
East London Waste Authority

Report to those charged with
governance (ISA 260 (UK&I))

2010/11 Audit

September 2011

Final

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers 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.

Executive summary

The purpose of this report

Under the Auditing Practices Board’s International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of East London Waste Authority (‘the Authority’). As agreed with you, we consider that “those charged with governance”, at the Authority, are the Members of East London Waste Authority.

This report contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you in June 2011. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

2010/11 was the first year the Authority was required to report under International Financial Reporting Standards (IFRS), including restatement of prior years’ comparative information. As part of our audit we have performed work on the IFRS restated figures and are satisfied with the approach and methodology used by management to prepare the 2010/11 financial statements under IFRS. The Authority has worked hard to produce its first set of IFRS based accounts and the finance team are to be congratulated for their efforts.

We will discuss the matters contained within this report with the Members on 26 September 2011.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work.

Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action. We set out below the significant risks identified in the audit plan together with the audit action we have taken in respect of each one.

Significant Risks

| Risk | Response |
|--|--|
| <p>Revenue and expenditure recognition</p> <p>We are required by International Standards on Auditing (ISAs) to specifically consider the risk of material misstatement in relation to revenue recognition. We have also considered the risk of material misstatement in relation to expenditure recognition.</p> <p>Due to their nature, we do not consider the receipt of commercial waste income, levy income and PFI grant income to be a significant risk and these income streams will therefore be excluded from this category. There are no other sources of material income, therefore revenue recognition is not considered to be a significant risk.</p> | <p>We have:</p> <ul style="list-style-type: none"> • understood and evaluated controls relating to expenditure recognition; • considered the accounting policies adopted by the Authority; and • subject expenditure to the appropriate level of testing to identify any material misstatement. <p>We have also carried out cut off testing on expenditure at year end to ensure that expenditure has been recorded in the correct financial year.</p> <p>There are no issues to be brought to your attention</p> |
| <p>Fraud and Management Override of Control</p> <p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. Our audit is designed to provide reasonable assurance that the 2010/11 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates, such as provisions and accruals as a significant fraud risk.</p> | <p>We have made inquiries in respect of:</p> <ul style="list-style-type: none"> • your oversight responsibility for Systems for monitoring risk, financial control and compliance with the law; and • your assessment of the risks of fraud and of the internal controls the entity has established to mitigate specific risks of fraud that it has identified. <p>We have also:</p> <ul style="list-style-type: none"> • reviewed material management estimates for provisions and accruals and evaluate the accuracy, completeness and relevance of the data and the underlying assumptions used to produce the estimate, taking account of the new Clarity ISA requirements on estimates; • performed targeted procedures on high-risk areas, such as journals, and on unusual material transactions; and performed unpredictable procedures to provide reasonable assurance that the Accounts are free from material misstatement. <p>There are no issues to be brought to your attention.</p> |

Significant Risks

Risk

Response

IFRS Transition

The transition to IFRS involved both new and considerably revised financial statements and an increase in the amount of disclosure required in the accounts. In particular:

Leases - IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease.

Component Accounting - The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole.

Accruals for Employee Benefits - The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but untaken by the year-end (particularly leave entitlements and flexitime) and for the disclosure of termination benefits.

We have worked closely with the Finance team to resolve any accounting issues raised with us on a timely basis.

We have completed sufficient audit work in respect of the restatement of the 2008/09 balance sheet and the 2009/10 financial statements and are pleased to report that there are no issues which need to be brought to your attention.

VfM Conclusion related risks

Risks

Response

Increased pressures on budgets

Local government bodies are expected to make significant efficiency savings over the next three years as a result of the Comprehensive Spending Review 2010 and the local government financial settlement. There is a risk that savings plans may not be robust or based on sustainable solutions which could result in short term actions to ensure that spending targets are met.

We have considered the Authority's 2011/12 budget setting approach and its medium term financial projections.

We have conducted sufficient work to enable us to reach a conclusion in relation the Authority's value for money in the use of resources.

There are no issues we need to bring to your attention.

Relationship with Shanks Waste Management Ltd and contract management

It is crucial that the Authority continues to maintain a good working relationship with Shanks to ensure that the objectives of the Integrated Waste Management Service Contract are met.

We have discussed the Authority's governance arrangements regarding Shanks with the Finance Director and other relevant officers as part of our VFM conclusion work.

There are no issues we need to bring to your attention.

Accounts

We have completed the audit of the Authority's accounts in line with current Auditing Standards. We have completed our audit, subject to the following outstanding matters:

- Approval of the financial statements and letters of representation; and
- Completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

Accounting issues

We have set out below the details of the significant accounting issues which have arisen during the audit and our assessment of the approaches adopted by the Authority.

It is important to recognise that our audit of the Authority's accounts this year was undertaken against the backdrop of the change from the traditional UK Generally Accepted Accounting Practices to International Financial Reporting Standards (IFRS).

The change to IFRS was a huge task for the Authority and we have been pleased with the level of engagement from staff and determination to get things right.

Misstatements and significant audit adjustments

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. No unadjusted misstatements above the agreed reporting level of £100,000 have been identified.

As anticipated, given that this is the first time the Authority has produced a set of IFRS based financial statements, a number of presentation and disclosure amendments were identified during the course of the audit. None of these impacted materially the year end position and the financial statements have been amended by management.

Judgments and accounting estimates

The clarity ISAs (International Standards on Auditing), applicable for the first time this year, introduced an increased emphasis on what auditors need to do on accounting estimates. For each estimate we assessed the level of risk that they may be misstated and tailored our audit procedures to address the risk, depending on the nature of the estimate. These included:

- Estimated economic useful lives of property, plant and equipment assets. Management have used a consistent approach in relation to estimated economic useful lives of their property, plant and equipment. There are no issues to be reported.
- Calculation of pension fund net liability. Management has utilised the information provided from the actuary which is the fundamental basis of this estimation. Based on the work we have carried out we are satisfied that the estimate is reasonable within the Financial Statements.
- Landfill Valuation – we have considered the Authority's approach to valuing its property, plant and equipment during our audit and as part of that we considered the value of the four landfill sites which are no longer used and are currently valued at nil. The land is still contaminated and the majority is not used, however, in our experience it is unusual for land to have no value. While we are satisfied that the value of the land is not materially misstated we recommend that the authority keeps the issue under review and considers obtaining a formal RICS compliant valuation to support the valuation in the 2011/12 accounts.
- Going concern status. We have performed a review of the performance of the Authority for the 2010/11 and 2011/12 financial years, which has resulted in no issues to be reported.

We have not identified any issues with the application of these judgements and estimates in the financial statements.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 1.

Related parties

No significant matters in connection with the Authority's related parties were identified during the audit.

Audit independence

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Systems of internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement. No such issues have been noted.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Value for Money Conclusion

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Unlike in previous years, we have not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We anticipate issuing an unqualified value for money conclusion.

Risk of Fraud

As communicated to you in our audit plan in June 2011, the preparation of the financial statements is the responsibility of management. Our responsibility as auditors is to express an opinion on those financial statements. Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate that possibility.

Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected. Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we have designed our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.

As a result of our audit, no material errors, fraud or illegal acts have come to our attention other than those reported to the Authority by Internal Audit.

Fees update

Fees update for 2010/11

We reported our fee proposals as part of the Audit Plan for 2010/11.

Our actual fees were in line with our proposals.

Our fees charged were therefore:

| | 2010/11 Outturn | 2010/11 Fee proposal |
|----------------------------|------------------------|-----------------------------|
| Financial Statements | 24,800 | 24,800 |
| Value for Money Conclusion | 10,200 | 10,200 |
| Total | 35,000 | 35,000 |

Recent developments

Future of public audit

On 13th August 2010 the Department for Communities and Local Government announced that the Audit Commission will be disbanded and most recently on the 28 July 2011 the Department confirmed that the Commission's in-house Audit Practice will be outsourced to the private sector (effective from the financial year 2012/13 and for an anticipated period of three or five years).

Ministers have determined this approach should offer the best value for money. It is expected that after three or five years local councils and other public bodies will be able to plan to appoint their own auditors – creating auditor choice.

We will remain as your auditors for the 2011/12 financial year and we understand from the Commission that our appointment is expected to remain unchanged for at least 2012/13. The Audit Commission will not however be confirming 2012/13 audit appointments until later in 2012 once the procurement exercise has been concluded.

Letter of representation

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of East London Waste Authority (the “authority”) for the ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

My responsibilities as Finance Director for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of East London Waste Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries so far as materially relevant in each case, the following representations:

Financial Statements

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the authority's auditors) are aware of that information.
- I have provided you with:
 - Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of the Authority and relevant management meetings;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the authority and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the authority's financial statements communicated by employees, former employees, analysts, regulators or others.
- I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

Related party transactions

I confirm that we have disclosed to you the identity of the authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that the authority has made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the authority have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Bank accounts

I confirm that we have disclosed all bank accounts to you.

Valuation of Landfill Sites

I confirm that we are satisfied with the valuation of the landfill sites within the Financial Statements, based on their existing use value.

As minuted by the Authority at its meeting on 26 September 2011.

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Finance Director

For and on behalf of East London Waste Authority

Date

In the event that, pursuant to a request which East London Waste Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. East London Waste Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and East London Waste Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, East London Waste Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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