

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

External Audit Plan for Merseyside Recycling and Waste Authority

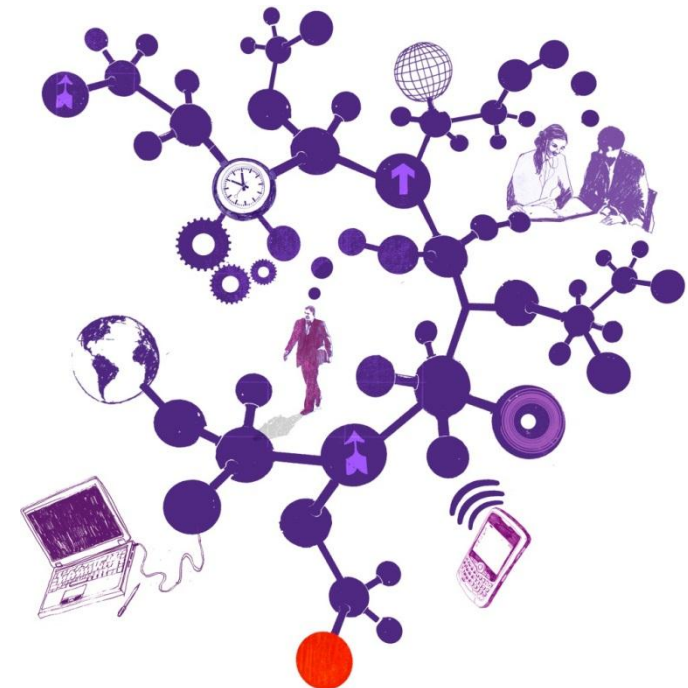
Year ended 31 March 2013

4 June 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or any weaknesses in your internal controls. 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.

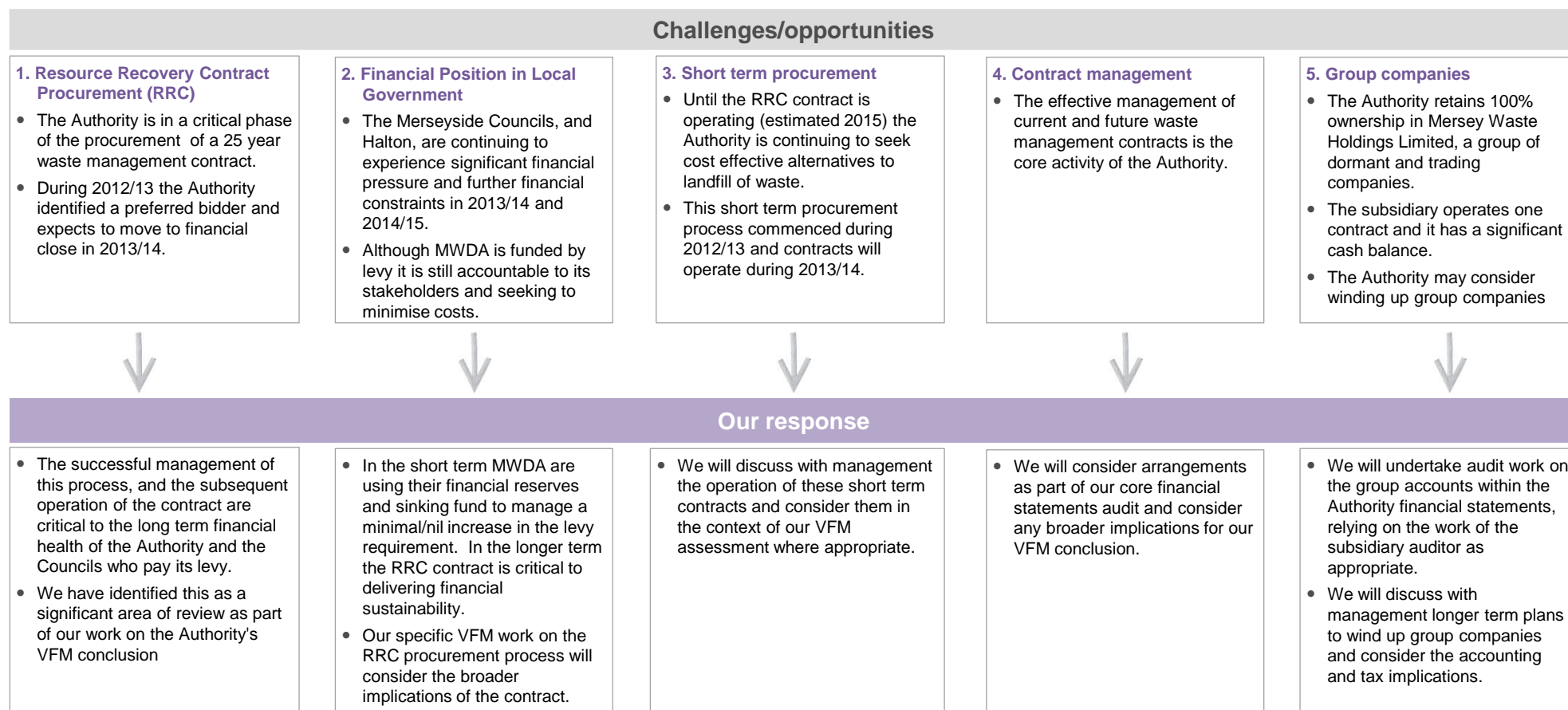
Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

- Minor changes to the CIPFA Code of Practice

2. Legislation

- Local Government Finance settlement 2012/13

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Pensions

- Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS)

5. Other requirements

- The Authority is required to submit a Whole of Government accounts pack on which we provide an audit opinion

Our response

We will ensure that

- the Authority complies with the requirements of the CIPFA Code of Practice through our substantive testing

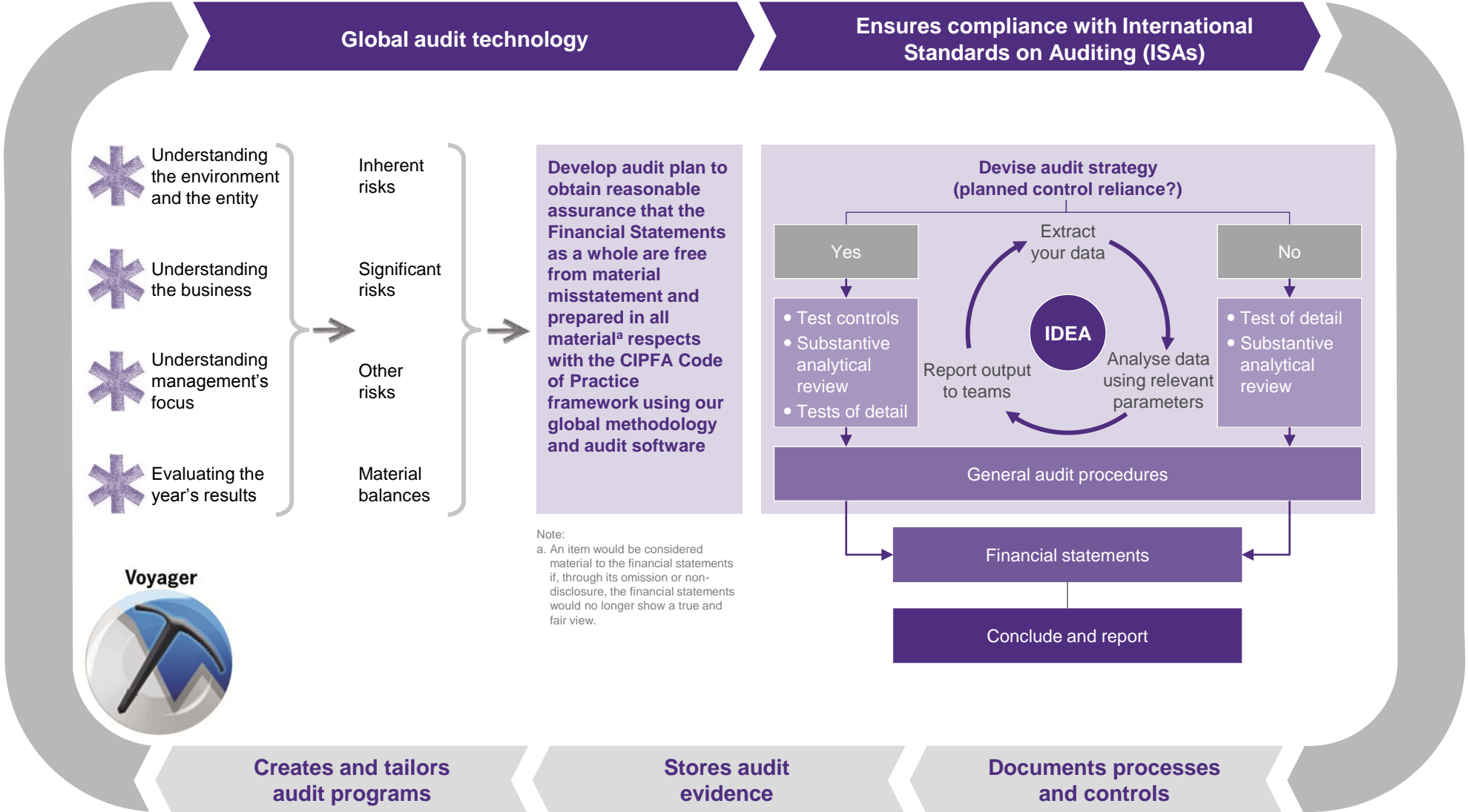
- We will discuss the impact of the legislative changes with the Authority through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Authority has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will discuss how the Authority is planning to deal with the impact of the 2013/14 changes through our meetings with senior management

- We will carry out work on the WGA pack in accordance with the National Audit Office's requirements

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses and associated creditor	Yes	Operating expenses	Medium	Other	Operating expenses and associated creditor understated or not recorded in the correct period	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Low	None		✓
Cost of services – waste levy revenues	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		×
Levy and grant income	Yes	Income	Low	None		✓
Interest payable and similar charges	Yes	Borrowings	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	Yes	Investments	Low	None		✓
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		×
Capital grants & Contributions (including those received in advance)	No	Property, Plant & Equipment	Low	None		×
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	No	Employee remuneration	Low	None		×
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	No	Property, Plant & Equipment	Low	None		×
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Significant	Other	Balances not accurate or not recoverable	✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below. We have also identified one significant risk specific to the Authority:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions
Debtor balances with St Helens Council could be misstated	St Helens Council manages all the Authority's cash and investments. In 2011/12 the balance exceeded £50million. The auditors had significant difficulty verifying the balance shown in the Authority's accounts as there were material adjustments to the balance confirmed by St Helens Council.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have discussed the issue with the finance team and asked them to formalise and improve their closedown arrangements and liaison with the St Helens finance team <p>Further work planned:</p> <ul style="list-style-type: none"> Detailed work on the year end balance, particularly journal adjustments to the year end balance agreed with St Helens Council Direct confirmation of the year end balance from officers at St Helens Council

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	<ul style="list-style-type: none"> Evaluation of the design and implementation of the Authority's controls 	<ul style="list-style-type: none"> Performance of attribute and/or substantive testing on operating expenses
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Evaluation of the design and implementation of the Authority's controls 	<ul style="list-style-type: none"> Performance of attribute and/or substantive testing on creditor balances
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Evaluation of the design and implementation of the Authority's controls 	<ul style="list-style-type: none"> Performance of substantive testing on PPE balances
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Evaluation of the design and implementation of the Authority's controls 	<ul style="list-style-type: none"> Review of the revaluation of PPE at 31 March 2013 Review of the accounting entries that arise from the revaluation to ensure they are correctly included in the financial statements
Creditors – long and short term	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Evaluation of the design and implementation of the Authority's controls 	<ul style="list-style-type: none"> Performance of attribute and/or substantive testing on creditor balances

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Merseywaste Holdings Limited (MWHL)	Yes	Targeted	Carrying value and recoverability of assets	Review of statutory audit opinion from the subsidiary's auditors.
Bidston Methane Limited	No	None	None	No specific audit work identified

Results of interim audit work and follow up of prior year issues

Appendix 1

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Authority's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls
- a consideration of matters raised following the 2011/12 audit

	Work performed	Conclusion/ Summary
Internal audit	<p>We have reviewed St Helens Council internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Authority.</p> <p>We have reviewed Internal Audit's self-assessment of compliance against those standards prepared with a view to meeting updated standards due to come in to force in April 2014.</p>	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Authority and that we can take assurance from their work in contributing to an effective internal control environment at the Authority. Additionally Internal Audit is well placed to meet the new standards.</p>
Walkthrough testing	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These included the following:</p> <ul style="list-style-type: none"> • Payroll (St Helens) • Procurement and creditor payments (St Helens and MWDA) • Capital expenditure (St Helens and MWDA) • Treasury management (investment and borrowing) (St Helens) 	<p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.</p>

Results of interim audit work and follow up of prior year issues (continued)

	Work performed	Conclusion/Summary
Review of information technology (IT) controls	Our information systems specialist will perform a review of the general IT control environment, principally at St Helens Council, as part of the overall review of the internal controls system. From the work undertaken to date by non-specialists we do not expect to find material weaknesses.	We will complete our IT work and report back later in the period.
Journal entry controls	<p>We have started to review the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy. Work is on-going at the Authority, but we have also considered the arrangements in place at St Helens and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p> <p>As many significant journals at the Authority had not yet been posted at our interim visit– most significantly amendments to opening balances following prior year audit adjustments - we have not yet undertaken detailed audit testing at the Authority. We note that significant journals are undertaken "off ledger" and the accounts are prepared from both ledger entries and these "off ledger" transactions.</p>	<p>We will undertake further detailed work on journals at the Authority during the course of our final audit visit in July/August 2013.</p> <p>We will consider the arrangements for review and approval of "off ledger" journals and ensure that our detailed testing gives appropriate coverage of ledger and non-ledger journals.</p>
Prior year audit issues	<p>In their 2011/12 annual governance report your previous auditors identified three areas for improvement:</p> <ul style="list-style-type: none"> • Improvement in the accuracy of the financial statements presented for audit • Improvements in closedown arrangements with St Helens Council to ensure that the year end balances shown as a debtor in the Authority accounts agree to supporting documentation • Improvements in the arrangements for preparing group accounts 	<p>We recognise that, with such a small finance function within the Authority, preparing the year end accounts remains challenging.</p> <p>We have identified the closedown arrangements with St Helens Council as posing a significant risk and this is considered further in the report above.</p> <p>We consider that robust review and quality assurance arrangements for year end journals and draft accounts are essential to improving quality.</p> <p>We have discussed with officers their arrangements to obtain timely group accounts information from the MWHL accountant.</p>

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

No specific VfM criteria are issued for "other" bodies such as Waste Disposal Authorities. Guidance sets out that auditors must review the Authority's Annual Governance Statement, the work of the Audit Commission and other regulators and carry out any local risk based work as appropriate.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. As noted at the beginning of this report, we consider the RRC contract to present a significant risk in terms of the long term value for money of the Authority, given its size and complexity, and we will undertake specific work on it with our waste procurement specialist.

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control. Specifically we will:

- Review your Annual Governance Statement to ensure it is consistent with our knowledge of the Authority.
- Review the reports of external regulators where they impact on our VfM conclusion such as reports from the Environment Agency or the Audit Commission.
- Undertake specific work on the RRC procurement to ensure that the processes in place continue to offer the Authority value for money in the longer term. We will involve our waste procurement expert, Mike Read, in reviewing progress on the procurement and management for the contract.

Logistics and our team



Date	Activity
Feb 13	Planning meeting
Mar/Apr 13	Interim site work
Jun 13	The audit plan presented to Audit Committee
Jul 13	Year end fieldwork commences
Sep 13	Audit findings clearance meeting
Sep 13	Audit Committee meeting to report our findings
Sep 13	Sign financial statements and VfM conclusion
Sep 13	Issue Annual Audit Letter

Our team

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Fees and independence

Fees

	£
Authority audit scale fee	39,150
Additional fees proposed (subject to approval)	23,000
Total	62,150

Our fee assumptions include:

- Additional fees are required to cover additional work on our VFM conclusion relating to the RRC procurement, including the involvement of our national waste procurement specialist.
- We also require additional fees to cover the risks associated with the financial statements work, including the complex arrangements with St Helens.
- We have discussed and agreed these fees with officers. They are subject to approval by the Audit Commission and cannot be confirmed until our audit work has been completed in September. We will update you on the final fee position in our Audit Findings report and Annual Audit Letter.
- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Authority and its activities have not changed significantly
- The Authority will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- Grant Thornton employs staff closely related to the Treasurer of the Authority or who have a close personal relationship with him as previous colleagues. No one in this position has any involvement in the audit.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

	Audit plan	Audit findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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