

# Annual governance report

Merseyside Waste Disposal Authority

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

As at 11 September 2012 I expect to issue an unqualified audit opinion. However, my audit is not yet complete and there are still material unresolved issues to resolve before I can issue my opinion.

To date there have been two material adjustments to the accounts presented for audit including an £8.6million revaluation of plant and machinery relating to the New Technologies Demonstrator Plant at Huyton. I have recommended improvements to the production and quality of the financial statements and the timeliness of information provided to support transactions.

## Value for money (VFM)

I expect to conclude that there are no matters arising from my VFM work that I need to report.

I have undertaken specific work on the progress of the resource recovery contract (RRC) procurement and concluded that there are no significant issues which would impact on my VFM conclusion. I have also identified some areas of good practice.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. The Treasurer of the Authority is a former employee of the Audit Commission and there are employees of the Audit Commission who have maintained a close personal relationship with him. This is a potential threat to our independence as external auditors. I can confirm that I have applied appropriate safeguards to ensure that no-one in this position works in any capacity on the audit team. I have therefore reduced this threat to an acceptably low level to maintain my independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## I ask the Authority to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

There are still a number of outstanding issues which need to be resolved before I can issue my audit opinion including:

- Review of the final version of the accounts to ensure that all adjustments agreed during the audit have been processed;
- Resolution of a national issue regarding provisions for closed landfill sites;
- Confirmation of adjustments to the cash balances held by St Helens Council in MWDA accounts;
- Resolution of a proposed £1.6m consolidation adjustment within the group accounts; and
- Review of the revised cashflow statement workings.

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Uncorrected errors and uncertainties

There are two unadjusted differences in the financial statements. I have listed these in appendix 2.

- The land and buildings at Huyton which housed the new technologies demonstrator plant are accounted for as an investment asset. The property is held on the balance sheet at £1.85million. However, a market valuation in November 2011 indicated that the asset is valued at £735,000 – £1,100,000 and shortly after the balance sheet date, on 13 April 2012, a sale value of £1.3million was agreed. Therefore there is indication that the value in the balance sheet is overstated by up to £550,000.
- There is a £217,000 consolidation adjustment in the group accounts for an intra-group balance. However, there is no evidence of this balance in the MWDA ledger.

There is also a national discussion on provisions for the costs of closed landfill sites. International Accounting Standard 37 on provisions states that an entity should recognise a provision when:

- the entity has a legal or constructive present obligation arising from a past event;
- it is probable that this will lead to an outflow of resources; and
- the entity can reliably estimate the amount.

MWDA currently has six closed landfill sites that it maintains. Because the Authority has a legal responsibility to manage landfill sites for 60 years after they close, there is an argument that they should provide for the costs in full at a discounted net present value. However, MWDA, like many waste disposal authorities, budget for the costs of managing closed landfill sites as part of their annual revenue and capital expenditure. I am currently consulting with colleagues and in discussion with the Treasurer about the accounting treatment.

## Corrected errors

There were a significant number of errors which were adjusted. The most significant items were:

### **New Technologies Development Plant, Huyton - plant and machinery**

At 31 March 2012 the plant and machinery relating to the NTDP was carried on the balance sheet at £9.1million. However, at 13 April 2012 a sale was agreed for £185,000 as the asset is specialised and there is a limited market for it. Therefore there was evidence that the carrying value in the accounts was overstated and the finance team agreed to revalue it to nil.

In addition, the asset had not been subject to depreciation in the year and a £506,000 adjustment was made to correct this.

As the asset had been revalued upwards in the past, £3.679m of the impairment was charged to the revaluation reserve and £4,927m was charged as a cost of service in the year, reducing the reported surplus.

### **Cashflow statement**

The cashflow statement within the accounts presented for audit included a £4.365million balancing figure in the adjustments to net surplus line. This should be a calculated figure based on non-cash based movements in the year. As noted above work on the revised cashflow statement is not yet complete as we have not yet received supporting working papers.

### **Reserves**

Every line of the movement in reserves statement required adjustment. One adjustment was material, the rest were significant. There were also adjustments required to the comparators for 2010/11 and the supporting notes.

### Prior period adjustment to property, plant and equipment

A £5.8million adjustment had been made to the 2010/11 property, plant and equipment note, amending the gross values of assets. This adjustment was incorrect and has been reversed out of the 2011/12 statements.

### Significant risks and my findings

I reported to you in my 3 February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p><b>Quality of the financial statements presented for audit</b></p> <p>The 2010/11 accounts presented for audit included significant errors. There were weaknesses in the working papers provided to support the financial statements and some difficulties and delays in obtaining supporting documents and explanations.</p>	<p>There were some improvements in the timeliness of working papers and supporting evidence and documentation this year. However, there were still significant errors within the accounts and material adjustments required and I have made further recommendations for improvement following our 2011/12 audit work.</p>
<p><b>Group accounts</b></p> <p>The group accounts presented for audit in 2010/11 contained errors and were reworked by the finance team during the audit to ensure accuracy and compliance with IFRS. There were some delays in confirming intercompany balances to the MWDA ledger.</p>	<p>There were some improvements in the base data from which the Group accounts have been prepared in 2011/12. However, there were still material errors in the consolidation adjustments and I have made further recommendations for improvement following our 2011/12 audit work.</p>
<p><b>Cash balances with St Helens Council</b></p> <p>In 2010/11 St Helens Council changed the accounting treatment for cash balances with MWDA. They are now accounted for as accounts receivable (debtors) rather than cash. There were delays in reconciling the St Helens balances to MWDA records and a material adjustment to the accounts was required.</p>	<p>There were improvements in this area in 2011/12. I also obtained third party confirmation direct from St Helens regarding their balances with MWDA at 31 March 2012. However, there were still difficulties in auditing further adjustments to the balance made by MWDA. The finance team also had difficulty providing us with a breakdown of other receivables balances in the accounts and there were delays getting information from St Helens on these. I have made further recommendations for improvement in this area.</p>

**Risk****Disposal of the New Technologies Demonstrator Plant**

MWDA plan to dispose of the former NTDP site and equipment at Huyton. Under IFRS the accounting arrangements for valuation and disposal of property, plant and equipment require some technical accounting adjustments and disclosures.

**Finding**

A material adjustment to the accounts presented for audit was required to reduce the value of plant and equipment to nil.

**Significant weaknesses in 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. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in internal control and there are no internal control matters that I need to draw to your attention.

**Other matters**

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

**Quality of financial statements presented for audit and underlying working papers**

The accounts presented for audit contained a significant number of errors. During the audit there were also delays in providing us with explanations and supporting documentation. We started our audit in mid-July with the agreement of the finance team, but they did not have sufficient capacity to respond to audit queries until early August. This resulted in delays to our audit and a backlog of queries for the finance team. As a result we are planning to charge further additional fee for the 2011/12 audit.

We had identified improvements to some of the underlying working papers. For example, for property, plant and equipment and in debtors and creditors we identified a clearer trail from the figures reported in the financial statements. However, there were still difficulties and significant delays in



providing supporting documentation from third parties such as invoices and copies of correspondence. There were also challenges in obtaining timely and cogent explanations for areas of management judgement. Appendix 1

Local Government financial statements are complex and the financial reporting requirements can be onerous. Timescales for preparing and auditing the accounts are prescribed and can be difficult for smaller organisations. The Authority currently has a small finance team. With the increased contract, budgeting and financial reporting requirements arising from the RRC contract as it progresses, the Authority should consider their capacity to manage these demands going forward.

### **Veolia Gillmoss MRF plant**

During 2011/12 Veolia built a new recycling plant at the Gillmoss site as agreed in the waste management contract. Although Veolia own the plant, the Authority has included the asset on the balance sheet as a non-current asset in accordance with IFRS. The asset is treated as a finance lease in the financial statements. Significant management judgement is required in considering the contract, the asset and the appropriate accounting treatment. Further judgement and technical accounting workings are required to calculate the finance lease adjustments and disclosures. We were provided with a working paper at the start of the audit. However, information on the management judgements behind the chosen accounting treatment and calculations which we requested at the start of the audit was only received in early September.

### **Balances held by St Helens**

As we agreed in our audit plan, we sought direct confirmation from St Helens regarding the cash and investment balance that they hold on behalf of the Authority. MWDA have made material adjustments to this balance in order to adjust for duplicate journals and capital payments. We have had difficulty obtaining assurance that these adjustments have not already been taken into account by St Helens when confirming the year end balance. I am seeking further assurance from St Helens on this matter. The Authority needs to ensure clear communication between the two parties to ensure that the balances can be substantiated.

### **Cashflow statement**

The accounts presented for audit were not supported by a working paper to support the adjustment for non-cash movements in the comprehensive income and expenditure statement. The £4.365 million adjustment on the face of the cashflow statement was a balancing figure. We have asked the finance team to revisit the cashflow statement and provide appropriate working papers which do not include balancing figures.

### **Proposed Prior Year Adjustment to Property, Plant and Equipment Valuations**

A £5.8 million adjustment was made to the property, plant and equipment 2010/11 gross asset values in the PPE note. As a material adjustment to the note, it was subject to audit. We were unable to progress our audit work in a timely manner as the finance team consistently refused to reconcile their adjustments and workings back to previous years audited financial statements. It has taken considerable audit time and effort to progress this

matter. When we finally persuaded them to review the 2009/10 financial statements and reconcile the error back to the audited accounts they agreed that the adjustment was incorrect and reversed it.

### Group accounts

The audit of the subsidiary companies was completed earlier this year and the working papers reconciled clearly back to the audited accounts. These were clear areas of improvement. However, the consolidation adjustments – which eliminate transactions between group companies – were difficult to follow and we were unable to reconcile all the MWDA adjustments back to the single entity accounts. The finance team also had difficulty and delays in obtaining explanations from the subsidiary accountant to explain the adjustments. There is still an unresolved query outstanding on a £1.6 million possible adjustment. To date we have had conflicting explanations to support this adjustment. As it is material to the financial statements I will need to resolve this prior to issuing an unqualified audit opinion. There is a further £217,000 of creditor adjustments noted as an unadjusted difference in appendix 2 which the finance team cannot reconcile back to the MWDA financial statements.

Recommendation
<p><b>R1</b> The Authority should consider the qualitative matters raised in our report and consider scope to improve the accuracy of the financial statements.</p>
<p><b>R2</b> The Authority should review the closedown process with their service providers and ensure that there are effective procedures in place to agree and understand year end balances.</p>
<p><b>R3</b> The process for preparing group accounts needs to improve further. The Authority needs to ensure effective liaison with the preparer of the consolidation schedules for the group accounts (an accountant at the subsidiary company) so that all consolidation adjustments are fully understood and reconcile to the Authority's single entity financial statements.</p>

### Whole of Government Accounts

Alongside my work on the financial statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. I have not yet completed these procedures but I expect to make my report by 30 September.

# Value for money

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## **I am required to consider the Authority's arrangements to secure economy, efficiency and effectiveness.**

For 2011/12 the Commission has determined that the scope of my work on value for money at the Authority is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- reviewing the progress of the resource recovery contract procurement (RRC)

I have reviewed your AGS and I have no matters that I need to report. I am not aware of any relevant work of other relevant regulatory bodies or inspectorates other than directly in relation to the RRC contract.

## **The Resource Recovery Contract**

### **Background**

The RRC remains the most significant factor in the long term financial resilience of the Authority. This is the largest local government procurement exercise on Merseyside and, given its size, involves a high degree of risk for the Authority to manage. As I reported in my 3 February 2012 Audit Plan, I have identified it as a significant risk to the Authority achieving value for money as it is technically complex, covers a long period and is of such high value.

### **Scope of audit work**

I have been monitoring the Authority's arrangements for the RRC procurement since its inception in order to assess whether the Authority has adequate arrangements for ensuring economy, efficiency and effectiveness. I have undertaken a review of the key areas of:

- Project Management,
- Governance,
- Procurement and
- Affordability.

## Progress

In 2010/11, I noted that there had been some delays in the procurement, but that the Authority was expecting to Call for Final Tenders (CFT) in December 2011. However, the Authority has extended the timetable further and dialogue with bidders ended and CFT was announced in June 2012. This additional time was required for bidders to submit the required information, and for the Authority to understand the complexities of the bidders' proposals and the impact on risk transfer to the Authority. Officers have also sought professional advice and consulted with Members on significant issues arising during the dialogue process, including the date for CFT. The Authority agreed this date based on its assessment of the relevant risks.

The Authority is currently evaluating the final tenders, and will report the results of the evaluation and proposals for appointment of a Preferred Bidder to Members when this process is complete. A proposed date for contract close has not yet been set but is expected in autumn 2012.

The project is sponsored by the Department for the Environment Food and Rural Affairs (Defra), and a representative from Defra's Waste Infrastructure Delivery Programme (WIDP) has been involved in the project throughout 2011/12. The Authority has continued to communicate with WIDP during the year, and WIDP has carried out a Commercial Review of both bidders' proposals. The Waste Infrastructure Credits will not be available unless Defra approve the package put forward by the Preferred Bidder.

## Review of internal audit work

I have also considered the work of the Authority's internal auditors. In particular, their report MWDA Resource Recovery Contract Procurement – Audit Report 2011/12 (September 2011) which reviewed and assessed the systems operated by the Authority in relation to its management of the CFT stage of the Competitive Dialogue Process for the RRC procurement. It concluded that the Competitive Dialogue process had been well managed and undertaken in accordance with the Authority's approved evaluation methodology and approach.

Internal Audit is planning to review the actual evaluation of final tenders to provide assurance on the final scoring of tender submissions prior to the appointment of the Preferred Bidder. This work will be started when the evaluation and scoring is completed in order to identify any issues prior to the appointment of the Preferred Bidder. This timing is important to identify any scoring errors prior to a decision to appoint a bidder, and to mitigate the risk of challenge from the unsuccessful bidder.

## Conclusions

I have not identified any significant issues to bring to Members attention in the management of the RRC project or its governance arrangements during the current period. However, I have noted the following areas of good practice:

- Members are regularly updated on progress on the RRC project via Authority Meetings, Special Authority Meetings, Scrutiny Panels, Members' training events and workshops, and one-to-one briefings of the Authority Chairman by the Chief Executive;
- key decisions are retained by Members, and officers have sought further approvals when significant issues or risks have arisen;
- Authority Members have demonstrated that they challenge information provided by officers; and

- there is strong leadership from the Authority's Chief Executive, and a high level of knowledge, skills and experience within the Project Team.

During 2012/13 and 2013/14 there will be critical stages in the progression of the procurement process and further issues will need to be considered as part of the external auditors VFM conclusion.

For example, I have not carried out a detailed review of the affordability of the RRC or the impact of the contract on the Levy funding mechanism during the current period. Bidders were provided with a funding envelope in which to develop bids, but the actual costs of the final tenders are still being assessed as part of the evaluation process. Officers are working with professional advisors to establish the full cost of the final tenders, and this will feed into the financial evaluation of the bids. Officers also plan to undertake a detailed review of the Levy Strategy once the RRC contract cost has been agreed, including the potential use of existing ear-marked reserves.

# Fees

## I reported my revised audit fee in the February 2012 Audit Plan.

I increased the proposed fee for 2011/12 following the completion of my 2010/11 audit. This was due to two factors:

- increase risk on the RRC procurement as the Authority moved towards calling for final tenders;
- weaknesses in financial reporting identified in 2010/11 and expected to impact on the 2011/12 audit.

I have agreed with the Treasurer a further revision to the fee because of the matters highlighted in this report.

Table 2: Fees

	Scale fee 2011/12 April 2011 (£)	Revised fee 2011/12 February 2012 (£)	Expected fee 2011/12 (£)
Audit	65,250	71,500	79,500
Non-audit work	0	0	0
<b>Total</b>	<b>65,250</b>	<b>71,500</b>	<b>79,500</b>

# Appendix 1 – Draft independent auditor's report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYSIDE WASTE DISPOSAL AUTHORITY

### Opinion on the financial statements

I have audited the financial statements of Merseyside Waste Disposal Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Authority and Group Movement in Reserves Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Merseyside Waste Disposal Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Treasurer to the Authority and auditor

As explained more fully in the Statement of the Treasurer to the Authority's Responsibilities, the Treasurer to the Authority is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer to the Authority; and the overall presentation of the financial statements. In

addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Merseyside Waste Disposal Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

#### ***Respective responsibilities of the Authority and the auditor***

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 review regularly the adequacy and effectiveness of these arrangements.



I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

### ***Basis of conclusion***

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### ***Conclusion***

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Merseyside Waste Disposal Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

### **Certificate**

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

Michael Thomas, Officer of the Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Bolton, BL6 6QQ  
September 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Investment property	The investment property is valued at £1.85m in the balance sheet. The market value at 31 March 2012 is around £1.3m based on offers made in the early part of 2012.	Revaluation loss 550			Investment property 550
Group accounts	A £213,000 consolidation adjustment in the group accounts does not relate to an intra-group transaction and should be reversed out			Group creditors 213	Group debtors 213

# Appendix 3 – Draft letter of management representation

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Michael Thomas

Engagement Lead

2nd Floor, Aspinall House, Aspinall Close,

Middlebrook, Bolton, BL6 6QQ

## **Merseyside Waste Disposal Authority - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Merseyside Waste Disposal Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2011. All representations cover the Authority's Group Accounts included within the financial statements.

### **Compliance with the statutory authorities**

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the Annual Governance Report appendix 2 are not material to the financial statements, either individually or in aggregate.

### **Supporting records**

All relevant information and access to persons within the entity has 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 financial statements.

### **Irregularities**

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Legal claim against the Group**

The legal claim against MWHL has been provided for in full in the 2011/12 Group accounts. No further amounts are expected to be paid and no similar claims have been received.

### **Valuation and accounting treatment of the Gillmoss MRF**

I have included the Gillmoss MRF, constructed during 2011/12, in the balance sheet at cost. I am satisfied that this meets the requirements of IFRIC4.

### **Related party transactions**

I confirm that I have disclosed the identity of Merseyside Waste Disposal Authority related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

**Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

**Signed on behalf of Merseyside Waste Disposal Authority**

I confirm that the this letter has been discussed and agreed by the Authority on 21 September 2012

# Appendix 4 – Glossary

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**Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

**Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

**Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

**Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

**Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

**Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.



# Appendix 5 – Action plan

## Recommendations

### Recommendation 1

The Authority should consider the qualitative matters raised in our report and consider scope to improve the accuracy of the financial statements.

**Responsibility**

**Date**

**Comments**

### Recommendation 2

The Authority should review the closedown process with their service providers and ensure that there are effective procedures in place to agree and understand year end balances.

**Responsibility**

**Date**

**Comments**

### Recommendation 3

The process for preparing group accounts needs to improve further. The Authority needs to ensure effective liaison with the preparer of the consolidation schedules for the group accounts (an accountant at the subsidiary company) so that all consolidation adjustments are fully understood and reconcile to the Authority's single entity financial statements.

**Responsibility**

**Date**

**Comments**

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