

Annual Audit Letter

January 2006



Annual Audit and Inspection Letter

Merseyside Waste Disposal Authority

Audit 2004-2005

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Key messages

- 1 This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2004/05, and is presented by Merseyside Waste Disposal Authority's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent work. It is not intended to represent a full summary of the activity and performance of Merseyside Waste Disposal Authority in 2005.
- 2 We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 2.

Introduction

- 3 Merseyside Waste Disposal Authority has worked with District Councils in Merseyside to develop an ambitious Joint Municipal Waste Strategy. The strategy sets challenging but realistic targets to maximise recycling and to minimise the use of landfill. The Authority is now moving into developing detailed proposals for delivering the strategy through the Procurement Strategy for contracts after 2008. This is an important time for the Authority as it develops the detailed plans for delivering waste solutions for the future, whilst at the same time delivering value for money on an ongoing basis.

The Authority's performance

- 4 The Waste Disposal Authority is engaged in work with a number of partners to enable it to meet its targets for waste through the Waste Strategy. The Authority is committed to working with partners but to ensure the effectiveness of the arrangements it needs to ensure there is clarity over the roles of the partners and that this is communicated effectively.
- 5 The Authority is well placed to ensure that the performance measures it is putting into place will enable it to manage performance effectively. An important part of that will be to ensure that performance information is timely and that it is subject to rigorous internal challenge.

The accounts

- 6 The Authority's accounts were prepared and approved in line with statutory requirements and we were able to provide an unqualified opinion. There were no issues of significance for us to report to members before we gave our opinion.

Financial position

- 7 The Authority's financial position is prudently managed with adequate reserves to meet unplanned contingencies. The Authority's prudent financial planning has enabled it to plan for a lower than expected levy increase for 2006/07. The Authority will need to continue to work with partners in the Districts to ensure it secures future levy increases to enable it to meet the objectives of the Waste Strategy in the medium-term.

Action needed by the Authority

- 8 The Authority needs to continue to work with partners so that there is clarity over roles and that this is communicated effectively.
- 9 The performance framework being put in place needs to be supported by timely and robust performance information.

Performance

The Waste Disposal Authority is engaged in work with a number of partners to enable it to meet its targets for waste through the Waste Strategy. The Authority is committed to working with partners but to ensure the effectiveness of the arrangements it needs to ensure there is clarity over the roles of the partners and that this is communicated effectively.

The Authority is well placed to ensure that the performance measures it is putting into place will enable it to manage performance effectively. An important part of that will be to ensure that performance information is timely and that it is subject to rigorous internal challenge.

Partnership working and performance management

- 10 The Waste Disposal Authority is entering a challenging period. In particular, the Waste Strategy will need to become a reality if Merseyside is to mitigate dramatic increases in the costs of waste disposal in future. To ensure the Waste Strategy enables the Authority to meet the challenges it faces it needs to work effectively with its partners, both in the District Councils and in the private and voluntary sectors.
- 11 Partnership working has become central to the way the Authority decides policy and delivers services. Our work was designed to give an assessment of how effectively the Authority works with its partners identifying both strengths and weaknesses.
- 12 We have also assessed how well the Authority manages its performance. Without effective performance management arrangements in place it will be difficult for the Authority to ensure it is able to monitor its performance and to respond to the challenges it faces.
- 13 The Waste partnership, Merseyside Waste Partnership, is developing good arrangements to improve partnership working. A memorandum of understanding for the delivery of the Joint Municipal Waste Management Strategy (JMWMS) has been developed and pooled targets are being used to improve joint working.
- 14 Whilst it is too early to assess the impact of the JMWMS there are different views amongst stakeholder groups about which aspects of partnership work are working well and which are not. There is a need for better communication within the partnerships about roles and responsibilities in order to address this.

- 15 Arrangements for managing performance and a more co-ordinated approach to the achievement of targets are being developed. Several of the Authority's internal processes are currently under review and there is a high-level of self-awareness and willingness to improve performance. For example, processes are in place to monitor performance and improvement plans are developed to respond to areas of under-performance. But there needs to be a more consistent approach to challenging performance. In particular, there needs to be more timely performance information and project deliverables should focus more on the outcomes for local communities and users so that members can identify progress and challenge lack of action.
- 16 We have made a number of recommendations for the Authority to consider. The main issues relate to:
- clarity of partner roles and responsibilities;
 - structured communication with partners and stakeholders;
 - the effective use of and challenge to performance information;
 - timeliness of performance information for partners;
 - the important role of partners on senior working groups; and
 - focus on project outcomes.
- 17 Our report has been presented to officers and we are working on developing an agreed action plan to ensure the Authority moves forward to develop the performance and partnership frameworks.

Performance information

- 18 Each year we review the Authority's best value performance plan (BVPP) to ensure it complies with the statutory requirements for content and distribution. As a part of this review we also consider the best value performance indicators (BVPIs) included in the BVPP.
- 19 The 2005 BVPP was well written, published by the statutory deadline and was made available to stakeholders and the public in user friendly format both in hard copy and electronically. In addition, to providing useful information about the Authority and its plans and performance the BVPP included all the statutory elements it was required to.
- 20 Our review of the BVPIs included in the BVPP concluded that there were no omissions or errors and that the underlying evidence and systems to support the indicators was in place. As in previous years we were able to conclude our review of the BVPIs and as the BVPP with no reservations.

Accounts and governance

- 21 We gave an unqualified opinion on the Authority's accounts on the 18 October 2005.

Report to those with responsibility for governance in the Authority

- 22 We are required by professional standards to consider reporting to those charged with governance (in this case to the Governance Committee) certain matters before we give an opinion on the financial statements. The potential areas for the auditor to report on are:
- any expected modifications to the auditor's report on your statements;
 - non-trifling mis-statements that have not been adjusted by officers following the audit;
 - material weaknesses in accounting and internal control systems;
 - qualitative aspects of accounting practice and financial reporting;
 - matters required by other auditing standards to be reported to those charged with governance; and
 - other matters that we wish to draw to your attention.
- 23 There were no matters that needed to be drawn to the attention of members prior to giving our audit opinion and we wrote to members to confirm this on 18 October 2005.

Matters arising from the final accounts audit

- 24 The published accounts are an essential means by which the Authority reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Authority's annual accounts by the statutory deadline. There are no significant matters to report arising from the final accounts audit for 2004/05.
- 25 Timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year the deadlines will become increasingly more difficult to achieve and will require early planning and careful scheduling of key meetings next year.
- 26 The International Standards of Auditing (ISAs), which apply to the Authority's accounts from 2005/06, require us to understand and evaluate the systems which produce material figures in your accounts. If procedure notes are not already available we may need to do additional work in order to comply with the ISAs.

Financial standing

- 27 The Authority's financial position is prudently managed. The unallocated reserves (those available to support unexpected contingencies) stood at £4.8 million at the end of 2004/05. The Authority made a surplus of £2.6 million at the end of 2004/05 some of which arose from additional discounts paid by the contractor. There were some other reductions in costs and a reduction of £600,000 in the planned amount of Recycling Credits paid by the Authority to the Districts. While this latter saving helps the financial position of the Authority it also gives rise to some concern about the ability of the districts to contribute to the achievement of recycling targets across Merseyside.
- 28 In the 2005/06 budget planning process a significant increase in the levy was forecast for 2006/07, this was noted by the Authority and the Merseyside District Councils. The increase was estimated at 18 per cent which was due mainly to the impact of the Landfill Allowance Trading Scheme. During the current year, the underlying assumptions and projections have changed significantly and the increase in the levy is likely to be nearer to 5 per cent.
- 29 The main reason for the reduction in the projected levy for 2006/07 are an anticipated reduction in the amount of waste arising from the Waste Recycling Centres of some 10 per cent which will reduce the amount of Landfill Tax liability significantly. In addition the Authority has also been able to negotiate favourable terms for Landfill permits reducing the cost from £150 per tonne to £20 per tonne.
- 30 It will be important for the future sustainability of the strategic waste disposal programme to continue work alongside the Districts to ensure they are informed of the cost pressures facing the Authority and are prepared for rises in the levy in the future. Without this investment the costs to the Districts and the Waste Disposal Authority will be even more significant.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

- 31 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.

Other work

Grant claims

- 32 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further is limited as there are only two claims and our work depends on the adequacy of the Authority's control environment.

Future audit work

- 33** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. During the spring of 2006 we are carrying out an Inspection at the Authority that will follow-up on the progress made since your last Waste Disposal Inspection.
- 34** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2006/07. The work we carry out on your accounts will need to comply with the new International Standards on Auditing (UK and Ireland) which apply to all audits of financial statements for periods commencing on or after 15 December 2004. We are currently liaising with the Treasurer and Internal Audit to agree how we can work with you to meet the ISA requirements.

Revision to the Code of Audit Practice

- 35** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 36** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan. The key changes include:
- the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 37 This letter has been discussed and agreed with Chief Executive A copy of the letter will be presented at the Authority on January 2006.
- 38 The Authority has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

Availability of this letter

- 39 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Authority's website.

Judith Tench

Relationship Manager

January 2006

Appendix 1 – Background to this letter

The purpose of this letter

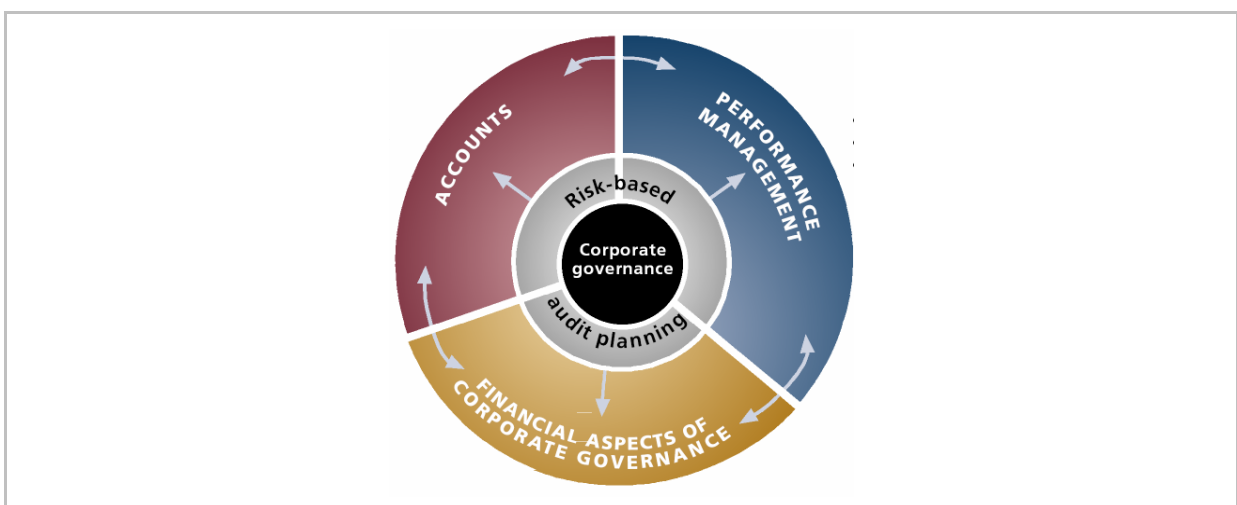
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Authority’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit of the Authority.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of Ppractice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 1

Report title	Date issued
Audit Plan	March 2005
Audit Opinion	October 2005
Letter on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
BVPP Report	December 2005
Partnership and Performance Management Report (Draft)	November 2005

Appendix 3 – Audit fee

Table 2 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	20,181	20,181
Financial aspects of corporate governance	3,602	3,602
Performance	14,323	14,323
Total Code of Audit Practice fee	38,105	38,105
Additional voluntary work (under section 35)	0	0
Total	0	0