

# Annual Governance Report

Merseyside Waste Disposal Authority

Audit 2008/09

Date

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# Contents

<b>Key messages</b>	<b>3</b>
<b>Next steps</b>	<b>4</b>
<b>Financial statements</b>	<b>5</b>
<b>Use of resources</b>	<b>8</b>
<b>Appendix 1 – Independent auditor’s report to Members of Merseyside Waste Disposal Authority</b>	<b>9</b>
<b>Appendix 2 – Adjusted amendments to the accounts</b>	<b>12</b>
<b>Appendix 3 – Unadjusted misstatements in the accounts</b>	<b>13</b>
<b>Appendix 4 – Draft letter of representation</b>	<b>14</b>
<b>Appendix 5 – Value for money conclusion</b>	<b>17</b>
<b>Appendix 6 – Action plan</b>	<b>20</b>

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## Status of our reports

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

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

**This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.**

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## Audit opinion

- 1** I have now substantially completed my audit work and, subject to the clearance of outstanding matters, I propose to give an unqualified audit on your financial statements. My draft audit report is attached at Appendix 1.
- 

## Financial statements

- 2** The financial statements and working papers were submitted within the agreed timetable and the outgoing acting treasurer was available to answer audit queries until mid-August.
  - 3** During the course of my audit work I identified some errors which were discussed with officers. Those which have been adjusted are summarised in appendix 2. Unadjusted differences are listed in appendix 3.
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## Use of resources - value for money conclusion

- 4** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. The wording of my draft report is attached in appendix 1. There are no issues to bring to members' attention.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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## 5 I ask the Authority to:

- consider the matters raised in this report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- delegate the Director to agree a response to the proposed action plan (Appendix 6).

# Financial statements

**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As 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.**

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## Opinion on the financial statements

- 6** 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.
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## Misstatements in the financial statements

- 7** During the course of my audit work and in discussion with officers I identified some items in the accounts which required amendment.
- 8** The most significant item related to:
- The capitalisation of procurement costs
  - Changes to the group accounts consolidation
  - Other items
- 

## Capitalisation of procurement costs

- 9** The capitalisation of costs relating to the new energy from waste procurement project. I raised this in my report to you at the end of my audit of the 2007/08 financial statements, highlighting the risks associated with capitalising costs which have not resulted in a fixed asset. At the end of 2008/09 I identified £1.6m costs relating to the project which have not resulted in an asset being brought into use at the Authority. I have concluded that these costs should be written off to revenue. Officers have investigated the costs further and concluded that a total of £1.8m should be treated as revenue rather than capital. This has been adjusted and is summarised in appendix 2.
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## Group accounts

- 10** Following preliminary audit work on the group accounts I identified some discrepancies and asked officers to revisit the workings supporting the consolidated financial statements. As a result of their work some significant differences in the group accounts were identified. This has given rise to a £4.4m movement on the income and expenditure account moving the reported deficit to a surplus in the group accounts and a £4m increase in net assets on the group balance sheet. These movements have given rise to corresponding changes in the other core group financial statements, the cashflow statement and the statement of total recognised gains and losses.
- 11** Officers have already addressed the issues giving rise to these errors by recalculating the consolidation schedules.
-

### Other items

- 12** I also identified some errors relating to the classification and valuation of fixed assets, including a non-operational asset accounted for as an operational asset and land and buildings not being treated separately for the purposes of the calculation of depreciation. This has resulted in an overstatement of the depreciation charge in the year of £132k in total. These items have not been adjusted for and are summarised in appendix 3.

Recommendation	
<b>R1</b>	The Authority should ensure that assets are split between land and buildings and depreciation is correctly applied to buildings only
<b>R2</b>	The Authority should review its asset base and ensure that non-operational assets are identified and valued in accordance with correct accounting practice

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### Significant weaknesses in internal control

- 13** The Authority uses a significant amount of services provided by St Helens MBC. This includes an internal audit service, valuation services, treasury management, banking and accounting and ledger processing facilities.
- 14** At present there is no service level agreement in place between St Helens and the Authority defining the provision of service. Where the Authority commissions services from a third party it must ensure that there is a formal agreement in place to define services and expectations for both parties.

Recommendation	
<b>R3</b>	The Authority should ensure that it has a service level agreement in place for ongoing services contracted from third parties

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### Letter of representation

- 15** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

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### Key areas of judgement and audit risk

- 16** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

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

Issue or risk	Finding
Risk that issues we identified in 2007/08 will not be addressed for 2008/09. In particular, there is a risk that arrangements for preparing group accounts will not be sufficiently robust.	Work on Group accounts is ongoing. There is scope to further improve the consolidation process which is currently being addressed.
Risk that the Authority does not have capacity to ensure adequate quality assurance of the financial statements produced or support the audit of the statements.	The Authority has supported the audit process by retaining the retired acting Treasurer until mid-August and engaging a new Treasurer and Business Support Manager from August.
The Authority entered into a new landfill contract during 2008/09.	Our detailed sample testing gave us assurance that the contract costs were correctly stated in the accounts.
Procurement of waste disposal facilities presents significant risks around ensuring good governance arrangements and value for money.	Our review of progress to date on the procurement project indicated that proper procedures had been followed.

**Accounting practice and financial reporting**

- 17** I consider the qualitative aspects of your financial reporting.
- 18** I note that the Authority's accounting policy is to depreciate property over 25 years. The valuer has suggested an economic life of 40 years on some properties. Whilst it is for the Authority to decide on its own accounting policies and estimate of useful economic lives I would recommend that the views of the valuer are considered and economic lives of assets are reassessed regularly and on an asset by asset basis.

<b>Recommendation</b>
<b>R4</b> The Authority should review the estimated useful economic lives of assets regularly, taking into account all available information, including the opinion of the valuer.

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# Use of resources

I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Value for money conclusion

- 19** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 20** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.



# Appendix 1 – Independent auditor’s report to Members of Merseyside Waste Disposal Authority

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## Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Merseyside Waste Disposal Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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## Respective responsibilities of the Treasurer and auditor

The Treasurer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

## Appendix 1 – Independent auditor’s report to Members of Merseyside Waste Disposal Authority

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

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### Basis of audit opinion

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

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

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### Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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

#### Authority’s Responsibilities

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

#### Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper

## **Appendix 1 – Independent auditor’s report to Members of Merseyside Waste Disposal Authority**

arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for other local government bodies specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Merseyside Waste Disposal Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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### **Certificate**

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

Michael Thomas  
(Officer of the Audit Commission)  
Audit Commission  
The Heath Business and Technical Park  
Runcorn  
Cheshire  
WA7 4QF

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 2**

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Authority and Group accounts</b> Procurement costs which have been capitalised in 0809 and previously but have not resulted in an asset	Cr fixed assets Dr revenue costs	1,793			1,793
<b>Group accounts only</b> Recalculation of the group accounts consolidation - changes to consolidation adjustments	<b>Balance sheet</b> Dr debtors Dr cash Dr creditors Cr profit and loss reserve <b>Income and Expenditure account</b> Cost of service - expenditure Cost of service - income Interest and investment income			659 3,320 72	4,051
			1,088 2,678 682		

# Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 3**

Description of error	Accounts affected	Value of error £'000s
Non-operational asset (Smiths Unit at the Fairport site) has been accounted for as an operational asset and has been depreciated accordingly	Fixed asset disclosure Depreciation charge	£425 £17
Land and buildings have not been split out in the fixed asset register and therefore land has been incorrectly depreciated in the past	Depreciation charge (estimated)	£115

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# Appendix 4 – Draft letter of representation

To:  
Michael Thomas  
District Auditor  
Audit Commission  
The Heath Business and Technical Park  
Runcorn  
Cheshire  
WA7 4QF

Dear Mr Thomas,

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## **Merseyside Waste Disposal Authority - Audit for the year ended 31 March 2009**

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 2009. All representations cover the Authority's accounts and group accounts included within the financial statements.

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

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

### **Uncorrected misstatements**

I confirm that I believe that the effect of the uncorrected financial statements misstatements listed in the appendix to this letter are not material to the financial statements. These have been discussed with those charged with governance within the Authority and the reasons for not correcting them are that they are not material to the financial statements.

### **Supporting records**

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

### **Irregularities**

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

## Appendix 4 – Draft letter of representation

There have been no:

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

I also confirm that I have disclosed:

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

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

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

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

### Fair Values

I confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with the financial reporting framework.

The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and appropriately reflect the best estimate of fair value of assets and liabilities required to be disclosed by these standards.

### Assets

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

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

### Compensating arrangements

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

### Contingent liabilities

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

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

### Related party transactions

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

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

### Group entities

I confirm the completeness of the information disclosed regarding Mersey Waste Holdings Ltd. I have considered the audited accounts for the company for the year ended 30 September 2008 and the management accounts to 31 March 2009 to ensure no additional disclosure is required in the financial statements of the Authority or Group.

Signed on behalf of Merseyside Waste Disposal Authority

I confirm that this letter has been discussed and agreed by the Authority on 25 September 2009.

Signed

25 September 2009



# Appendix 5 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<p><b>KLOE 1.1 (financial planning)</b> <b>VFM criterion met</b></p>	<p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>There is evidence of a robust approach to both service and financial planning. There is evidence of effective linkages between these two processes, and evidence that they are sufficiently integrated to inform each other effectively. The Authority has appropriate budget setting and monitoring procedures with clear forward planning arrangements as demonstrated through its procurement strategy. Treasury management arrangements have been closely linked with St Helens Council to date as they bank and invest the Authority's funds on their behalf. MWDA needs to ensure that they strengthen their own Treasury management procedures going forward.</p>	
<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b> <b>VFM criterion met</b></p>	<p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The organisation has a thorough understanding of its costs and cost drivers, and uses external advisors effectively to ensure that its knowledge in these areas is kept up-to-date, is appropriately benchmarked and is fit for purpose. Cost information is comprehensive and of good quality, and is used effectively to support decisions on policy, service planning and resource allocation and to identify efficiency savings. Major investment decisions are subject to a rigorous appraisal process, and are effectively monitored. Performance and efficiency targets are challenging, and their achievement is closely monitored.</p>	

## Appendix 5 – Value for money conclusion

<b>KLOE 1.3 (financial reporting)</b> <b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Authority has in place monitoring and financial reporting arrangements which identify and respond to variances, produces financial information to support their decision making processes and considers financial performance in the context of wider operational performance. Accounts are produced in accordance with statutory requirements and the Authority supported the process with working papers and responding promptly to audit requests. The Authority provides a wide range of information, including accounts and audit letters, on its website.	

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### Governing the business

<b>KLOE 2.4 (risk management and internal control)</b> <b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Authority has in place a risk strategy and risk management arrangements to identify, prioritise and mitigate risks arising from its operations and those of its partners. It also has appropriate anti-fraud and corruption strategies and procedures and contributes to the national fraud initiative and maintains a sound system of internal control. However, we note that many of these procedures and processes rely on expertise and support provided by St Helens Council. The Authority must ensure that it develops sufficient expertise in-house to maintain its governance arrangements going forward.	

## Appendix 5 – Value for money conclusion

### Managing resources

<b>KLOE 3.2 (strategic asset management)</b> <b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Authority has a sound approach to asset management, which is linked to the achievement of corporate priorities. This is evidenced through its service planning process, its Site Acquisition Strategy and its approach to major procurement exercises. There is effective corporate supervision of the management of assets and the capital programme at both officer and Member level. There is good information available on the value and condition of the Authority's asset base, and effective arrangements are in place to maintain its fitness for purpose. There are evaluation processes in place to support decision-making on major investments through option appraisal and whole-life appraisal processes.</p>	

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
5	R1 The Authority should ensure that assets are split between land and buildings and depreciation is correctly applied to buildings only	2	Alan Bennett, Business Support Manager			
5	R2 The Authority should review its asset base and ensure that non-operational assets are identified and valued in accordance with correct accounting practice	2	Alan Bennett, Business Support Manager			
6	R3 The Authority should ensure that it has a service level agreement in place for ongoing services contracted from third parties	3	Peter Williams, Treasurer			
7	R4 The Authority should review the estimated useful economic lives of assets regularly, taking into account all available information, including the opinion of the valuer	2	Alan Bennett, Business Support Manager			

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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