Grant Thornton

Audit Findings

Year ending 31 March 2018

Merseyside Waste Disposal Authority

18 July 2018

Appendix 3

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Contents

Your key Grant Thornton team members are:

Andy Smith

Engagement Lead

T: 0161 953 6472

E: andrew.j.smith@uk.gt.com

Perminder Sethi

Engagement Manager

T: 0113 200 2547

E: perminder.sethil@uk.gt.com

Chris Blakemore

Executive

T: 0161 214 6397

E: chris.blakemore@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key issues arising from the statutory audit of Merseyside Waste Disposal Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Authority's financial statements give a true and fair view of the Authority's financial position and of the Authority and group's expenditure and income for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work commenced on site during June & July 2018. Our findings to date are summarised in Section 2. We have identified no adjustments affecting the Authority and group's reported outturn financial position based on work completed to date. The draft financial statements for the year ended 31 March 2018 recorded a deficit in the provision of services of £7,445k, this remains unchanged following our audit. A number of amendments have been made following our audit in respect of disclosure and classification changes. These have no impact on the Authority and group's reported financial position for 2017/18. We have raised five recommendations for management as a result of our audit work at Appendix A. Our follow up of the recommendations from the prior year's audit is detailed at Appendix B. Subject to the completion of outstanding work and queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 July 2018, as detailed at Appendix E. The outstanding work includes: • audit work relating to creditors, debtors, income, expenditure and PPE which remains ongoing; • reviewing the final version of the financial statements and reviewing the revised version of the Narrative Report • obtaining and reviewing the management letter of representation • updating our post balance sheet events review, to the date of signing the opinion. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Merseyside Waste Disposal Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed at Appendix E. Our findings are summarised in Section 3.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We will have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with the Director of Finance.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- a review of the newly commissioned Resource Recovery Contract which became operational on 1 September 2017. In particular, we considered the accounting entries associated with the assets and liabilities brought onto the Authority's Balance Sheet including the valuation of this Public Private Partnership (PPP) contract

Audit approach *(continued)*

- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Mersey Waste Holdings Limited and an analytical review was required for Bidston Methane Limited
- an evaluation of the Authority's internal controls environment
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

Subject to the completion of our audit work and outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 July 2018, as detailed at Appendix E. These outstanding items include:

- audit work relating to creditors, debtors, income, expenditure and PPE
- reviewing the final version of the financial statements and reviewing the revised version of the Narrative Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our materiality calculations have been revised from those included in our Audit Plan given the lower level of gross expenditure. We detail in the table below our assessment of materiality for the Authority and the Group.

	Group amount (£)	Authority amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,145,000	£1,136,000	Materiality has been based on 1.7% of the Authority's gross expenditure
Performance materiality	£744,000	£738,000	Our performance materiality has been set at 65% of our overall materiality
Trivial matters	£57,000	£57,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for specific transactions, balances or disclosures	N/a	£20,000	The senior officer remuneration disclosure in the Statement of Accounts has been identified as an area requiring a lower materiality due to its sensitive nature

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management has an established process in place and prepare a detailed budget each year which is approved by Members. The budget is developed based on a number of assumptions including levy funding, use of reserves, cost improvement programmes required to be delivered and the pressures facing the Authority. To ensure effective management, the budget is broken down and routinely monitored on a monthly basis with performance reported to the Authority. Cash flow is also monitored as part of the Authority’s management arrangements. In assessing its going concern position, management look ahead twelve months from its reporting date and have regard to its future cash flow position including whether current spending is in accordance with budget.	• Following its review of going concern, management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis. • The Authority has a good track record of delivering efficiencies and managing financial pressures to ensure expenditure remains below budget. The Authority delivered an underspend in 2017/18. • We have considered management’s assessment of going concern as a basis for compiling the financial statements. The arrangements management has in place are appropriate. • The budget setting processes used to prepare the annual budget and the monitoring arrangements in place are considered appropriate and adequate. • The Director of Finance routinely monitors the Authority’s financial position and reports regularly to Members.
Work performed We considered management’s going concern assessment including the assumptions used.	• Our work confirmed that management’s arrangements for assessing going concern are adequate and management’s use of the going concern basis of preparation is reasonable. • We have not identified any material uncertainties that may cast significant doubt on the Authority’s ability to continue as a going concern for the foreseeable future.
Concluding comments	• On the basis of our work, it is appropriate to issue an unmodified audit opinion on going concern.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including MWDA, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for MWDA and have rebutted it.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. ..	We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested any unusual risk journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions • reviewed significant related party transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Accounting for changes in the Authority's operations** The Resource Recovery Contract, a Public Private Partnership (PPP) scheme became fully operational on 1 September 2017. The Authority will fully account for its contractual arrangement with Merseyside Energy Recovery Limited (MERL) – which is a consortium formed by SUEZ recycling and recovery UK, Sembcorp Utilities UK and I-Environment Investments Ltd - in its 2017/18 financial statements and in future years. Given the significant size of the contract and the complex nature of the accounting requirements, we have identified the accounting model to be used, the associated accounting entries and disclosures to be made in the financial statements as a risk requiring special consideration in this first year.	We have: • examined and tested the accuracy of the accounting entries and disclosures made ▪ reviewed management's processes and assumptions for the calculation of the valuation of the RRC assets, the instructions issued to valuation experts and the scope of their work ▪ considered the competence, specialist expertise and objectivity of the valuer, especially given the specialised nature of the assets under this scheme ▪ discussed with the valuer the basis on which the valuation has been carried ▪ reviewed whether impairments have been considered in accordance with IAS36. ▪ gained an understanding of the operations and accounting position proposed in discussion with management and the Authority's consultant (Peter Worth) • reviewed the accounting model developed and the entries proposed for reasonableness against our understanding of the RRC. Following discussions with the valuer, we identified that the land and buildings at the Knowsley site, where the Rail Transfer Loading Station is located, were acquired via a lease between MERL and the Potter Group. During construction, some of these buildings were developed for use in providing the service concession arrangement. Management has confirmed that the lease is part of the service concession arrangement and its costs are included in the MERL's financial close model. At the end of the 30 year arrangement, MWDA has the option to extend the contract for a period of five years, after which the lease reverts to the Authority. Our audit work has not identified any issues in respect of the RRC although we are currently completing our work reviewing the disclosures made for the RRC.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
4	**Operating expenses** Non-pay expenses on other goods and services represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We have identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have: • evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness • gained an understanding of the Authority's system for accounting for non-pay expenditure and documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding • tested a sample of operating expenses covering the full financial year • agreed the year-end creditor balance to system balances and control account reconciliations • tested a sample of year-end accruals and creditor balances. • performed cut-off testing to obtain assurance that creditors have been accounted for in the correct financial year. Our audit work remains ongoing but we have not identified any issues in respect of operating expenses to date.
5	**Valuation of property, plant and equipment** The Authority completed a revaluation of its asset base on 31 March 2016. This valuation will inform the basis of valuation of assets recorded in the 2017-18 financial statements after taking into account any impairments, fixed asset additions and disposals and any other circumstances that have significantly affected the valuation of assets since this last revaluation. This represents a significant estimate by management in the financial statements and a possibly complex valuation assessment.	We have: • reviewed management's processes and assumptions for the calculation of the estimate • considered the competence, expertise and objectivity of the management experts used • reviewed the instructions issued to valuation experts and the scope of their work • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding • tested revaluations made during the year to ensure they were input correctly into the Authority's accounts • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. Whilst our audit work remains ongoing, no issues have been identified to date in respect of the valuation of property, plant and equipment.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
6	**Valuation of pension fund net liability** The Authority's net pension fund liability as reflected in its balance sheet represents a significant estimate in the financial statements.	We have: • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made • reviewed the consistency of the pension fund net liability disclosures in the notes to the financial statements with the actuarial report from your actuary. Our audit work remains ongoing but has not identified any issues so far in respect of the valuation of the pension fund liability.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from the provision of services is recognised when the Authority can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Authority.	• The Authority's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) • We have undertaken substantive testing of levy income, levy adjustments and other revenues and are satisfied that the Authority has recognised income in accordance with its accounting policies • The accounting policy is appropriately disclosed in the financial statements.	●
Judgements and estimates	• Key estimates and judgements include: – Revaluations – Useful lives of assets – Impairments – Accruals – Valuation of pension fund net liability – Valuation of the RRC liability – Closed landfill provisions.	• The Authority's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) • The accounting policies are appropriately disclosed in notes 2 and 3 to the financial statements • Our review of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.	●
Other critical policies	• We have reviewed the Authority's policies against the requirements of the CIPFA Code.	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.	●

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have written to the Chair of the Authority in relation to the risk of fraud. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Authority which is included at Appendix E.
5	**Confirmation requests from third parties**	• We requested from management permission to send a number of confirmation requests to confirm balances and investments. This was granted and the requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations**	• All information and explanations requested from management was provided. Working papers were provided in accordance with the timetable agreed with the Authority. Officers were available to answer our questions and provide supporting information in a prompt manner.
8	**Significant difficulties**	• No difficulties were encountered during the audit process.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. • No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E. • Our review of the Narrative Report identified a few areas where disclosures could be further developed, for example in respect of cash flow and performance reporting. Officers have updated the Narrative Report in a number of areas to reflect the findings from our review.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties. We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Authority does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2017/18 audit of Merseyside Waste Disposal Authority in the audit opinion, as detailed at Appendix E.

Value for Money

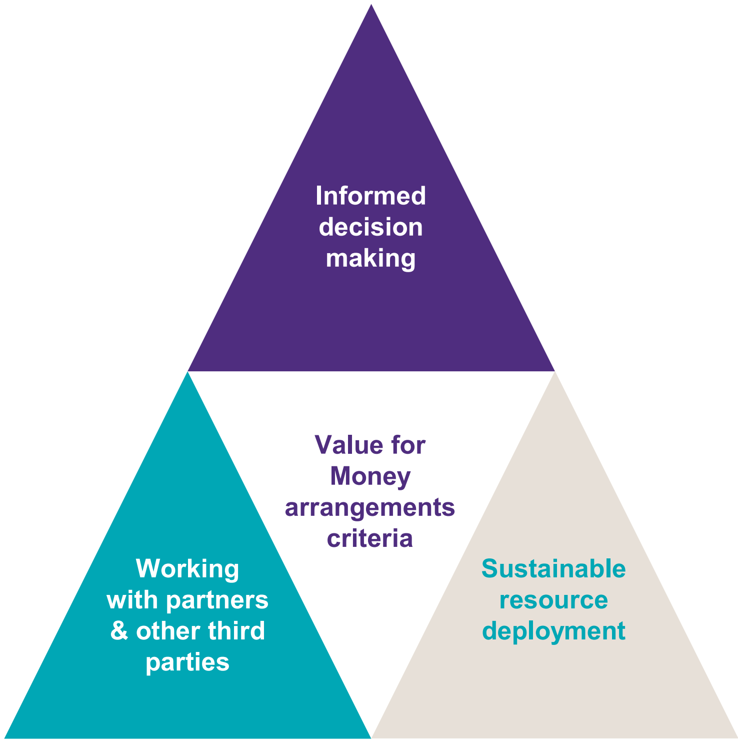
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- the Authority continues to operate under significant financial pressures but has continued to manage its finances to deliver a balanced outturn position. However, to avoid levy increases over a number of years, continued use has been made of the Authority's reserves to achieve a balanced budget. This has resulted in general reserves falling to £11.64 million at the end of 2016/17. The planned use of general reserves during 2017/18 was expected to reduce the Authority's available reserves to £2.47m at 31 March 2018
- the Resource Recovery Contract became operational on 1 September 2017. Given the significant size of the RRC and the operational impact on the Authority, there is a need for the Authority to ensure effective governance arrangements are in place to manage the contract, including contract variations, reviewing key targets and outputs, monitoring budgets and their achievement, as well as ensuring effective reporting.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work from page 16.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

"The Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources."

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment. There were no further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Authority reserves and levy increases** The Authority continues to operate under significant financial pressures but has continued to manage its finances to deliver a balanced outturn position. However, to avoid levy increases over a number of years, continued use has been made of the Authority's reserves to achieve a balanced budget. This has resulted in general reserves falling to £11.64 million at the end of 2016/17. The planned use of general reserves during 2017/18 is expected to reduce the Authority's available reserves to £2.84m at 31 March 2018. We understand the Authority meeting in February will consider future levy increases for the three years 2018/19 to 2020/21.	As part of our audit we: • reviewed the Authority's financial position, in particular the level of general reserves • reviewed the proposals for levy increases over the medium term.	We found: • for 2017/18, the Authority's actual outturn position was an underspend of £2.066m against its revised budget, reducing the total call on reserves during the year. The revised budget expected the use of reserves of £9.169m, the actual call on reserves was £7.102m. The underspend arose in a number of areas but the main savings were due to the delayed start of the RRC (£1.266m), recycling credits (£0.23m), savings on the behavioural change programme resulting from the delay in the City Region review (£0.236m) and, lower interest costs (£0.169m) • to avoid levy increases over a number of years, continued use has been made of the Authority's reserves to achieve a balanced budget. This has resulted in general reserves falling to £11.6 million at 31 March 2017. The reduced call on reserves during 2017/18 has meant general fund reserves at the end of 2017/18 amounted to £4.5m, which is an improved position • the budget report to the Authority in February 2018 set out clearly the need for a levy increase given the on-going depletion of the Authority's reserves. The Authority meeting approved a levy increase of 9% for 2018/19 with possible increases of 7% in 2019/20 and 2.8% in 2020/21 being noted. The 2018/19 budget still plans a modest use of reserves of £1.255m in 2018/19. The Authority needs to continue to carefully consider the adequacy of current reserves to cater for unforeseen events, and whether they should be increased. **Conclusion** • The Authority has a history of effective financial management and control and delivering a surplus outturn position. • Whilst a levy increase has been agreed for 2018/19, there is a need for the Authority to continue to consider levy increases for the medium term to allow officers to plan for future operations. In addition, there is also a need for the Authority to carefully consider the adequacy of current reserves to cater for unforeseen events, and whether they should be increased.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment. There were no further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	**Resource Recovery Contract** The Resource Recovery Contract became operational on 1 September 2017. Given the significant size of the RRC and the operational impact on the Authority, there is a need for the Authority to ensure effective governance arrangements are in place to manage the contract, including contract variations, review key targets and outputs, monitor budgets and their achievement, as well as ensure effective reporting.	As part of our audit we: • reviewed the governance and contract management, monitoring and reporting arrangements put in place to effectively monitor and report on the RRC.	We found: • there was some slippage in the commissioning of the RRC due to issues outside the control of the Authority during the early part of 2017. However, the facility became fully operational on 1 September 2017. Early indications are that the RRC is working well and delivering the services expected and agreed • the Authority has a contract management team to manage the RRC who report to the Executive Management Team on a monthly basis in a number of areas including tonnages, recycling rates, inputs and a range of other information. This is routinely monitored with the aim of ensuring performance is adequate and if needed, action is taken. A number of quarterly monitoring reports are also prepared covering operational performance, contract performance and financial performance • in addition to the contract management team, there is also a data analysis team who check the tonnages and apply the appropriate charge rates to ensure that MWDA is paying the correct amount for the services received. The data analysis team monitor on a monthly, quarterly and annual basis. • there have been no significant operational of financial issues since the RRC went live in September 2017 and discussions with management indicate tonnages processed and performance are in accordance with budget and key performance expectations • the Authority has a Service Delivery Plan which includes clear objectives for the RRC which are routinely reported to the Authority • given the significant size of the RRC, there is an ongoing need for the Authority to continue to carefully monitor and manage the contract, including the delivery of key targets and outputs, routine monitoring of budgets, as well as regular reporting. **Conclusion** • The RRC became fully operational on 1 September 2017 and appears to be operating as planned. However, given the significant size of the RRC and the operational impact on the Authority, there is a need for the Authority to continue to carefully monitor and manage the contract, including the delivery of key targets and outputs, monitoring of budgets as well as ensuring effective reporting.

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

Non-audit services

No non-audit services were identified

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Action plan

We have identified five recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations	Management response
1	● Medium	**Cash Reconciliation** A reconciliation between the cash overdrawn position reported by MWDA and the entries recorded in the St Helens MBC financial statements needs to be provided to ensure the cash figure reported by MWDA is correct.	As part of preparing its routine working papers each year, MWDA should liaise with St Helens MBC to ensure its cash position is agreed with the corresponding balances included by St Helens MBC in their accounts at the year end.	**Agreed action** We will liaise with St Helens MBC to provide this for the 2018/19 accounts. **Responsible officer** Director of Finance **Due date** 31 March 2019
2	● Medium	**Authority Reserves and Levy Increases** The Authority's reserves have been utilised year on year and at 31 March 2018, stood at £4.5m. The Authority needs to consider the adequacy of its reserves and whether these should be increased to cater for unforeseen events.	There is a need for the Authority to carefully consider the adequacy of current reserves to cater for unforeseen events, and whether they should be increased.	**Agreed action** To be considered as part of the 2019/20 budget setting process. **Responsible officer** Director of Finance **Due date** 15 February 2019
3	● Low	**Amendments to the draft financial statements** Our audit work identified a number of amendments to the draft financial statements resulting from misclassification and disclosure changes, differences in year end creditor accruals and actual expenditure, and differences in the consolidation of the group accounts. We recognise the finance resources at the Authority are limited to a team of two.	Management should consider any additional ways to further strengthen its arrangements for accounts preparation and review to further reduce any amendments required to the draft accounts going forward.	**Agreed action** The accounts preparation and review arrangements were considered during 2017/18. We will continue to review the arrangements going forward and try to improve the process further. **Responsible officer** Director of Finance **Due date** 31 March 2019

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Merseyside Waste Disposal Authority's 2016/17 financial statements, which resulted in two recommendations being reported in our 2016/17 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	• The Authority needs to continue to further strengthen its arrangements to ensure all supporting documentation is available and accruals are reviewed to avoid expenditure being misstated.	• Management has reviewed the arrangements during the year to allow supporting documentation to be made available. **Audit Update – 2017/18** Our testing of accruals indicates similar issues have arisen again this year. We have repeated our recommendation in the Action Plan (Recommendation 3).
2	X	• There were a number of misclassification and disclosure amendments to the notes in the financial statements. Management should introduce a formal process to ensure the accounts are reviewed before they are released for audit.	• A formal review process has been completed to minimise the amendments required to the accounts. **Audit Update – 2017/18** As in 2016/17, we have identified a number of disclosure and misclassification amendments. We have repeated our recommendation in the Action Plan (Recommendation 3).

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements
All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	The valuation for the Resource Recovery Contract that was used to compile the accounts submitted for audit, was a draft report. The final expert valuers report has reported a higher asset valuation of £297,861,800 which needs to be reflected in the financial statements.	-	£40,862	-
	Overall impact	**-**	**-**	**-**

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 11 – Financial Instruments	The liabilities associated with the RRC have been incorrectly excluded from the Financial Instruments note, and should fully reflect the £259,353K recorded as the service concession liability recorded in note 30.	• The RRC liabilities should be disclosed within Note 11, Financial Instruments. **Management response** • Now amended.	✓
Group CIES and Group Balance Sheet	The Group accounts consolidation is incorrect and the movement in the Group Balance Sheet does not agree to the CIES balance.	• The group accounts consolidation should be corrected. **Management response** • Now amended.	✓
Note 18 – Capital Adjustment Account	The MRP calculation was set out at the start of the year at £1,299K and includes the Gilmoss Materials Recycling service concession. It appears that the RRC has been omitted.	• The RRC should be included within MRP calculation. **Management response** • The Authority calculates MRP at the start of each year. The RRC will be included for 2018/19.	✓
Note 10 – Property, Plant and Equipment	The RRC has all been included within the Vehicles, plant and equipment category as opposed to being split between, buildings, plant and equipment. The Valuers report indicates the asset should be componentised into its buildings and structures, and plant and equipment parts.	• The RRC should be properly categorised between buildings, plant and equipment. **Management response** • Now updated.	✓

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 10 – Property, Plant and Equipment	The capital commitments element of the note incorrectly reports that the RRC became operational on 1/9/18, it should read 1/9/17.	• The date included in Note 10 should be corrected to 1/9/17. **Management response** • Now amended.	✓
Note 10 – Property, Plant and Equipment	Note 10 has a column identifying service concession assets of £16,691K which relate to the Gilmoss MRF. The assets associated with the Resource Recovery Contract should also be recorded in this column.	• The service concession disclosure should include the RRC. **Management response** • Now amended.	✓
Note 11 – Financial Instruments	The fair value calculation of PWLB loans has not been agreed to the 2017-18 external report and the figures have not been updated for 2016-17 against expectations. Similarly service concession liabilities and fair values have not been updated for 2017-18.	• The values included in Note 11 should be updated for PWLB loans, service concession liabilities and fair values.. **Management response** • Now updated.	✓
Note 27 – Service Concession	Note 27 - the comparator in table 1 should refer to 31/3/17 and not 31/3/18. The payments for services column and interest column does not reflect the whole cashflows relating to the MRF.	• Note 27 should be updated for these omissions. **Management response** • Now updated.	✓
Note 10 – Property, Plant and Equipment	The 2016-17 narrative 'depreciation and impairments written out to the Revaluation Reserve' is incorrect and should be changed to 'Depreciation Charge'	• The narrative in the 2016/17 table should be corrected. **Management response** • Now updated.	✓
Note 4 – Group Accounts	The group accounts table 'local Government pension scheme assets comprised' Page 84 indicates the comparative data for the LGPS has not been made available. Similarly there are nil entries for the 31/3/18 LGPS. This information is available per page 7 of the IAS19 certificate and should be included.	• The table on Page 84 should be updated with the available information. **Management response** • Now updated.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	The audited accounts of MWHL show a net asset value of £5,720K. The investment value per the MWDA accounts is £5,042K, a difference of £678K.	-	£678	-	Management do not consider this amount to be material
	Overall impact	**-**	**£678**	**-**	**-**

Fees

We confirm below our final fees charged for the audit . There were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Audit of the Authority*	£29,363	£29,363
Audit of subsidiary company Mersey Waste Holdings Limited	£10,200	£10,200
Total audit fees (excluding VAT)	**£39,563**	**£39,536**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). We have undertaken additional work during the year on the Resource Recovery Contract. We expect to raise an additional fee note for this work and will report this in our Annual Audit Letter once agreed with the Authority and PSAA.

Non-audit fees

There were no fees for other service. No non-audit or audit related services have been undertaken for the Authority.

Draft Audit opinion - Draft

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Merseyside Recycling and Waste Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Merseyside Recycling and Waste Authority (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement in Reserves Statement and notes to the financial statements, including a summary of significant accounting policies . The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Statement, and the Annual Governance Statement, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Draft Audit opinion - Draft

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Statement and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Authority is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Draft Audit opinion - Draft

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Signed

Andrew Smith
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Manchester
M3 3EB

[x] July 2018

Draft Letter of Management Representations

****To be typed on Merseyside Waste Disposal Authority letter headed paper****
Our Ref
Your Ref

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

27 July 2018

Dear Sirs

Merseyside Waste Disposal Authority and its group companies

Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Merseyside Waste Disposal Authority and its subsidiary undertakings for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements including the group accounts, in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the Authority and group financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Authority and group and these matters have been appropriately reflected and disclosed in the Authority and group financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the group and Authority financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the Authority and group financial statements in the event of non-compliance.

i. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

i. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

i. Except as disclosed in the Authority and group financial statements:
   a there are no unrecorded liabilities, actual or contingent
   b none of the assets of the Authority and group has been assigned, pledged or mortgaged
   c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

i. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

i. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

i. All events subsequent to the date of the Authority and group financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

i. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Authority and group financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

The Authority and group financial statements are free of material misstatements, including omissions.

i. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

i. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the Authority and group financial statements.

i. We believe that the Authority and group's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Authority and group's needs. We believe that no further disclosures relating to the Authority and group's ability to continue as a going concern need to be made in the financial statements.

Draft Letter of Management Representations

i. Any other matters that the auditor may consider appropriate (To be confirmed).

Information Provided

i. We have provided you with:
   a. access to all information of which we are aware that is relevant to the preparation of the Authority and group financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

i. We have communicated to you all deficiencies in internal control of which management is aware.

i. All transactions have been recorded in the accounting records and are reflected in the Authority and group financial statements.

i. We have disclosed to you the results of our assessment of the risk that the Authority and group financial statements may be materially misstated as a result of fraud.

i. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and group and involves:
   a. management;
   b. employees who have significant roles in internal control; or
   c. others where the fraud could have a material effect on the Authority and group financial statements.

i. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority and group's financial statements communicated by employees, former employees, analysts, regulators or others.

i. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

i. We have disclosed to you the identity of the Authority and group's related parties and all the related party relationships and transactions of which we are aware.

i. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the Authority and group financial statements.

Annual Governance Statement

xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

i. The disclosures within the Narrative Report fairly reflect our understanding of the Authority and group financial and operating performance over the period covered by the Authority and group financial statements.

Approval

The approval of this letter of representation was minuted by the Authority's meeting on 27 July 2018.

Yours faithfully

Name................................

Position..............................

Date................................

Signed on behalf of Merseyside Waste Disposal Authority

NOTE
The subsidiary undertakings included within the Group accounts of Merseyside Waste Disposal Authority are, Mersey Waste Holdings Limited and Bidston Methane Limited.