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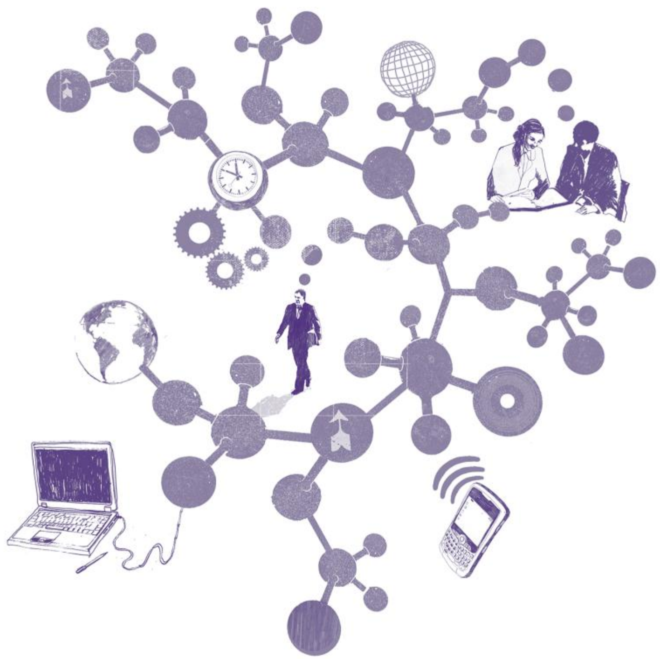
Appendix 1

The Audit Findings for Merseyside Waste Disposal Authority

Year ended 31 March 2013

18 September 2013



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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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

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Appendix 1

Section 1: Executive summary

We are anticipating issuing an unqualified audit opinion.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Merseyside Waste Disposal Authority's (operating as Merseyside Recycling and Waste Authority (MRWA's)) financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Authority's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 4 June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of our work on some of the disclosure notes and cashflow statement
- review of the final version of the financial statements
- review of Group accounts
- obtaining and reviewing the final management letter of representation
- the Whole of Government Accounts return and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and some of the accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified several adjustments to the financial statements, with some affecting MRWA's reported financial position (details are recorded in section 2 of this report). The most significant areas of change relate to capital accounting adjustments relating to the revaluation and disposal of non-current assets. We have also made a number of adjustments to improve the presentation of the financial statements and officers identified a material adjustment to the split between usable and non-usable reserves brought forward from the 2011-12 group accounts.

The key messages arising from our audit of the Authority's financial statements are:

- there has been considerable improvement in the financial statements presented for audit in 2012/13 in comparison with the previous year. In particular the arrangements to agree balances with St Helens Council are much more transparent and effective.
- more work is required on the Authority's arrangements for capital accounting. In particular, revising the fixed asset register to ensure it accurately reflects the ledger, ensuring that the revaluation reserve is supported by detailed information on gains and losses for each asset and further technical support and review on capital accounting transactions.

Further details are set out in section 2 of this report.

Value for money conclusion

As MRWA is a "small entity" for the purposes of the VFM assessment, we do not issue a qualified or unqualified opinion. We are required to report by exception if there are matters which indicate that you do not have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We are pleased to report that, based on our review of the progress of the RRC procurement and other matters required under the Audit Commission's guidance, we have no matters to report.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. We plan to have the work complete before the Authority meeting on 27 September 2013.

Controls

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Authority.

We draw your attention in particular to control issues identified in relation to:

- Journal procedures and controls
- IT arrangements with Merseytravel
- Fixed asset register
- Revaluation reserve

Further details are provided within section 2 of this report.

The way forward

Matters arising from our work on the financial statements and VFM considerations have been discussed with the Treasurer.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Treasurer

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

We are anticipating issuing an unqualified audit opinion.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Authority on 28 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 28 June 2013 except for on our VFM review. We have identified that there is additional risk arising from the resource recovery contract (RRC) procurement. We had planned to undertake additional work, including engaging our waste procurement expert, Mike Read, in reviewing progress on the procurement and management for the contract. This would have incurred additional fees. However, all additional fee has to be agreed with the Audit Commission as well as yourselves and they have deemed that there is not sufficient risk to support additional fee.

We have undertaken sufficient review of the RRC procurement to support our assessment of the Authority's VFM arrangements.

Audit opinion

We anticipate that we will provide the Authority with an unmodified opinion. Our draft audit opinion is set out in Appendix B.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	▪ Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions]	▪ Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. ▪ We set out later in this section of the report our work and findings on key accounting estimates and judgments.
3.	**Debtor balances with St Helens Council could be misstated**	▪ agreed the year end debtor relating to cash and investments held on behalf of MRWA by St Helens Council with officers at the Council and with the external audit team. ▪ tested all journal adjustments relating to debtor balances for St Helens balances.	▪ Cash balances with St Helens had been agreed at year end. ▪ We identified one adjustment to the balance, relating to a capital payment, which officers have corrected in the financial statements

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	• Evaluation of the design and implementation of the Authority's controls • Performance of attribute testing on operating expenses	• No errors were identified through our audit procedures
Operating expenses	Creditors understated or not recorded in the correct period	• Evaluation of the design and implementation of the Authority's controls • Performance of attribute and substantive testing on creditor balances	▪ No errors were identified through our audit procedures
Property, Plant & Equipment	PPE activity not valid	• Evaluation of the design and implementation of the Authority's controls • Performance of substantive testing on PPE balances	• Errors within PPE arose principally from revaluation adjustments noted below
Property, Plant & Equipment	Revaluation measurement not correct	• Evaluation of the design and implementation of the Authority's controls • 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	• The revaluation adjustments had been grossed up resulting in an overstatement of gross value and accumulated depreciation • The revaluation of assets under construction brought into use was charged to the revaluation reserve and should have been taken to the CIES.
Creditors – long and short term	Creditors understated or not recorded in the correct period	• Evaluation of the design and implementation of the Authority's controls • Performance of attribute and/or substantive testing on creditor balances	• No errors were identified through our audit procedures

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The Authority accounts for revenue in the year that the activity takes place, not on the basis of when cash is received. • The policy is disclosed on within the financial statements	• The policy is appropriate and consistent with the requirements of the Local Government accounting framework • Our audit work has indicated that the policy is being correctly applied across the Authority's transaction cycles	Green

Judgements and estimates	• The Authority has set out key areas of judgement and estimates within note 2 and 3 of the financial statements.
	• Material areas of judgement and uncertainties disclosed are
	  • Going concern
	  • Investment values
	  • Group accounts/subsidiaries
	  • Service concessions and embedded leases
	  • Legal claims
	  • Economic life of property, plant and equipment
	  • Pensions liability
	  • Waste contract accruals
		• The policies are appropriate and consistent with the requirements of the Local Government accounting framework
		• Our audit work has indicated that the policies are being applied consistently to transactions
		• We have not identified any further areas of material judgement and estimate which have been excluded
		• The accounting policies are appropriately disclosed in the financial statements
			Green

Other accounting policies	• We have reviewed the Authority's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	Green

Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet and reserves £'000	Impact on total net expenditure £000
1	Investment property disposal. In April 13 the Huyton land and buildings were sold resulting in a loss of £359k between the carrying value and the sales proceeds. Officers made the adjustments through the revaluation reserve and the capital adjustment account. This has been amended to reflect the loss in the CIES and remove changes from the revaluation reserve	(1,476) 1,835 Both adjustments go through the financing and investment line of the CIES netting off to the loss on disposal	1,476 CAA (net) (1476) Reval reserve	359
2	Revaluation of assets under construction – impairment of these assets had been taken to the revaluation reserve. However, as none of these assets have yet been subject to gains on revaluation, this impairment has to be charged to the CIES rather than the revaluation reserve.	1,592	(1,592) Reval reserve	1,592
3	In 2011/12 officers identified an embedded finance lease within their contract with Veolia as the Gillmoss plant fits the IFRIC4 criteria. Therefore, elements of the payment to Veolia will be classed as capital repayment and interest on the finance lease. In 2012/13 officers had charged the whole Veolia payment to cost of service, taken capital repayments on a straight line basis and adjusted for the capital reduction through reserves	(1350) Waste disposal CoS 873 Financing	477 finance lease capital (941) finance lease previously charged Plus corresponding reserve adjustments	(477)

Adjusted misstatements (continued)

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet and reserves £'000	Impact on total net expenditure £000
4	The LATS creditor had been calculated by the officers based on an estimate of the year end allowance shortfall. However, they then identified a trade opportunity and reduced the creditor accordingly	(594)	594	(594)
5	Merseyside Residual Debt Funding short term liability had been overstated by £215,000.	(215)	215	(215)
	Overall impact	**£665**		**£665**

Misclassifications & 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Subsequent event note	N/A	N/A	We asked officers to include a note on the post year end developments on the RRC procurement – the appointment of a preferred bidder and the legal action by the unsuccessful bidder.
2	PPE note - Accumulated depreciation and gross book value following revaluation of land and buildings		Significant – but not quantified as it is principally a disclosure/fixed asset register issue and has no net impact on the balance sheet or CIES	The SORP requires the accumulated depreciation to be removed from the PPE note when an asset it revalued. Instead, offcers have grossed up the revalued amount. The net book value is unaffected. This is a disclosure issue connected to the recommendations we have made regarding the fixed asset register. Officers have agreed to undertake a detailed review in 13/14 and will address this as part of that work
4	Group accounts classification of creditors	4,133 2,018	Long and short term liabilities and borrowing	Within the group accounts the group creditors had been included as long and short term borrowing and were amended to other long and short term liabilities
5	Prior period adjustment in group accounts	6,596	Usable and unusable reserves	Officers had corrected a prior year disclosure error regarding the split between usable and unusable reserves. We asked them to add a disclosure note confirming that this is a prior period adjustment.
6	CIES codes	248	CIES finance and investment income note 8	Halton contributions to procurement costs were adjusted within the note to the other investment income line

Appendix 1

Unadjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	Write off of Envirolink debtor – officers have written the balance off to the CIES but transferred funds from the general fund reserve into the CIES to cover the loss. This has resulted in a nil impact on the 12/13 CIES. We think the use of reserves should be reflected in the MIRS note rather than netted off within the CIES	398		Officers do not agree with us on the accounting treatment. As it is not material we have not pursued the matter further
	Overall impact	**£398**		

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Amber	**Journal Controls** ▪ Currently there are no formal processes to ensure that journals are reviewed for accuracy and appropriateness –both journals prepared within MRWA and those prepared by staff at St Helens Council ▪ There is a risk that erroneous journals could be posted or adjustments made by St Helens Council staff that are not clearly understood by the finance team at MRWA	• Officers should review their processes for journal preparation and review. • In particular, officers should discuss with the St Helens Council finance team appropriate review procedures for MRWA journals.
2.	● **Amber**	**"Off-ledger" Journals** ▪ As noted in previous auditor findings reports, officers at MRWA prepare the accounts using an extended trial balance which draws balances from the ledger and also significant manual "off ledger" journals. ▪ Use of "off ledger" journals increases the risk of errors within the accounts, in particular when financial information is carried forward from one year to the next.	▪ Officers should review the accounts preparation process and consider using the ledger for all transactions rather than managing some on a separate spreadsheet..

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

Internal controls (continued)

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendations
3.	● Amber	**IT Issues** • During 2012/13 MRWA moved to new offices provided by Merseytravel. Merseytravel also provide the IT network. • These arrangements have not yet been formalised, and at present are restricted to agreement between the CEOs of both organisations although work has begun on a formal SLA. • Without an SLA in place the performance of the shared service arrangement cannot be adequately monitored and assessed and disputes or other disagreements may not be able to be adequately resolved.	• MRWA's senior management should ensure that a robust SLA is created and formalised between MRWA and Mersey Travel. This should be subject to approval at a suitable level within both organisations. Performance should be regularly assessed against the SLA and the arrangements should be subject to periodic review.
4.	● Red	**Fixed asset register** As noted in the 2011/12 audit findings report, there are material differences between the fixed asset register (FAR) and the ledger entries, although overall, the net book value agrees. The FAR was designed and developed several years ago prior to the transition to International Financial Reporting Standards and is unwieldy and no longer fit for purpose. Some of the errors identified during our audit work have been caused by or exacerbated by the weaknesses in the FAR.	▪ During 2013/14 officers should undertake a detailed review and redesign of the FAR. ▪ The FAR should reconcile to the ledger entries for PPE and to the detail included in the detailed PPE note in the financial statements, with no significant reconciling differences.
5.	● Red	**Revaluation Reserve** The revaluation reserve should be supported by records of all the gains and losses for each individual asset. This is required by the Local Government Code of Practice, and losses on revaluation can only be charged to the revaluation reserve where there are corresponding gains. Where this is not the case, the revaluation loss has to be charged to the CIES. At present officers cannot break down the entries in the revaluation reserve on an asset by asset basis.	▪ During 2013/14 officers should attempt a detailed review of the revaluation reserve and build up a record on an asset by asset basis. ▪ Where information is missing officers should agree a judgement based split with the external auditors ▪ Going forward, the register of revaluation reserve entries should be kept updated and reconciled to the ledger.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.

3.	**Written representations**	• A standard letter of representation has been requested from the Authority.
		• In particular, representations will be requested from management in respect of
		    • the significant assumptions used in deciding on the accounting treatment of the provision with MWHL and
		    • the legal challenge on the RRC contract

4.	**Disclosures**	• Our review found no material omissions in the financial statements. Some disclosures were amended and these are included within the table within this report.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Authority's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Authority's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

Scope of our review

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.

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. It remains the most significant factor in the long term financial resilience of the Authority and has significant impact on the Councils in Merseyside and Halton. The 25 year contract is expected to exceed £1.2billion in value. Therefore we have reviewed progress on the contract during the period up to September 2013. This has included review of key correspondence, meetings with the Chief Executive, review of related reports and attendance at all Authority meetings.

Key findings - RRC

During 2012/13 the Authority has continued to progress the procurement of the RRC. For the first part of the period they remained in dialogue with its two preferred bidders and moved to call for final tenders in June 2012. A preferred bidder was announced in April 2013 and the Authority is seeking to achieve financial close before the end of 2013 with the contract becoming operational in 2015.

In February 2013 the Department for Environment, Food and Rural Affairs withdraw their funding for £90million Waste Infrastructure Credits. The Authority evaluated the impact of this on the procurement cost and considered that it remained cost effective to continue with the procurement process.

In May 2013 the unsuccessful bidder launched legal action against the Authority and the Authority is currently mounting a defence with its legal team.

Our review of the process indicates that the Authority continue to take appropriate advice from a range of legal, financial and industry experts. Members have been kept involved and formed throughout the process through periodic and special Authority meetings. Papers related to the procurement have been carefully managed given the commercial confidentiality of the process.

The legal challenge was not totally unexpected given the size and complexity of the procurement and the significant investment of time and cost all bidders have made in the process. The Authority is currently taking all steps to expedite the legal case. They have disclosed the matter as a subsequent event in the financial statements.

The successful completion of the procurement remains the key challenge for the Authority in the coming years. Any delays will expose the Authority and the Merseyside and Halton Councils to significant additional costs as landfill tax continues to increase. However, to date the Authority have invested appropriate time and specialist support and we have not identified any significant weaknesses in the arrangements that the Authority has in place to manage the RRC procurement process.

Other work

We did not identify any issues in our review of the Authority's Annual Governance Statement and there were no reports from the Audit Commission or other regulators regarding the Authority during the year.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance published by the Audit Commission, we are satisfied that there are no matters we need to report regarding the arrangements the Authority has put in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Authority audit	39.150	39,150
Total audit fees	**39,150**	**39,150**

In our audit plan we proposed additional fee in relation to our VFM conclusion due to the significant risk we have identified in relation to the RRC procurement. As noted in the early part of this report, the Audit Commission do not consider that this risk requires additional work.

We have undertaken additional work on the financial statements due to the complex nature of the PPE and revaluation errors. We have not yet determined how much additional fee will be required. We will agree this with officers and the Audit Commission and report the total fee to you in the annual audit letter in the Autumn.

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.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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.

Our communication plan	Audit Plan	Audit Findings
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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Officers should review their processes for journal preparation and review. In particular, officers should discuss with the St Helens Council finance team appropriate review procedures for MRWA journals.	Medium		
2	Officers should review the accounts preparation process and consider using the ledger for all transactions rather than managing some on a separate spreadsheet..	Medium		
3	MRWA's senior management should ensure that a robust SLA is created and formalised between MRWA and Mersey Travel. This should be subject to approval at a suitable level within both organisations. Performance should be regularly assessed against the SLA and the arrangements should be subject to periodic review.	Low		
4	During 2013/14 officers should undertake a detailed review and redesign of the FAR. The FAR should reconcile to the ledger entries for PPE and to the detail included in the detailed PPE note in the financial statements, with no significant reconciling differences.	High		
5	During 2013/14 officers should attempt a detailed review of the revaluation reserve and build up a record on an asset by asset basis. Where information is missing officers should agree a judgement based split with the external auditors Going forward, the register of revaluation reserve entries should be kept updated and reconciled to the ledger.	High		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYSIDE WASTE DISPOSAL AUTHORITY

Opinion on the financial statements

We have audited the financial statements of Merseyside Waste Disposal Authority for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement and the Authority and Group Movement in Reserves Statement and the related notes. 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 2012/13.

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

Respective responsibilities of the Treasurer to the Authority and auditor

As explained more fully in the Statement of Responsibilities, the Treasurer to the Authority 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Merseyside Waste Disposal Authority as at 31 March 2013 and of its expenditure and income for the year then ended;
give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission *in November 2012*, we have considered the results of the following:

- our review of the annual governance statement; and
- our locally determined risk-based work on revenue resource contract procurement.

As a result, we have concluded that there are no matters to report.

Certificate

We certify that we have completed the audit of the financial statements of Merseyside Waste Disposal Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas
Engagement Lead
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building, Liverpool L3 1PS

27 September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 28 June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses and related creditors	Operating expenses	Medium	Operating expenses and related creditors understated	No	None
Cost of services – employee remuneration	Employee remuneration	Low		No	None
Cost of services – waste levy revenues	Other revenues	Low		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	Low		No	Yes – adjustments to CIES re loss on disposal of Huyton land and buildings
Levy and grant income	Revenues	Low		No	None
Interest payable and similar charges	Borrowings	Low		No	Yes – interest charge applied to the embedded lease re Gillmoss plant
Pension Interest cost	Employee remuneration	Low		No	None
Interest & investment income	Investments	Low		No	None
Return on Pension assets	Employee remuneration	Low		No	None

Appendix 1

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Impairment of investments	Investments	Low		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	Low		No	**Yes – changes to CIES re loss on disposal of Huyton land and buildings**
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	Low		No	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	Low		No	Yes – adjustments made revaluation of assets under construction and investment property disposal
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	Low		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	Low		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Medium	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Medium	Revaluation measurements not correct	No	Yes – adjustments to accumulated depreciation and gross value
Heritage assets & Investment property	Property, Plant & Equipment	Low		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Intangible assets	Intangible assets	Low		No	None
Investments (long & short term)	Investments	Low		No	None
Debtors (long & short term)	Revenue	Significant	Balances not accurate or not recoverable	No	None – improved processes with St Helens in 2012/13 meant there were minimal adjustments to their agreed year end balance
Assets held for sale	Property, Plant & Equipment	Low		No	None
Borrowing (long & short term)	Debt	Low		No	**Yes – non material amendment to current borrowing and adjustment to finance lease creditor re Gillmoss embedded lease**
Creditors (long & Short term)	Operating Expenses	Medium	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	Low		No	None
Pension liability	Employee remuneration	Low		No	**None**
Reserves	Equity	Low		No	**Yes – errors in the revaluation reserve due to issues arising from PPE and investment property transactions above**

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