

Annual Audit Letter

Greater Manchester Waste Disposal Authority

Audit 2008/09

November 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money conclusion	7
Closing remarks	8
Appendix 1 – Value for money conclusion	9
Appendix 2 – Action plan	13

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.

Audit opinion

- 1 I issued an unqualified opinion on the Authority's financial statements and the Group financial statements on 30 September 2009.

Financial statements

- 2 I received draft financial statements and supporting working papers in accordance with the agreed timetable. I am grateful to the finance team, who were extremely helpful and co-operative during the course of my audit.
- 3 As a result of the audit, a number of adjustments, including one material adjustment, were made to the draft financial statements. The reported surplus remained unchanged, as both income and expenditure decreased by £3.424 million.
- 4 Management has fully implemented the high-level recommendations I made in last year's Annual Governance Report, and has partially implemented the more detailed recommendations contained in my 2007/08 Regularity Memorandum. I am aware that progress has been hampered by the finance team's significant workload during 2008/09, associated with the PFI contract. I have agreed the improvements required for 2009/10 with the Deputy Treasurer.

Value for money

- 5 The Authority met all the specified criteria, with the exception of 'risk management and internal control'. I found that the features the Authority requires to manage its risks and maintain a sound system of internal control are in place, except that no Internal Audit work took place during 2008/09. Therefore, I was unable to conclude that the Authority had in place 'effective internal audit in accordance with relevant requirements'.
- 6 For this reason, I included an 'except for' qualification within my VFM conclusion, which I issued on 30 September 2009.
- 7 The Authority has agreed a programme of work with Internal Audit for 2009/10 that includes a review of key financial systems. I will assess the adequacy of Internal Audit arrangements during my 2009/10 audit work.

Private Finance Initiative (PFI)

- 8 On 8 April 2009, the Authority entered into a 25-year Private Finance Initiative (PFI) recycling and waste management contract with Viridor Laing (Greater Manchester) Limited.
- 9 During 2008/09, I liaised regularly with Authority officers on various aspects of the proposed contract that may impact on my audit responsibilities, including the participation of the Authority in the financing of the contract and the proposed accounting treatment of the final agreement. I appreciated the regular communications during the latter stages of the contract negotiations and the opportunity to comment on the information provided to authority members.

Audit fees

- 10 The work I carried out in relation to the PFI was additional to that agreed in the audit plan, as presented to the Authority in June 2008. An increase in audit fee of £9,427 was agreed with the Authority's officers in advance.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£50,427	£41,000	£9,427
Value for money	£33,700	33,700	£0
Total audit fees	£84,127	£74,700	£9,427
Non-audit work	£0	£0	£0
Total	£84,127	£74,700	£9,427

Actions

- 11 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 12 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.

Significant issues arising from the audit

- 13 The financial statements presented for audit contained one material error that I asked management to amend. The draft accounts incorrectly showed a £3.424 million levy rebate to districts as expenditure, rather than a reduction to income. Other non-trivial amendments were also made, mostly to narrative in the notes to the accounts.
- 14 The net impact of agreed audit amendments left the reported surplus for the year unchanged, as both income and expenditure decreased by £3.424 million.

Material weaknesses in internal control

- 15 Internal audit is an important part of an organisation's overall control environment. During 2008/09, no internal audit work was undertaken at the Authority. Management and the internal auditor concluded that the finance team's workload arising from the PFI contract meant they were 'unavailable for audit' until the contract was signed.
- 16 The Authority has agreed a programme of work with Internal Audit for 2009/10 that includes a review of key financial systems. I will assess the adequacy of Internal Audit arrangements during my 2009/10 audit work.

Recommendation
R1 Ensure that planned internal audit work to test the controls of key financial systems is completed and reported to the Authority (or its Audit Committee, when it is established) during 2009/10.

Accounting Practice and financial reporting

- 17 I reviewed the draft annual governance statement, to consider the completeness of the disclosures, whether it complied with proper practice as specified by CIPFA and to identify any inconsistencies between the disclosures and the information that I am aware of from my work.

identified two significant governance issues that were not included in the draft statement. Management agreed to amend the statement to include details of action taken to address:

- the lack of any internal audit work during 2008/09; and
- breaches of the Authority’s treasury management guidelines.

(The guidelines limit the amount invested in any one institution to £2.5 million. The economic conditions of 2008/09 reduced the number of institutions with whom the Authority was prepared to invest, which caused the Authority’s investments with individual institutions to frequently exceed the limit. No loss was incurred as a result these policy breaches.)

Recommendation

R2 Strengthen the arrangements for producing the Annual Governance Statement, so that all significant governance issues are identified and included in the statement.

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.

VFM conclusion

- 19** 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. My conclusions on each of the areas are set out in Appendix 1.
- 20** I issued a qualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources, except in managing its risks and maintaining a sound system of internal control.
- 21** This VFM criterion requires 'effective internal audit in accordance with relevant requirements'. During 2008/09, no internal audit work was undertaken at the Authority. Further details are set out in paragraphs 11-12, above.

Closing remarks

- 22 I have discussed and agreed this letter with the Treasurer and Deputy Clerk. I will present this letter at the Authority on 22 January 2010 and will provide copies to all Authority members.
- 23 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.

Table 2

Report	Date issued
Audit Plan	June 2008
Annual Governance Report	September 2009
Audit Opinion, VFM Conclusion and Audit Certificate	September 2009
Financial Statements Memorandum to Officers	November 2009
Annual Audit Letter	November 2009

- 24 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.

Jackie Bellard
District Auditor
November 2009

Appendix 1 – Value for money conclusion

The following tables summarises the key findings and conclusions for each of the three use of resources themes.

Managing finances

<p>KLOE 1.1 (financial planning)</p>	<p>VFM criterion met</p>
<p>The Authority has put in place a medium-term financial forecast, which is linked to its key strategic objectives, and takes account of both local improvement priorities and national priorities. The Authority’s financial strategy is based on the Municipal Waste Management Strategy, which models costs up to 2024. This has been refined to forecast costs for the 25-year PFI contract.</p>	
<p>The Authority set and approved a comprehensive, balanced and realistic budget, underpinned by reasonable assumptions and supported by achievable savings plans.</p> <p>Members and the corporate management team exercise collective responsibility for financial matters and understand the financial environment in which the Authority operates. Detailed financial reports are submitted to Authority meetings, complemented by presentations. Where appropriate, members are provided with options to determine the allocation of resources.</p>	

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p>	<p>VFM criterion met</p>
<p>Cost and performance information is used in the financial and service planning process to make decisions about policies and service provisions and to identify efficiency savings. The costs and benefits of planned changes and improvements are clearly set out. There is a clear understanding of the cost implications reflected in planning and resource allocation decisions.</p> <p>All new investments, whether capital or revenue, are subject to an investment appraisal process which includes an evaluation of risks and the relative costs and benefits. Cost variances are analysed and monitored and feed the financial planning process.</p>	
<p>KLOE 1.3 (financial reporting)</p>	<p>VFM criterion met</p>
<p>Budget monitoring and forecasting information is reliable, relevant and understandable. It is produced regularly and on a timely basis throughout the year and leads to prompt action to address any variances or other issues.</p> <p>The Authority considers financial information alongside related performance information, linked to strategic objectives, in order to monitor financial performance.</p> <p>The Authority's accounts comply with statutory requirements and relevant accounting and reporting standards. The draft accounts approved by the Special Purposes Committee present fairly the financial position. Although the draft accounts contained non-trivial errors, and one material error, these were amended before the Special Purposes Committee re-approved the accounts for publication within the statutory timescale.</p> <p>The Authority publishes relevant information on its website. The Authority could make its public reports more accessible by the addition of, for example, large font and Browsealoud facilities to its website.</p>	

Governing the business

<p>KLOE 2.4 (risk management and internal control)</p>	
<p>The Authority identifies and effectively manages corporate business risks in line with its risk management strategy. A corporate focus on risk management ensures regular review and effective management of current and future risks. Members are responsible for, and engage in, corporate risk management.</p> <p>The body has a counter-fraud and corruption strategy that is approved by members and made available and communicated to all staff, which links to its strategic objectives and describes outcomes against which its effectiveness can be evaluated.</p> <p>The Authority does not have an Audit or Overview and Scrutiny Committee. Full meetings of the Authority currently undertake the equivalent roles. The Authority is in the process of setting up an Audit Committee, which will include independent members.</p> <p>The lead district, Oldham MBC, provides internal audit services to the Authority. During 2008/09, no internal audit work was undertaken at the Authority. Management and the internal auditor concluded that the finance team’s workload arising from the PFI contract meant they were ‘unavailable for audit’ until the contract was signed. The Authority has agreed a programme of work with Internal Audit for 2009/10 that includes a review of key financial systems.</p> <p>Other aspects of good internal control are in place, including:</p> <ul style="list-style-type: none"> ● an assurance framework informing transparent governance reporting; ● standing orders, standing financial instructions and a scheme of delegation; ● compliance with relevant laws and regulations and ensuring that expenditure is lawful; and ● sound internal financial control for key systems and all electronic payment systems. 	<p style="text-align: center;">VFM criterion not met</p>

Appendix 2 – Action plan

Page no.	Recommendation		Responsibility	Agreed	Comments	Date
	2008/09 Annual Audit Letter					
5	R1 Ensure that planned internal audit work to test the controls of key financial systems is completed and reported to the Authority (or its Audit Committee, when it is established) during 2009/10.	High	Treasurer and Deputy Clerk	Yes	<p>Oldham Audit Service (OAS) has been engaged to provide 75 days of audit coverage in 2009/10. The importance of putting in place strengthened arrangements for Internal Audit was recognised in a report presented to the 19 June 2009 Authority meeting. The level and scope of coverage agreed had been recommended following a reassessment of the risk profile following the signing of the Contract, and compilations of an updated Audit Needs Assessment. In turn those proposals were subject to consultation between the Head of Corporate Governance, Oldham MBC, and the Audit Commission. The latter is important to ensure reliance can be placed on the work of OAS, hence reduce fees.</p> <p>Work on the payments mechanism under the PFI contract and treasury management has been completed and reported to management. Remaining work is now in train. It is confidently expected that all planned work will be concluded during the year.</p>	March 2010
6	R2 Strengthen the arrangements for producing the Annual Governance Statement, so that all significant governance issues are identified and included in the statement.	Medium	Treasurer and Deputy Clerk	Yes	<p>The Clerk and Management Team have agreed to fully adopt the CIPFA/SOLACE framework. This should ensure matters such as those highlighted are drawn out by the process. The Authority, at its 19 June AGM, reviewed the Constitution, and in phase 1 of the agreed strategy approved the establishment of an Audit Committee, to take a more strategic overview of the area of risk and governance. That Committee will be able to monitor progress. In addition a new style quarterly report, was considered at the 20 November 2009 meeting includes a specific section on Treasury Management.</p>	June 2010

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