance and for making accurate representations to you.

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.

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 Authority meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided 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.

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.

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 body 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.

Irregularities involving Irregularities

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

Post balance sheet events

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

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of East London Waste Authority

Signed

Name

Position: Chair, Authority

Finance Director

Date:

Appendix 6 – Value for money conclusion

The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.

Code criteria	Description	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Criteria met
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Criteria met
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Criteria met
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Criteria met
5	The body has put in place arrangements to maintain a sound system of internal control.	Criteria met
6	The body has put in place arrangements to manage its significant business risks.	Criteria met

Code criteria	Description	VFM conclusion
7	The body has put in place arrangements to manage and improve value for money.	Criteria met
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Criteria met
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Criteria met
10	The body has put in place arrangements for managing performance against budgets.	Criteria met
11	The body has put in place arrangements for the management of its asset base.	Criteria met
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Criteria met