

# Annual Audit Letter

Merseyside Waste Disposal Authority

Audit 2008/09

November 2009



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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 our 2008/09 audit. It includes messages arising from the 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.**

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## Audit opinion

- 1 I gave an unqualified audit on your 2008/09 financial statements on 25 September 2009. My draft audit report was included as Appendix 1 of my Annual Governance Report which I presented to the Authority on 25 September 2009.
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## Financial statements

- 2 The financial statements and working papers were submitted within the agreed timetable and the Authority made arrangements to ensure continuity in the audit process during significant changes in the finance team. The outgoing acting treasurer was kept on to answer audit queries until mid-August when the new Business Support Manager and Assistant Director joined the team.
  - 3 During the course of my audit work I identified some errors which were discussed with officers. These were reported to you in my Annual Governance Report in September and principally related to the capitalisation of procurement costs, the consolidated group accounts and fixed assets. The significant changes to the financial statements arising from these matters were £1.8m of capital expenditure was accounted for as revenue expenditure, and, changes to group accounts that led to a £4.4m movement on the income and expenditure which moved the reported deficit to a surplus, and led to a £4m movement on the group balance sheet. There were also material adjustments to the cashflow statement arising from these changes. Officers have already addressed the issues giving rise to these discrepancies.
  - 4 At present the other companies included in the Authority's consolidated group accounts all have a year end of 30 September unlike the Authority's 31 March year end. This makes the audit more challenging and limits the extent to which we can place reliance on the audit work undertaken by the auditors of the other companies.
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## Value for money

- 5 I issued 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 report was attached in Appendix 1 of my Annual Governance Report.
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### Strategic waste procurement

- 6 As part of my work on the value for money assurance, I have continued to review the Authority's arrangements for managing its lead role in developing the approach to waste disposal solutions alongside its partners.
- 7 In accordance with the Joint Municipal Waste Management Strategy (JMWMS) the Authority has continued to work towards procuring new waste management contracts that will enable partners to meet the targets as set out in the JMWMS.
- 8 The Authority has continued to make steady progress on the procurements during the year including completion of the new twenty year waste recycling contract. It also continues to progress the remaining procurement project, the PFI Resource Recovery Contract (RRC). Further details of these and the arrangements in place to manage and monitor them are in the value for money section of my report below.
- 9 There are ongoing risks to the success of the procurement exercise. Delays and failure to resolve issues around site acquisition and associate planning application matters will potentially increase the cost of waste disposal throughout Merseyside.
- 10 I will continue to review the Authority's arrangements as it proceeds with the procurement in 2009/10.

### Audit fees

- 11 I agreed some increases to the 2008/09 audit fee in April 2009 due to further risks identified during our 2007/08 audit and 2008/09 interim audit visit. I do not propose any further increase in the 2008/09 audit fee.

**Table 1     Audit fees**

	Initial fee	As revised in April 09	Variance
Financial statements and annual governance statement	47,139	55,884	8,745
Value for money	18,125	18,125	-
<b>Total audit fees</b>	65,264	74,009	8,745
Whole of Government Accounts	1,773	1,773	-
<b>Total fees</b>	67,037	75,782	8,745

## Key messages

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### Actions

- 12** Recommendations are shown within the body of this report and have been agreed with officers in the Authority.
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### Independence

- 13** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 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.

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## Significant issues arising from the audit

**14** I gave an unqualified audit on your 2008/09 financial statements on 25 September 2009. My draft audit report was included as appendix 1 of my Annual Governance Report which I presented to the Authority on 25 September 2009. However, in that report, I did draw a number of matters to your attention.

## Capitalisation of procurement costs

**15** On the balance sheet, fixed assets included capitalised costs relating to the new energy from waste procurement project. I raised this 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 had not resulted in an asset being brought into use at the Authority. I concluded that these costs should be written off to revenue. Officers investigated the costs further and concluded that a total of £1.8m should be treated as revenue rather than capital and duly adjusted the accounts.

## Group accounts

**16** 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 gave 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 gave rise to corresponding changes in the other core group financial statements, the cashflow statement and the statement of total recognised gains and losses.

**17** Officers have already addressed the issues which gave rise to these errors by recalculating the consolidation schedules.

## Financial statements and annual governance statement

- 18** At present the subsidiary companies included in the Authority's consolidated group accounts have a year end of 30 September unlike the Authority's 31 March year end. This makes the audit more challenging and limits the extent to which we can place reliance on the audit work undertaken by the auditors of the other companies and I have therefore recommended that the Authority considers changing the year end of its wholly owned subsidiaries to 31 March to assist both internal and external financial reporting.

### Recommendation

- R1** The Authority should consider changing the year end of its wholly owned subsidiaries to 31 March to facilitate effective financial reporting and a more efficient audit process.

### Other items

- 19** 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 resulted in an overstatement of the depreciation charge in the year of £132k in total.

### Recommendations

- R2** The Authority should ensure that assets are split between land and buildings and depreciation is correctly applied to buildings only.
- R3** The Authority should review its asset base and ensure that non-operational assets are identified and valued in accordance with correct accounting practice.

## Significant weaknesses in internal control

- 20** 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.
- 21** 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

- R4** The Authority should ensure that it has a service level agreement in place for ongoing services contracted from third parties.

**Accounting practice and financial reporting**

- 22 I considered the qualitative aspects of your financial reporting.
- 23 I noted 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.
- 24 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.

**Recommendation**

- R5 The Authority should review the estimated useful economic lives of assets regularly, taking into account all available information, including the opinion of the valuer.

# Value for money conclusion

**I assessed 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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## VFM conclusion

- 25** I assessed 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.
- 26** I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
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## Strategic waste procurement

- 27** I have continued to review the Authority's arrangements for managing its lead role in developing the approach to waste disposal solutions alongside its partners.
- 28** Over a six year period the Waste Disposal Authority has developed, and updated, a JMWMS with its District Council partners in Merseyside. It sets out how they, as the Merseyside and Halton Waste Partnership, will respond to the national waste legislation and achieve national targets to recycle more waste and divert waste from landfill. The Authority is working to procure new waste management contracts that will enable the partners to meet the targets set out in the JMWMS.
- 29** The Authority has continued to make steady progress on the procurements during the year, in particular it has:
- progressed them in an open and competitive manner;
  - completed the procurement of the new 20 year waste recycling contract with a new contractor, at a price well within the Authority's affordability limit and with higher performance standards than in the previous contract;
  - continued to exercise greater control of its subsidiary company and previous contractor, Mersey Waste Holdings Ltd, in the transition process before and after the new contract became operational in June 2009; and
  - continued to closely monitor progress against contract timetables and considered the complexities of the procurements in a transparent manner at formal meetings of the Authority.
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- 30** In addition, as regards the remaining procurement to be let, the RRC it has:
- purchased LATS pending opening of the facilities currently planned for 2014 at the earliest;
  - received initial bids well within its affordability limit and shared the financial and levy implications for each District Council with their Chief Executives and Treasurers;
  - continued to update its sites acquisition and associated planning application strategy as circumstances and needs assessments change, taking advice from external advisers as appropriate; and
  - continued to engage with the City Region Shadow Cabinet and the Waste Development Plan Document process (a statutory Planning Authority initiative), and assess the impact on the site selection process.
- 31** Most recently, a cost/risk assessment relating to the planning application process has been undertaken in respect of the site options currently available to the Authority and a revised sites acquisition strategy prepared. This should enable the Authority to progress two potential contractors to the final period of dialogue in the procurement process for the RRC, before the final bids are received next year and the preferred bidder chosen.
- 32** The Inter Authority Agreement has still not been signed by all members of the Waste Partnership. This is a legally binding document, which will formalise the partnership arrangements to achieve the JMWMS, and provide a clearer framework for the bidders in the procurement process.
- 33** It is crucial to the success of the procurement that the sites acquisition and associated planning application matters are resolved satisfactorily. However, they remain a significant challenge for the Authority and its partners. Otherwise, the contracts may prove to be less attractive to the private sector resulting in less competitive final bids, and delay in the timetable will potentially significantly increase the costs of waste disposal throughout Merseyside. We will continue to review the Authority's arrangements as it proceeds with this procurement.

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# Closing remarks

- 34** I have discussed and agreed this letter with the Director and the Assistant Director (Finance). I will present this letter at the Authority meeting on 27 November 2009 and will provide copies to all members.
- 35** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

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**Table 2**

<b>Report</b>	<b>Date issued</b>
Audit plan	April 2009
Report to those charged with governance	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
Annual audit letter	November 2009

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- 36** The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority staff for their support and co-operation during the audit.

Michael Thomas  
District Auditor  
November 2009

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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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