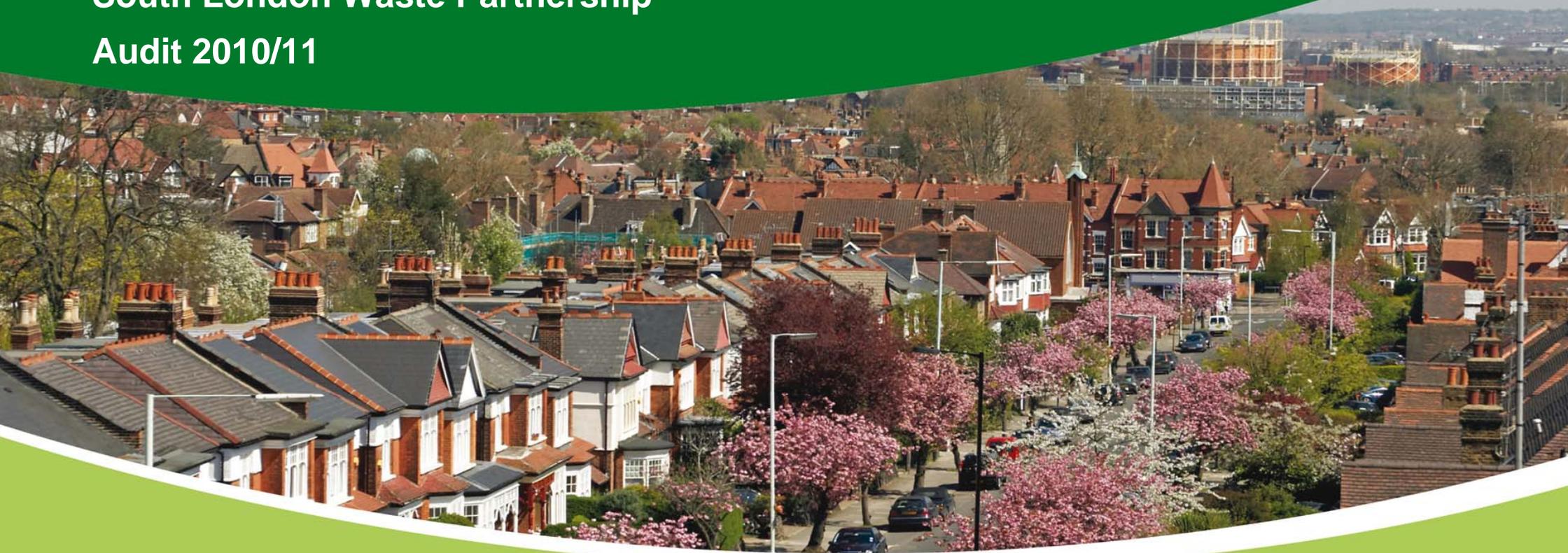


Annual governance report

South London Waste Partnership

Audit 2010/11



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Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my 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.

	My findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Traffic light explanation
Red ■ Amber ◆ Green ●

Audit opinion and financial statements

I plan to issue an unqualified opinion on the financial statements. The Partnership has made significant changes to its balance sheet to include amounts owed by and to the Partnership at the balance sheet date which had been incorrectly omitted in the version of the statements originally submitted for audit.

Management has also made amendments to improve presentation in line with the Code and ensure consistency through the statements.

Value for money

I assessed the Partnership's arrangements to secure economy, efficiency and effectiveness in its use of resources against four criteria specified by the Audit Commission. I concluded that it met all four criteria.

I therefore intend to issue an unqualified conclusion stating that the Partnership had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Partnership during 2010/11.

I ask you to confirm to me

I ask the Partnership Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - approve the letter of representation, provided alongside this report, on behalf of the Partnership before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (Appendix 3).
-

Financial statements

I plan to issue an unqualified opinion on the financial statements. The Partnership has made significant changes to its balance sheet to include amounts owed by and to the Partnership which had been incorrectly omitted in the version of the statements originally submitted for audit. You have also made amendments to improve presentation in line with the Code and ensure consistency through the statements.

Opinion on the financial statements

1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

2 I identified that the Partnership had not accrued all amounts which were due to or from it at 31 March 2011 or 2010. It has restated the debtor and creditor balances for each year to reflect the true position, as summarised in appendix 2. It has also treated the notional cash balance as a creditor balance due to the Royal Borough of Kingston upon Thames, which better reflects the substance of the transaction.

3 Management has also agreed to correct these numerical errors:

- there was an inconsistency of £12,700 between the creditors in the balance sheet and the analysis disclosed in Note 12 due to omitting audit fees due; and
- audit fees disclosed in Note 9 were incorrectly split between external audit and other services. This has been corrected to reflect they are all for external audit services.

4 Management has agreed to improve the presentation of the financial statements and enhance disclosure in the explanatory foreword, accounting policies, and notes to the statements so they meet the requirements of the Code of Practice on Local Authority Accounting more fully.

Financial statements

Recommendation

R1 Include all amounts that are unpaid or not received at the year-end as creditors and debtors in the Partnership's statements.

The Partnership's financial statements and annual governance statement are important means by which it accounts for its stewardship of public funds. As Partnership Committee members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

5 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. I reported these in my Audit Plan which I shared with the Partnership in February 2011.

Key audit risk and my findings

Key audit risk

Implementation of International Financial Reporting Standards (IFRS)

2010/11 is the first year when local government bodies have to prepare financial statements under IFRS. The Partnership is subject to the CIPFA Code of Practice and needs to ensure it complies with the wider range of disclosures needed under the new accounting framework.

The risk is the Partnership's statements are materially misstated because of failure to implement the new standards and make the required disclosures.

Finding

The Partnership has complied with the requirements of the Code of Practice to the extent that these are applicable to its circumstances.

I have reviewed the Partnership's critical judgements in applying the requirements of IFRS, in particular around the applicability of IFRIC 4 (determining whether an arrangement contains a lease) to waste management contracts. I am satisfied that the Partnership's statements materially fairly present its financial position in this respect.

The Partnership's financial statements now better present the judgements it has made in applying accounting policies which arise from the implementation of IFRS.

Financial statements

Significant weaknesses in internal control

6 I have not identified any significant weaknesses in internal control during my audit that are relevant to preparing the financial statements. In reporting this, I am not expressing an opinion on the overall effectiveness of internal control at the Partnership.

Quality of your financial statements

7 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There are no matters I wish to bring to your attention.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
1. Compliance with Code of Practice requirements The Partnership is subject to the requirements of the CIPFA Code of Practice on Local Authority Accounting in the same way as a London Borough.	I agreed with management that they would make some amendments to presentation to more fully address the requirements of the Code. In particular they have: <ul style="list-style-type: none">■ updated the formatting of the Comprehensive Income and Expenditure Account to match the standard headings;■ provided a brief explanation of each primary statement;■ included more commentary in the explanatory foreword on the transition to International Financial Reporting Standards and factors affecting the Partnership's financial performance in the year;■ provided more information on the critical judgements made in applying accounting policies, particularly around leases, non-current assets and employee benefits; and■ included a note on events after the balance sheet date.
2. Accounting policies	I have agreed with management that they would include more accounting policies as required by the Code of Practice to cover subsequent events, revenue recognition, property, plant and equipment, employee benefits, leases and reserves.

Financial statements

Issue	Findings and recommendations
3. Critical judgements in applying accounting policies	<p>The Partnership included a note on critical judgements in applying accounting policies. I agreed with management that they would update this to provide more information on their assessments that:</p> <ul style="list-style-type: none">■ contracts for waste disposal did not contain a lease that needed disclosing in the statements;■ there are no property, plant and equipment under its own direct control;
Recommendation	
R2 Review the requirements of the CIPFA Code of Practice on Local Authority Accounting each year and ensure that the financial statements reflect all relevant requirements.	

Other issues

8 International Standard on Auditing (UK & Ireland) 260 requires me to report various issues to you as those charged with governance. I can confirm that:

- my team did not encounter significant difficulties during the audit;
- There were no significant matters that were discussed with or subject to correspondence with management; and
- There are no other significant matters relevant to the reporting process.

Letter of representation

9 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

Value for money

I am required to conclude whether the Partnership put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

10 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against four criteria specified by the Audit Commission. My conclusion on the four areas is set out below.

11 I intend to issue an unqualified conclusion stating that the Partnership had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and my findings

Criterion	Findings
1. Financial planning and financial health	<p>The Partnership approved an updated medium term financial strategy in September 2010, which reflects its updated Joint Municipal Waste Strategy. The financial strategy is underpinned by detailed workings agreed by the Management Group, based on outturn from previous years.</p> <p>The Partnership's procurement costs are in line with budget. The costs of the contracts have increased due to known increases in landfill tax and are reimbursed by the constituent boroughs. Officers and members exercise collective responsibility for financial matters and receive regular reports through the year.</p>
2. Understanding costs and achieving efficiencies	<p>The main costs for the Partnership are driven by the volume of waste processed and landfill tax levied. The Joint Municipal Waste Strategy sets out how the Partnership will ensure that waste is disposed of in as efficient a way as possible. The Partnership has considered the social and environmental impact of its work.</p> <p>The Partnership receives information on costs incurred as part of regular budget monitoring and is given assurance that these are in line with contracts. It holds the contractors to account for addressing complaints and service quality.</p>

Criterion	Findings
3. Financial reporting	<p>The Partnership's Management Group and the Joint Committee receive regular reports on financial performance for the procurement costs. They discuss variances and the action taken to resolve them. The committee also receives updates on the quality of service provided by contractors.</p> <p>The Partnership's financial statements are free from material error and are made available to members of the public. The Partnership should consider publishing these, and our annual audit letter, on its own website in the future.</p>
4. Risk management and internal control	<p>The Partnership has a strategic risk register which Joint committee members review regularly to ensure risks are addressed. Risks and action to address them are assigned to named individuals.</p> <p>As transactions are processed by the Royal Borough of Kingston, the Partnership is subject to its internal control arrangements which we have assessed as satisfactory. The Partnership has reported on its internal control arrangements in the Annual Governance Statement, which is a fair assessment of its performance.</p>

Appendix 1 – Draft audit report

Independent auditor's report to the members of South London Waste Partnership

Opinion on the Partnership accounting statements

I have audited the accounting statements of South London Waste Partnership for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South London Waste Partnership in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Partnership's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Partnership; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of South London Waste Partnership's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Partnership's arrangements for securing economy, efficiency and effectiveness in the use of resources

Partnership's responsibilities

The Partnership is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Partnership has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Partnership's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the criteria for other local government bodies published by the Audit Commission in October 2010.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Partnership had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, South London Waste Partnership put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of South London Waste Partnership in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Lindsey Mallors
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

XX September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement - nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Amended figures on balance sheet to include amounts that had not been correctly accrued.			2,773 (debtors)	2,770 (creditors) 3 (cash)
Amended figures on prior year balance sheet to include amounts that had not been correctly accrued.			2,257 (debtors) 239 (cash)	2,496 (creditors)
Amended Note 9 to show all fees as relating to external audit services	n/a	n/a	n/a	n/a
Amended Note 12 to include creditors due to the Audit Commission, so it matches creditors disclosed in the Balance Sheet.	n/a	n/a	n/a	n/a

Appendix 3 – Action plan

Recommendations

Recommendation 1

Include all amounts that are unpaid or not received at the year-end as creditors and debtors in the Partnership's statements.

Responsibility Capability Lead - Financial Accounting, Royal Borough of Kingston upon Thames

Priority High

Date March 2012

Comments Work is underway to ensure the chart of accounts fully separates the Partnership trial balance from the RBK trial balance. This will ensure that all debtors and creditors to the Partnership are accounted for correctly. Additionally processes have been reviewed to ensure all material accruals are correctly actioned.

Recommendation 2

Review the requirements of the CIPFA Code of Practice on Local Authority Accounting each year and ensure that the financial statements reflect all relevant requirements.

Responsibility Capability Lead - Financial Accounting, Royal Borough of Kingston upon Thames

Priority High

Date March 2012

Comments Responsibility for the production of the Partnership accounts has been moved to the Council's Financial Accounting team to ensure that all changes to accounting treatments and the CIPFA accounting framework are reflected in the Partnership's accounts.

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

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.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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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- any director/member or officer in their individual capacity; or
- any third party.

