

# Annual Audit Letter

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**Greater Manchester 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.**

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# 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 7).**

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

## **Audit opinion and financial statements**

**1** I issued an unqualified audit report on the financial statements on 30 September 2010.

**2** The financial statements were presented for audit on time and were of good quality. My audit identified some errors and areas where more disclosure was needed. Management agreed to all my recommended amendments to the draft statements.

**3** The Authority did not complete its Whole of Government Accounts (WGA) return to as high a standard as the accounts. The return was late, contained errors and was not supported by adequate working papers. Management agreed to all my recommended amendments to the draft WGA return.

## **Value for money**

**4** 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 30 September 2010.

## Current and future challenges

### Managing the PFI Recycling and Waste Management Contract

**5** On 9 April 2009, the Authority signed a 25-year contract for recycling and waste management services with Viridor Laing (Greater Manchester) Limited (VLGM). The Contract is significant in value at £3.8 billion, and unique in a number of ways.

**6** The Contract provides considerable opportunities to improve recycling and waste management for Greater Manchester. It also presents the Authority with challenges that it will need to manage to ensure its early success is maintained:

- managing risks of being a senior lender to the PFI partner; and
- managing the business with reduced management capacity.

### Economic pressures

**7** The economy as a whole, and in particular the public sector, is 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 during these challenging times.

# 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 30 September 2010, the statutory target date.**

## Overall conclusion from the audit

**8** The Authority presented good quality financial statements for audit on time. The complex accounting requirements of the new PFI Contract led to some material errors and gaps in disclosure. Management agreed to all my recommended amendments to the draft statements.

**9** The net impact of agreed audit amendments was to:

- leave the Authority's contribution to the General Fund unchanged at £5.8 million;
- increase the Authority's and Group's deficit for the year, shown in the Income and Expenditure Account, by £3.8 million, to £15.5 million; and
- reduce the Authority's and Group's net assets shown on the Balance Sheet by £14.9 million, to £2.8 million and £3.1 million respectively.

**10** The audit changes affecting the Income and Expenditure Account did not affect the contribution to the General Fund because they involved capital financing transactions that were properly excluded from the Statement of Movement in the General Fund.

## Whole of Government Accounts

**11** The Authority provided its draft Whole of Government Accounts (WGA) submission for audit on 2 September, five weeks after the 30 July deadline. The finance team decided to delay submission due to other workload commitments and it was helpful that they discussed the proposed delay with me promptly.

**12** However, when submitted for audit, neither the WGA pack nor its supporting working papers were complete. The pack contained a large number of errors, some of which were material. Management agreed to all my recommended amendments to the draft WGA pack.

13 I gave an unqualified opinion on the Authority's 2009/10 WGA submission on 15 October 2010, two weeks after the statutory target date.

## Significant weaknesses in internal control

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

### Recommendation

**R1** Aim to complete the Whole of Government Accounts submission to the same level of quality and timeliness that the Authority achieves for its statutory financial statements.

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# 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?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Risk management and internal control	Yes
<b>Managing resources</b>	
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.

## Local risk work

**18** To inform my VFM conclusion, I carried out a focussed review of the Authority's risk management and internal control arrangements.

**19** My review assessed whether the organisation manages its risks adequately and maintains a sound system of internal control. I considered the Authority's:

- internal audit arrangements;
- risk management and counter-fraud and corruption arrangements;
- arrangements to deliver the core functions of an audit committee; and
- internal controls in support of being a lender to the PFI.

**20** I found adequate arrangements in all areas and evidence of ongoing improvements. In particular, internal audit had improved significantly. In contrast to 2008/09, when no internal audit work took place, 2009/10 saw a full programme of internal audit reviews planned, delivered and reported appropriately.

**21** The Authority established an Audit Committee in March 2010. This has the potential to strengthen governance arrangements considerably. The Authority needs to work in 2010/11 to:

- identify and meet the training needs of Audit Committee members; and
- embed the Audit Committee's work within the Authority's overall governance framework.

# Current and future challenges

## Managing the PFI Recycling and Waste Management Contract

**22** On 9 April 2009, the Authority signed a 25-year contract for recycling and waste management services with Viridor Laing (Greater Manchester) Limited (VLGM). The Contract is significant in a number of ways.

- Plans include investing £631 million in new recycling and waste management facilities for Greater Manchester, creating or safeguarding 5,000 new jobs in the North West region, and diverting more than 75 per cent of Greater Manchester's waste from landfill.
- The contract is worth approximately £3.8 billion over its 25-year term, making it the largest waste PFI contract in Western Europe.
- A unique funding arrangement was put together in response to the global financial credit crisis. As well as conventional forms of finance:
  - sponsors' equity (£148 million);
  - bank lending (£185 million);
  - the European Investment Bank (£185 million); and
  - a capital contribution from the Authority (£68 million);the project is funded by public sector loans, on similar terms and with the same risks and rewards as bank lending, from
  - the UK's Treasury Infrastructure Funding Unit (£120 million) and
  - the Authority itself (£35 million).
- The Authority has won an array of awards for procurement, innovation, partnership and environmental management since the Contract was signed.

**23** The Contract provides considerable opportunities to improve recycling and waste management for Greater Manchester. It also presents the Authority with challenges that it will need to manage to ensure its early success is maintained.

- Being a senior lender to the PFI
  - The Authority is unique in being a senior lender, as well as customer, to its own PFI. The situation gives rise to potential conflicts of interest. A 'Chinese wall' separating the Authority's knowledge as lender from its knowledge as customer is in place. The Authority needs to continue to work hard at managing its two roles, which have not yet been tested by any difficult issues. The Audit Committee's role in overseeing governance of the Authority's lending will be critical in ensuring that arrangements are robust.

- Managing the business with reduced management capacity.
  - With the procurement exercise complete and the vast majority of its operations now carried out by VLGM, the Authority reduced its management team by around a third in 2009/10. The Director of Strategy and Communications, the Deputy Treasurer and the Principal Contract Services Manager have left the business.
  - The Authority needs to ensure its succession and contingency planning is robust, given the small number of personnel now carrying out key business functions.

### **Economic pressures**

**24** The economy as a whole, and in particular the public sector, is 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 during these challenging times.

**25** The Authority maintains a prudent level of reserves to support its Municipal Waste Management Strategy. Any delays in Contract progress 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.

**26** The relative size of the PFI Contract, at over 85 per cent of budgeted gross expenditure, leaves the Authority limited scope to deliver savings outside the Contract.

## Closing remarks

**27** I have discussed and agreed this letter with the Treasurer and Deputy Clerk. I will present this letter at the Audit Committee on 7 December 2010 and will provide copies to all Authority Members.

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

Report	Date issued
Audit fee letter	April 2009
Risk management and internal controls (presentation)	March 2010
Opinion audit plan	April 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
VFM conclusion	September 2010
Opinion on the whole of government accounts consolidation pack	October 2010
Annual audit letter	November 2010

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

Jackie Bellard  
District Auditor

November 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	43,064	43,064	0
Value for money	29,098	30,867	-1,769
Whole of government accounts	3,538	1,769	+1,769
<b>Total audit fees</b>	<b>75,700</b>	<b>75,700</b>	<b>0</b>
Non-audit work	0	0	0
<b>Total</b>	<b>75,700</b>	<b>75,700</b>	<b>0</b>

The Whole of Government Accounts audit took more resources than I expected, due to the number of errors identified and incomplete working papers. I was able to contain the overall fee within the proposed total of £75,700 through efficiencies in the VFM audit.

## 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.

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