

# The Annual Audit Letter for Merseyside Waste Disposal Authority

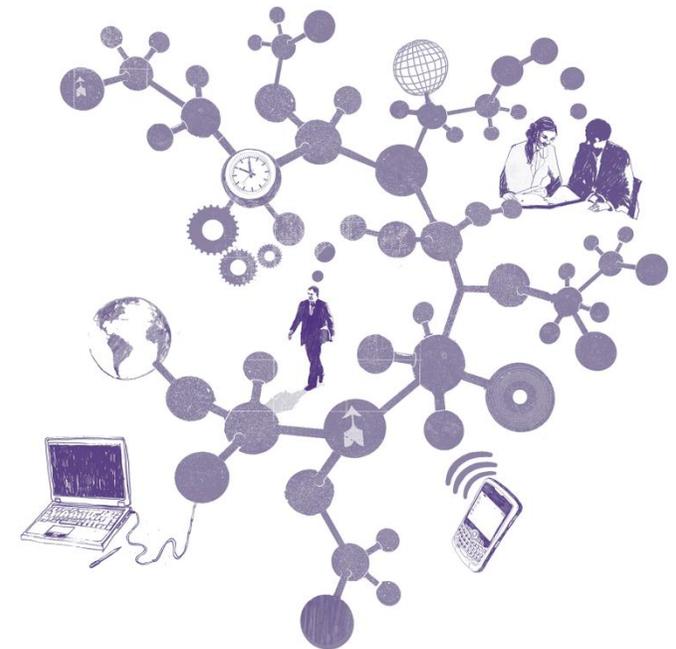
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**Year ended 31 March 2013**

29 October 2013

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# Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

This Letter is intended to communicate key messages to the Authority and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 27 September 2013.

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# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Merseyside Waste Disposal Authority ('the Authority') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)

The Letter is intended to communicate key messages to the Authority and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 27 September 2013.

## **Responsibilities of the external auditors and the Authority**

This Letter 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](http://www.audit-commission.gov.uk)).

The Authority is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan dated 4 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Authority's financial position as at 31 March 2013 and its income and expenditure for the year
- confirmation that there are no matters which indicate the Authority does not have proper arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Authority's Whole of Government Accounts submission.

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# Key areas for attention of the Authority

We summarise here the key messages arising from our audit for the Authority to consider as well as highlighting key issues facing the Authority in the future.

## Financial statements

We provided an unqualified opinion on the financial statements on 30 September 2013. There has been considerable improvement in the financial statements presented for audit this year, 2012/13, compared to last year. The Authority should continue to further develop its arrangements into 2013/14.

We identified several adjustments to the financial statements, with some affecting the Authority's reported financial position. We also made a number of adjustments to improve the presentation of the financial statements and officers identified a material adjustment to the brought forward 2011-12 group accounts. The overall impact of these adjustments was to increase the Authority's General Fund balance from £16.9m to £18.8m.

## Value for money conclusion

Our review of the Authority's value for money arrangements did not identify any matters that indicate the Authority did not have proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources

As part of our value for money work, we reviewed whether the Authority has prioritised its limited resources to take account of the tighter financial constraints it is required to operate within. We also completed a risk assessment and throughout the year, considered the progress being made in finalising the Resource Recovery Contract (RRC). This will enable the provision of waste management facilities for the next 25 years.

During 2012/13, the Authority identified a preferred bidder and moved to financial close, awarding the contract to SITA UK in April 2013. This new contract would allow Merseyside's residual waste to be taken by rail to SITA's waste facility in Teesside. However, in September 2013, the High Court granted an injunction to Covanta Energy, the unsuccessful bidder, preventing the Authority from entering into this contract with SITA UK.

Since this time, on-going discussions between the Authority's legal advisors and Covanta Energy have been taking place. In mid October 2013, an out of court 'amicable settlement' over the disputed award of the contract was announced. The Authority can now move towards the implementation stage of the contract with SITA UK.

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## Future challenges

The recent out of court settlement with Covanta Energy now enables the Authority to focus on the implementation phase of the Resource Recovery Contract with SITA UK. Given the size and length of the contract, this is likely to absorb significant management capacity and resources during 2013/14. The Authority needs to ensure, adequate management capacity remains available to maintain the on-going operational effectiveness of Merseyside Recycling and Waste Authority's routine operations as the new contract arrangements are developed and bed in.

The Authority is mainly funded from local authority levies from a number of Councils' in and around Merseyside. Local Government is continuing to face significant financial pressures and reductions in central government financial support. As a result, there will continue to be pressure on levies and whilst the Authority has used its financial reserves and sinking fund in the past to manage the size of levy increases, a longer term strategy needs to be considered to provide a degree of certainty for future planning, this is particularly relevant given the Resource Recovery Contract has now been confirmed.

## Acknowledgements

This Letter has been agreed with the Chief Executive and Treasurer and will be presented to the Authority meeting in November 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

**Grant Thornton UK LLP**  
**29 October 2013**

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## Section 2: Audit of the accounts

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We issued an unqualified audit opinion on the Authority's accounts on 30 September 2013. There has been considerable improvement in the accounts presented for audit and this improvement needs to continue into 2013/14.

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# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

We received draft financial statements and some of the accompanying working papers at the start of our audit, in accordance with the agreed timetable. There has been considerable improvement in the financial statements presented for audit this year compared to 2011/12. The Authority should continue to further develop its arrangements into 2013/14 and in particular, focus on reviewing the fixed asset register to ensure it accurately reflects the general ledger, ensuring that the revaluation reserve is supported by detailed information on gains and losses for each asset, and having available, relevant technical support on capital accounting transactions as required.

Officers were available throughout our audit and provided responses to queries and our requests for additional information.

### **Issues arising from the audit of the accounts**

We identified several adjustments to the financial statements, with some affecting the Authority's reported financial position. We 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 overall impact of these adjustments was to increase the Authority's General Fund balance from £16.9m to £18.8m.

### **Internal controls**

Our work identified a number of control weaknesses that we brought to the attention of management and those charged with governance which required action by the Authority including:

- reviewing and redesigning the fixed asset register and ensuring it reconciles routinely to the general ledger
- reconstructing the constituents elements of the revaluation reserve and routinely having supporting information for included entries
- strengthening arrangements for journal processing and review.

### **Annual governance statement**

Our review of the annual governance statement concluded that the statement is compliant with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance'. We presented our report to members of Merseyside Waste Disposal Authority on 27 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Authority's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Authority's financial position and of the income and expenditure recorded by the Authority.

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## Section 3: Value for Money

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We are required to report by exception if there are any matters which indicate that the Authority does not have proper arrangements in place to secure economy efficiency and effectiveness in the use of resources. There are no matters which we wish to report.

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# Value for Money

## Scope of work

The Code of Audit Practice (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.

Merseyside Waste Disposal Authority is a "small entity" for the purposes of the Value for Money assessment. Accordingly, we are not required to issue an opinion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Instead, we are required to report by exception if there are any matters which indicate that the Authority does not have proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We are pleased to report that our review of the Authority's value for money arrangements did not identify any matters which indicate proper arrangements are not in place for securing economy, efficiency and effectiveness in its use of resources.

## Key findings

As part of our value for money work, we reviewed whether the Authority has prioritised its limited resources to take account of the tighter financial constraints it is required to operate within. We also completed a risk assessment and throughout the year, considered the progress being made in finalising the Resource Recovery Contract (RRC). This will enable the provision of waste management facilities for the next 25 years.

During 2012/13, the Authority's two preferred bidders, SITA UK and Covanta Energy were evaluated by the Authority to identify the best future partner for the delivery of the RRC. SITA UK planned to ship residual waste to its existing waste facility in Teesside, whilst Covanta Energy, proposed a new waste incinerator plant in the Merseyside area.

After a lengthy evaluation process, the Authority identified the preferred bidder as SITA UK and moved to financial close, awarding the contract to SITA UK in April 2013. This new contract would allow Merseyside's residual waste to be taken by rail to SITA's waste facility in Teesside. However, in September 2013, the High Court granted an injunction to Covanta Energy, the unsuccessful bidder in the contract award process, preventing the Authority from entering into the contract.

Since this time, on-going discussions between the Authority's legal advisors and Covanta Energy have been taking place. In mid October 2013, an out of court 'amicable settlement' over the award of the contract was announced. The Authority can now move towards the implementation stage of the contract with SITA UK. Given the size and length of the contract, this is likely to absorb significant management capacity and resources during 2013/14. The Authority needs to ensure, adequate management capacity remains available to maintain the on-going operational effectiveness of the Authority's routine operations as the new contract arrangements are developed.

# Appendices

# Appendix A: Reports issued and fees

We confirm below the fees charged to date for the audit and that there were no fees for the provision of non-audit services.

## Fees

|                         | Per Audit plan<br>£ | Actual fees<br>£ |
|-------------------------|---------------------|------------------|
| Authority audit         | £39,150             | £39,150          |
| Additional fees*        | £0                  | £15,000          |
| <b>Total audit fees</b> | <b>£39,150</b>      | <b>£54,150</b>   |

Note:

Additional fees – We undertook a range of additional work on the financial statements due to the complex nature of the PPE and revaluation errors. We have agreed the additional fees with officers, and will be submitting a revised fee estimate to the Audit Commission for approval. We will confirm the final fee once agreed with the Audit Commission.

## Reports issued

| Report                | Date issued    |
|-----------------------|----------------|
| Audit Plan            | June 2013      |
| Audit Findings Report | September 2013 |
| Annual Audit Letter   | October 2013   |

## Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | £0     |



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