

# Annual Audit Letter

Merseyside Waste Disposal Authority

Audit 2010/11



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# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only significant recommendations in this report. The Authority has accepted these recommendations.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

## **Audit opinion and financial statements**

I issued an unqualified audit opinion on 23 September 2011.

This has been a challenging year for the finance team with changes to key finance staff and the implementation of international financial reporting standards (IFRS).

- I identified five material errors in the accounts and a number of smaller adjustments.
- I have recommended that work needs to be done to improve the quality of accounts submitted and the underlying working papers for 2011/12.

## **Value for money**

I issued an unqualified VFM conclusion on 23 September 2011 confirming that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness.

- Overall financial resilience remains strong with a good level of reserves and a track record of delivering against budget. The letting of the Resource Recovery Contract (RRC) continues to make good progress. The Authority expects the resource recovery facility to be operational in 2015.
- Arrangements for delivering value for money remain strong and the Authority has continued to prioritise resources, achieve cost reductions and improve efficiency and productivity. The waste management recycling contract has shown continuing benefits. The RRC contract is critical to the Authority continuing to achieve value for money in the long term.



# Financial statements and annual governance statement

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

## **Overall conclusion from the audit**

I issued an unqualified opinion on the 2010/11 financial statements following the Authority meeting on 23 September 2011. I reported my findings to you in my annual governance report (AGR). I also gave you a verbal update at the meeting on the conclusion of outstanding matters in the AGR.

I reported five material amendments to the accounts:

- £50 million reclassification of cash held on behalf of the Authority by its service provider from cash to debtors due to a late change in accounting practice;
- £4.4 million reclassification between debtors and creditors, which was linked to the above issue;
- £1.9 million impairment adjustment to property, plant and equipment identified in 2009/10 but not included in the 2010/11 accounts.
- £1.3 million correction of a duplicate journal adjustment between usable reserves and the capital adjustment account; and
- £2.3 million adjustment between general and ear-marked reserves.

I also identified a number of other amendments and non-trivial errors.

Preparation of the 2010/11 financial statements was challenging this year following the implementation of international financial reporting standards and changes in key finance staff immediately prior to the year-end. There is scope to improve the underlying arrangements in place for the preparation of the financial statements and I have recommended that work needs to be done to improve the quality of accounts submitted for audit and the underlying working papers for 2011/12. This should reduce the number of errors identified, improve the efficiency of the audit process and reduce the amount of officer time required to respond to audit queries during 2012.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements.

# 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.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

Table 1: **Value for money criteria and our findings**

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>At 31 March 2011 general fund balances totalled £15.2 million and these have been maintained to date in 2011/12. The Authority also maintains a sinking fund of £23.7 million at 31 March 2011 to smooth cost increases during the next few years. This will be used to manage the transition from disposal of significant amounts of waste through landfill to the resource recovery contract (RRC) currently being procured. This will help the Merseyside councils (and Halton) to manage their financial pressures over the next few years by avoiding unexpected increases being passed on through the levy and contract payments in the short term.</p> <p>The RRC remains the most significant factor in the long term financial resilience of the Authority. This is the largest local government procurement exercise on Merseyside and, given its size, involves a high degree of risk for the Authority to manage.</p> <p>The procurement continues to make good progress. The call for final tenders is expected in December 2011. In May 2012 the Authority plan to appoint the preferred contractor and aim to achieve financial close by the end of August 2012. The Authority expects the RRC to be operational in 2015.</p>

Criterion	Findings
	<p>The project is complex and high value but the Authority have put in place good arrangements to manage the risks involved. This includes a member-led scrutiny group and appropriate legal and specialist consultancy support.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Authority's budget setting process is based on a strategic approach to reducing costs and improving value for money. Overall arrangements remain strong. The Authority has continued to prioritise resources within tighter budgets. The management of the waste management recycling contract (WMRC) is a good example of achieving cost reductions and improving efficiency and productivity. The procurement of the RRC contract mentioned above is also evidence of good arrangements to secure value for money in the longer term.</p> <p>Financial and performance management remain effective and integrated.</p> <p>Improvements in 2010/11 against key corporate objectives have been achieved. The Authority has played a key role in improved performance in relation to recycling, landfill diversion and reductions in residual waste per household.</p> <p>Given the significant financial challenges across the public sector in 2011/12 and 2012/13 the close control of spending and performance will remain critical going forward.</p>

# Current and future challenges

I have identified the following significant challenges for the Authority in 2011/12 and beyond.

The resource recovery contract procurement exercise.	The procurement exercise will continue during 2011/12. It is a very significant contract which could impact on the financial health of the Authority, and the long term costs of the six Councils who fund the Authority. I will continue to monitor the progress of the procurement process and the risk to the Authority if it does not progress as planned.
Economic downturn and pressure on the public sector.	The Authority has a good level of reserves. It is funded through a levy to five Councils and contractual payments from a sixth Council. The Authority plans to use its sinking fund reserve to smooth the cost to Councils year-on-year to assist with their budgetary control. Given the financial challenges for local government bodies in the next few years, the local Councils will continue to look to the Authority to deliver value for money and reduce costs or keep increases to a minimum where possible.
Shared services.	The Authority continues to contract ledger, payroll, internal audit and other services from St Helens Council. During 2011/12 a service level agreement was formalised between the two parties. The Authority will need to continue to monitor the scope and nature of the services provided to ensure they are fit for purpose and are providing value for money.
Joint Municipal Waste Management Strategy	A revised Joint Municipal Waste Management Strategy has been developed between the Authority and the five Merseyside Councils. The review of the Strategy was undertaken during 2010/11, involving residents and other stakeholders and is due for ratification and adoption by all the Councils and the Authority in the last quarter of 2011/12.
MWDA strategy	The Authority has been undertaking an operational and strategic review in 2010/11 This includes considering the name and long term direction of the Authority. The challenges of waste reduction and recycling initiatives as well as sustainable waste disposal away from landfill are issues nationally and locally and have shifted the focus of the Authority since its inception and will continue to shape its future direction.

# Closing remarks

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I have discussed and agreed this letter with the Director and the Treasurer. I will present this letter at the Authority meeting on 19 November 2011 and will provide copies to all board members.

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.

Report	Date issued
Fee letter	April 2010
Audit plan	January 2011
Annual governance report	September 2011

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

Michael Thomas  
District Auditor

21 October 2011



# Appendix 1 – Fees

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	Proposed	Actual	Variance
Scale fee	£75,000	£78,453	£3,453
Non-audit work	None	None	None
<b>Total</b>	<b>£75,000</b>	<b>£78,453</b>	<b>£3,453</b>

Note: Additional fee has been raised to reflect additional time incurred in auditing both the Financial Statements and Whole of Government Accounts return following initial delays and re-submission of the statements for audit.

# Appendix 2 – Glossary

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## **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 Council 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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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