

Annual Audit Letter

Merseyside Waste Disposal Authority

Audit 2009/10

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.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Current and future challenges	2
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Weaknesses in internal control	4
Value for money	6
VFM conclusion	6
Approach to local value for money work from 2010/11	7
Current and future challenges	9
Future developments	9
Closing remarks	10
Appendix 1 – Audit fees	11
Appendix 2 – Glossary	12

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

Audit opinion and financial statements

1 I issued an unqualified audit report on the financial statements on 24 September 2010. There were no material misstatements or amendments to the accounts.

Value for money

2 I reviewed the arrangements that the Authority had in place during 2009/10 to secure economy, efficiency and effectiveness in its use of resources. I was satisfied that arrangements were adequate and gave my conclusion on 24 September 2010.

Current and future challenges

Strategic waste procurement

3 As part of my work on the value for money assurance I have continued to review the Authority's arrangements for managing its role in developing the approach to waste disposal solutions for Merseyside and Halton alongside its partners.

4 The Authority has continued to make steady progress. During 2009/10 the new, twenty year, waste management recycling contract (WMRC) commenced and has been in operation since June 2009. It has yielded significant cost savings.

5 The Authority is also making significant progress on its resource recovery contract (RRC). During 2009/10 the Authority continued to assess potential sites for the new solution within the local area. During 2010 both preferred bidders have identified their own sites and the procurement process is now continuing to the next phase. I will continue to review the Authority's arrangements as it proceeds with the procurement.

Economic pressures

6 The economy as a whole, and in particular the public sector, are facing significant financial challenges. The comprehensive spending review has indicated significant cuts to public sector funding over the next four years. The Authority will be under pressure to keep the waste disposal levy to a minimum to support its partners during these challenging times.

7 The Authority maintains a prudent level of reserves to support its waste procurement strategy, in particular the ongoing procurement of the RRC. Delays in this procurement could increase waste disposal costs in the medium to long term if the Authority had to make further use of landfill at a time when landfill taxes and penalties are increasing.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 24 September 2010, in advance of the statutory target date.

Overall conclusion from the audit

8 I presented my Annual Governance Report to the authority on 24 September summarising my findings from the audit.

9 I did not identify any material misstatements to the accounts. Officers agreed to make three amendments to the accounts as a result of my audit and I identified two debtor balances totalling £498,000 in the accounts which could be unrecoverable. These were not amended in the 2009/10 accounts and will be investigated further by officers in 2010/11 and provided for as appropriate.

10 I recognised some improvements in the preparation of accounts and working papers. In particular, the Authority has aligned the financial year end of its subsidiary undertakings to 31 March which has made the preparation of group accounts more straightforward.

11 The Authority is preparing for the transition to international financial reporting standards (IFRS). Officers have been considering the implications of the transition and discussing it with my team. I will undertake audit work on the restated 2009/10 accounts during 2010/11.

Weaknesses in internal control

12 The Authority did not have a formal service level agreement (SLA) in place with St Helens Council, for services which the Council provides to the Authority including:

- Ledger processing;
- Creditor/debtor processing;
- Payroll;
- VAT support; and
- Valuers;

- Treasury management;
- Internal Audit;
- Legal support;
- Human resources support; and
- Health and safety support.

13 Given the scope of the arrangements in place, a formal agreement between the two parties is essential to ensure a consistent level of service and agreed expectations on quality, timing and scope of work.

14 The Authority have continued to work with the Council to agree a formal SLA and the draft document is expected to be finalised by the end of 2010.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

VFM conclusion

15 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

16 This is a summary of my findings:

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

17 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Strategic waste procurement

18 I have continued to review the Authority's arrangements for managing and developing the approach to waste disposal solutions for Merseyside. The Authority is working to procure waste management contracts that will enable it and its Council partners to meet the targets as set out in the Joint Municipal Waste Management Strategy (JMWMS).

19 During 2009/10 the new twenty-year WMRC commenced. This has now been in operation since June 2009 and has yielded significant cost and performance benefits for the Authority and its partners. I reviewed the systems and controls in place to monitor the new contract as part of my audit of the 2009/10 financial statements. I did not identify any significant weaknesses or other matters to bring to your attention.

20 The Authority has continued to make significant progress on the RRC contract during 2009/10. The Authority developed a site acquisition strategy and detailed cost/risk assessment of potential sites in the region. The identification of appropriate sites and subsequent resolution of any associate planning application matters was a key challenge to the Authority. Planning delays could result in significant costs to the Authority and its partner Councils due to the increased costs of alternative waste disposal solutions.

21 The Authority has remained in dialogue with its two potential contractors during the process. During 2010/11 both potential contractors have identified their own sites and no longer require the Authority to find and provide one. Therefore planning risks have now passed to the bidders and it is feasible that the new waste solution will be operational from 2014/15 in line with the original timetable.

22 In October 2010, following the government's comprehensive spending review, the Government has informed the Authority and its partners that the provisional private finance initiative (PFI) credit of £90million has been confirmed.

23 The final period of detailed dialogue between the Authority and each of the remaining bidders can now commence. The Authority have set up a scrutiny panel of members to support this process and hope to receive final bids in the second quarter of 2011.

24 I will continue to review the progress of the procurement and monitor arrangements in place during 2010/11 and 2011/12.

Approach to local value for money work from 2010/11

25 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

26 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

27 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Future developments

28 As noted in my value for money commentary above, the RRC procurement will continue to be the most significant challenge for the Authority in the short to medium term. It is a complex, high value contract but could yield long-term savings for the Authority and its partner Councils.

Audit arrangements

29 On Friday 13 August, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission and the transfer of the audit practice to the private sector. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

30 Arrangements for the audit of local government bodies from 2012/13 onwards will be clarified when the government publish their white paper on the future of public audit. This is expected in early 2011.

31 My priority is to ensure our professional standards and commitment will be maintained for the 2010/11 and 2011/12 audits. You will see no deterioration in customer service and audit quality.

32 We are currently working on a proposal to develop an independent audit practice to continue beyond the abolition of the Audit Commission. Options available to us include a potential mutualisation or a buy-out. Whatever the governance model that we adopt, we remain committed to providing excellent service to our existing clients, seeking new opportunities to improve financial management and reporting and helping the sector achieve better value for money.

Closing remarks

33 I have discussed and agreed this letter with the Director and the Treasurer. I will present this letter to the Authority on 26 November 2010.

34 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Audit plan	
Annual Governance Report	September 2010
Opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Annual audit letter	November 2010

35 The Authority has taken a positive and helpful approach to our audit. I wish to thank the Authority staff for their support and cooperation during the audit.

Michael Thomas
District Auditor

November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£54,475	£54,475	
Value for money	£19,325	£19,325	
Whole of Government accounts review	£1,980	£1,980	
Total	£75,780	£75,780	None

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946