

# **Annual Audit and Inspection Letter**

**Merseyside Waste Disposal Authority**

**Audit 2006/07**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

Your relationship manager has prepared this report to summarise the Audit Commission's assessment of the Authority. The report draws on audit, inspection and performance assessment work completed during the year.

In this report, the Commission summarises findings and conclusions from the statutory audit, the appointed auditor has previously reported to you. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, exercise their professional judgement independently of the Commission (and the audited body). Findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; auditors take no responsibility to any member or officer in their individual capacity, or to any third-party.

### **Copies of this report**

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# Summary

## Key messages

- 1 The Authority has met the required standard for securing value for money. To inform this conclusion I reviewed the Authority's arrangements for managing the major procurement exercise which is underway. I did not identify any matters which impact on my value for money conclusion for 2006/07. However, Merseyside Waste Disposal Authority (the WDA) faces significant challenges in the next 12 months as it leads the major project to develop waste disposal solutions in Merseyside.
- 2 Over a four year period the WDA has developed a Joint Municipal Waste Management Strategy with its District Council partners in Merseyside. It sets out how they, as the Mersey Waste Partnership, will respond to the national waste legislation and achieve national targets to recycle more waste and divert waste from landfill. The WDA currently contracts with Mersey Waste Holdings Ltd, a wholly owned subsidiary, for the disposal of waste. These arrangements are coming to an end in 2008 and the Authority is working to procure new waste management contracts that will enable the partners to meet the targets set out in the Joint Waste Management Strategy.
- 3 The WDA has made good progress during the year. For example, it has secured PFI funding from DEFRA to enable procurement of the new facilities under the resource recovery contract to proceed, and is taking a prudent approach in response to recent forecasts for recycling. The next critical stage of the project is for the partners work together to secure the planning applications for the strategic sites.
- 4 Not all the District Councils have signed up to the partnership arrangements required to achieve the Joint Municipal Waste Management Strategy. Agreement is needed to finalise the quantum of the contract in order to progress within the agreed timetable. The absence of an agreement will result in delays and uncertainty and the risk of large unplanned increases in costs of waste disposal in Merseyside.
- 5 As I have reported in previous years, the Authority's arrangements for financial planning and budget monitoring are established and effective. However, the Authority faces a significant change agenda which will present new challenges and demand even more robust financial management.
- 6 I gave an unqualified opinion on the Authority's statement of accounts on 26 September 2007. I identified scope to strengthen arrangements between the Authority and Mersey Waste Holdings Ltd in 2007/08. I will continue to review the accounting treatment and disclosure of transactions and balances with the company as the arrangements for the cessation of current group arrangements unfold.

## Recommendations

- 7 My audit has identified a number of areas where improvements can be made. The most important areas for improvement are shown below.

<b><i>Recommendations</i></b>
<i>R1 Ensure reserves are maintained at an adequate level to meet the change agenda.</i>
<i>R2 Work with the partners to formalise partnership arrangements to achieve the JMWMS.</i>
<i>R3 Strengthen arrangements between the Authority and Mersey Waste Holdings Ltd for preparing group accounts in 2007/08.</i>

## Purpose, responsibilities and scope

- 8 This report provides an overall summary of the Audit Commission's assessment of the Authority. It draws on the findings and conclusions from the audit of the Authority and from any inspections undertaken during the year.
- 9 I have addressed this letter to members as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Authority in meeting its responsibilities.
- 10 This letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Authority is planning to publish it on its website.
- 11 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Authority's accounts;
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Authority's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 12 This letter also includes the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999 and summarises the key issues arising from any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 13 We have listed the reports issued to the Authority relating to 2006/07 audit and inspection work at the end of this letter.

## Authority's use of resources

### Value for money conclusion

- 14 As your appointed auditor I am required to conclude whether I am satisfied the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion and requires me to review evidence that is relevant to the Authority's corporate performance management and financial management arrangements.
- 15 I concluded that the Authority did have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources. I did not identify any significant issues that warrant the high level attention of the Authority.

### Financial position

- 16 As I have reported in previous years, the Authority's arrangements for financial planning and budget monitoring are established and effective. However, the Authority faces a significant change agenda which will present new financial risks. This will present new challenges and demand an even more robust financial regime.
- 17 The Authority achieved a £1m surplus for the year 2006/07 and as at September 2007, is predicting a similar surplus in 2007/08. The Authority's reserves as at 31 March 2007 were £10m, which included £4.1m earmarked reserves. Earmarked reserves comprise £2.8m for landfill allowances trading scheme and £1.3 m for professional advisors for the procurement contract. However, the Authority has also recognised contingent liabilities, including the impact of the cessation of Mersey Waste Holdings Ltd, which could have a significant impact on the Authority's financial position going forward. The Authority will need to keep financial plans under review and ensure that reserves are maintained at an adequate level to meet the change agenda going forward.

#### **Recommendation**

*R1 Ensure reserves are maintained at an adequate level to meet the change agenda.*

### Strategic waste procurement

- 18 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.

- 19 Over a four year period the Waste Disposal Authority has developed a Joint Municipal Waste Management Strategy (JMWMS) with its District Council partners in Merseyside. It sets out how they, as the Mersey Waste Partnership, will respond to the national waste legislation and achieve national targets to recycle more waste and divert waste from landfill. The current waste disposal contracts with Mersey Waste Holdings Ltd, a wholly owned subsidiary, are coming to an end in 2008 and the Authority is working to procure new waste management contracts that will enable the partners to meet the targets set out in the JMWMS.
- 20 The Waste Disposal Authority has made good progress during the year, in particular it has:
- secured PFI funding from DEFRA to enable procurement of the new facilities under the resource recovery contract to proceed;
  - decided to seek an interim contract to minimise exposure to financial penalties (potential cost £30m) by diverting waste away from landfill prior to the new facilities becoming operational in 2014;
  - changed governance arrangements applying to Mersey Waste Holdings Ltd to enable the Authority to exercise greater control in the lead up to the disposal of the company's assets as part of the procurement;
  - completed a competitive tender process for the landfill contract, which is due to be awarded shortly;
  - continued to report regularly on progress to the Merseyside Leaders Group; and
  - taken a prudent approach to respond to recent recycling forecasts. Latest forecasts of waste arisings indicate only 37 per cent of waste will be recycled by 2020 compared to the key strategic target of 44 per cent in the JMWMS. The Authority plans to develop a 'Recycling Performance Recovery Strategy' in conjunction with the District Councils in order to close the performance gap and reduce the financial impact. Forecasts indicate that the collection and treatment of food waste would resolve most of the problem. The WDA plans to seek an additional bid from tenderers to secure a competitive price if the District Councils select this option.
- 21 The WDA is closely monitoring progress against contract timetables and presents reports to the Authority. Key pressure points have been recognised and contingency arrangements are being considered, and the impact on resource requirements is also being reviewed.
- 22 In my Annual Audit letter last year I identified that a significant challenge facing the Authority and its partners will be in identifying potential sites for new waste disposal and recycling facilities and in securing planning permission from those authorities.



- 23 The next critical stage to deliver the final phase of the procurement is to secure the planning applications for the strategic sites and to determine the quantum of waste for the contract. However, the District Councils have not yet signed the inter authority agreement, which formalises the partnership arrangements to achieve the JMWMS and the targets for waste tonnages. This needs to be resolved as a matter of urgency in order to meet the agreed timetable for the commencement of the contracts. In the absence of a timely agreement there is a risk of significant increases in costs of waste disposal in Merseyside if:
- there are delays in contract commencement, which could lead the imposition of financial penalties; and
  - current uncertainty makes the contracts less attractive to the private sector, which could result in reduced competition and higher prices tendered.
- 24 We will continue to review the Authority's arrangements as it proceeds with this procurement which the Authority has identified as key to obtaining value for money.

#### ***Recommendation***

*R2 Work with the partners to formalise partnership arrangements to achieve the JMWMS.*

## **Best Value and Data Quality**

- 25 I carried out a review of your Best Value Performance Plan and your arrangements for ensuring the Performance Indicator (PI) information was accurate. The BVPP meets the statutory requirements and also includes additional information such as strategic plans.
- 26 I have assessed the management arrangements for ensuring data quality and producing the PIs as adequate.
- 27 My detailed review of selected performance indicators found that they had been calculated in accordance with guidance. I have not qualified any of the PIs. I identified scope to strengthen processes in a couple of areas and shared my detailed findings with officers to help to secure improvements for future years.

## Audit of the accounts

- 28 As your appointed auditor I have issued an unqualified opinion on the Authority's accounts on 26 September 2007.
- 29 Before giving my opinion, I reported to the Audit and Governance Committee on the issues arising from the 2006/07 audit.
- 30 The group accounts were amended for a material error in the accounts and I identified scope to strengthen arrangements between the Authority and Mersey Waste Holdings Ltd for preparing group accounts in 2007/08.
- 31 Officers are working on a response to an action plan to secure improvements in this and other areas for future years.

### ***Recommendation***

*R3 Strengthen arrangements between the Authority and Mersey Waste Holdings Ltd for preparing group accounts in 2007/08.*

## Whole of government accounts

- 32 Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to Communities and Local Government and I am required, as your auditor, to undertake a range of procedures and report on the pack.
- 33 The consolidation pack was produced on time and I completed my work to meet the agreed national deadline. There are no matters I wish to bring to Members' attention.

## Closing remarks

- 34 I have discussed and agreed this letter with the Clerk, Chief Executive and the Treasurer. I will present the letter at the Authority meeting on 7 December 2007 and I will provide copies to all Authority members.
- 35 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Authority during the year.

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**Table 1      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2006
Report to those charged with governance	24 September 2007
Opinion on financial statements	26 September 2007
Value for money conclusion	26 September 2007
Interim and final accounts memorandum	November 2007
Annual audit and inspection letter	November 2007

- 36 The Authority has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Authority's staff for their support and co-operation during the audit.

**Judith Tench**

November 2007