

The Audit Plan for Merseyside Waste Disposal Authority

Year ended 31 March 2014

28 February 2014

Mike Thomas

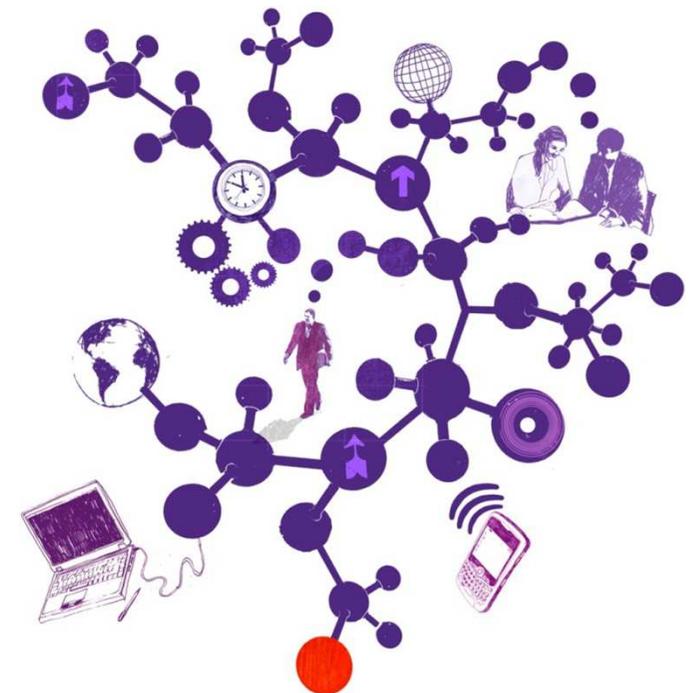
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

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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.

Challenges/opportunities

1. Resource and Recovery Contract

- The Authority awarded a thirty year contract valued at over £1 billion to the SITA group in December 2013. The contract will see waste transported from the region to a new energy from waste facility and will deliver significant savings to the Authority's partner Councils.

2. District Council Levies

- The Authority's partner Councils have been subject to ongoing spending cuts as part of central government's deficit reduction programme. The Authority has continued to work closely with Council's to minimise any increase in levies due for 2013-14 and 2014-15.

3. Sinking Fund

- At 31 March 2013 the balance on the Authority's sinking fund stood at £28.9m. The Authority has been discussing with its partner Councils the feasibility of using the balance to establish a Waste Development Fund which might be dispersed to local authorities in 2014/15.

4. Capital Accounting

- The Authority has undertaken a thorough review of its Asset Register and its systems and processes for accounting for capital expenditure. This follows recommendations made in our report to those charged with governance last year.

Our response

- The Authority has already commenced a project to consider what arrangements need to be put in place to manage a contract of this scale and complexity. We will continue to consider the progress of this project and consider how the new contract has been incorporated into the Authority's long-term financial strategy.

- The Authority recently agreed that the total amount levied on partner Council's will not increase in 2014-15. We will consider the financial planning underpinning the 2014-15 budget as part of our assessment of the Authority's arrangements to secure Value for Money.

- We will obtain regular updates from management about this proposal and consider whether any agreement reached is adequately disclosed in the Authority's 2013-14 financial statements.

- We will consider the outcome of the Authority's review and undertake detailed testing to understand the accounting impact on the financial statements of any adjustments proposed.

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 ('the code') and associated guidance.

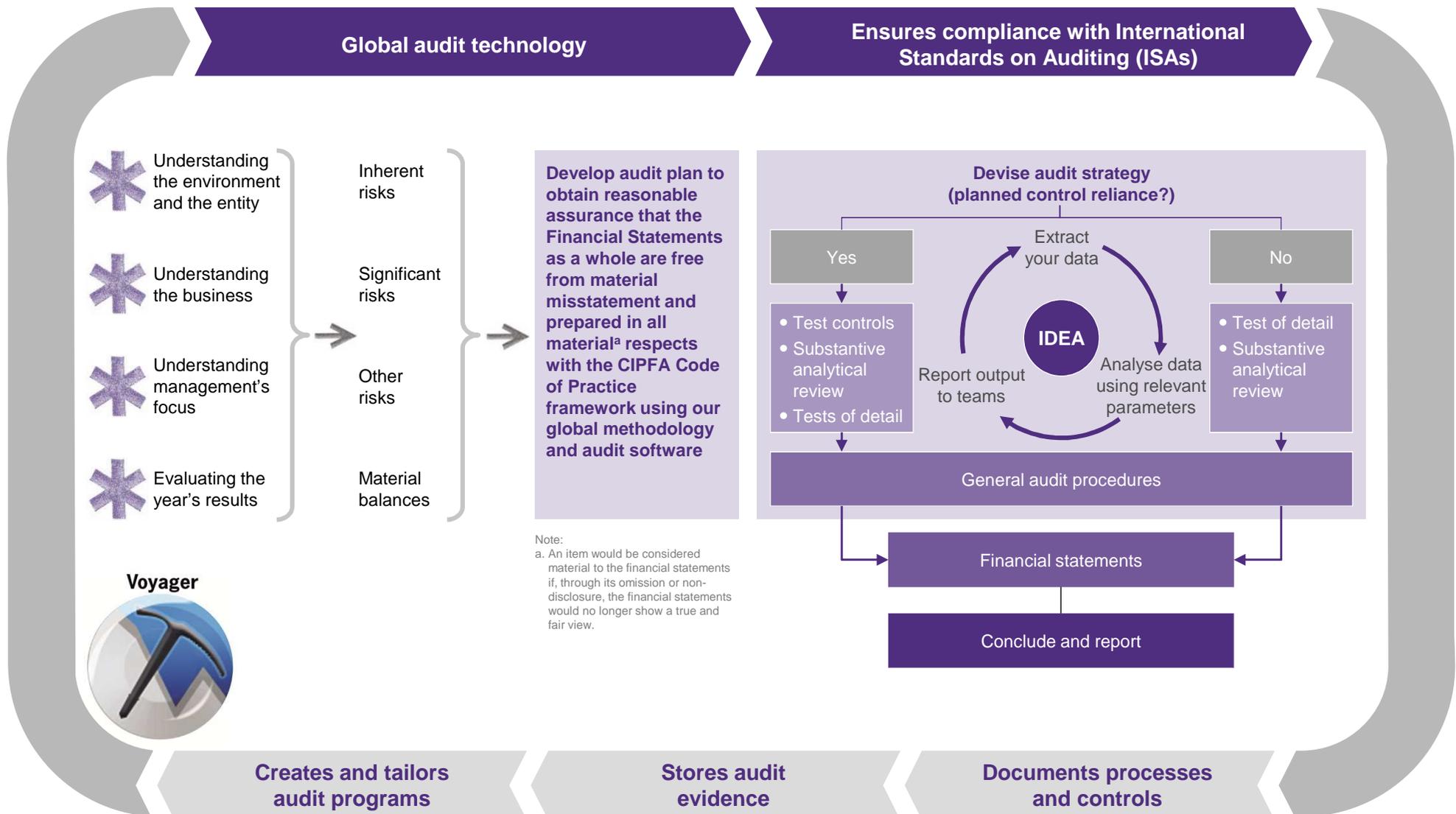
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice including clarification of Code requirements around PPE valuations. 	<p>2. Corporate governance</p> <ul style="list-style-type: none"> The Authority is required to produce each year an Annual Governance Statement (AGS) and Explanatory foreword. 	<p>3. Pensions</p> <ul style="list-style-type: none"> The impact of 2013/14 changes to the Local Government pension Scheme (LGPS). 	<p>4. Financial Pressures</p> <ul style="list-style-type: none"> Managing service provision with reduced resources Progress against savings plans. 	<p>5. Other requirements</p> <ul style="list-style-type: none"> The Authority is required to submit a Whole of Government accounts pack on which we provide an audit opinion.
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> the Authority complies with the requirements of the CIPFA Code of Practice and has proper arrangements in place to ensure that assets are revalued in accordance with the requirements of IAS 16. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The number of staff employed by the Authority is relatively small (currently 34). We will consider how the Authority has dealt with the impact of the 2013/14 changes through our meetings with senior management. 	<ul style="list-style-type: none"> We will review the Authority's performance against the 2013/14 budget, including consideration of performance against the savings plan. 	<ul style="list-style-type: none"> We will carry out work on the WGA pack in accordance with audit requirements.
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Our audit approach



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:

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"> • Initial review and testing of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of 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"> • Initial review of control environment and identification of those areas of the accounts which are based on accounting estimates and/or judgments made by management <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Obtained an understanding of the system used by the Authority to make payments to suppliers and recording the amount outstanding, including consideration of those processes and controls operated by St Helen's Metropolitan Borough Council (SHMBC) as part of the Authority's Service Level Agreement with the Council Documented contract management arrangements to understand the process by which the Authority establishes the amount due to third parties as part of the contracts for landfill waste and recycling. Completed early testing of payments made in respect of the Authority's main contracts in the period 1 April– 31 December 2013. 	<ul style="list-style-type: none"> Further detailed testing of amounts paid to suppliers Testing of the year-end creditor balance, including confirmation that any balances due have been settled after the year-end Review and testing of any material amounts accrued as part of the year-end balance.
Property, Plant & Equipment	Property, Plant and Equipment activity not valid	<ul style="list-style-type: none"> Obtained understanding of the system used by the Authority to record and account for capital expenditure, including consideration of the those processes and controls operated by St Helen's Metropolitan Borough Council as part of the Authority's Service Level Agreement with the Council 	<ul style="list-style-type: none"> Review of accounting policies relating to the capitalisation of expenditure to confirm compliance with accounting standards and the CIPFA code Testing of capital expenditure to confirm adherence to the Authority's accounting policies and accurate disclosure in the financial statements.
Property, Plant & Equipment	Revaluation measurement not correct Property, Plant and Equipment are Impaired	<ul style="list-style-type: none"> Review of the arrangements made by management to establish an appropriate basis for ensuring assets are valued with sufficient regularity to meet the requirements of the Code and IAS 16. We understand that no formal revaluation of the Authority's assets is due to be undertaken in 2013-14. The Authority needs to ensure it discloses in the financial statements the basis on which it has obtained assurance that the carrying value of its property, plant and equipment is not materially misstated. 	<ul style="list-style-type: none"> Testing of accounting entries posted to reflect any movements in assets values, including testing of accounting entries arising from the review of the Asset Register undertaken in 2013-14.

Group audit scope and risk assessment

ISA 600 requires that as Group auditor 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
Mersey Waste Holdings Limited (MWHL)	Yes	Targeted on key areas including creditors and bank	Creditors misstated Cash at Bank balance misstated	Obtain audited accounts of MWHL and undertake detailed testing of the Authority's consolidation exercise to ensure these balances are properly reflected in the Group Balance Sheet.
Bidstone Methane Limited	No	Analytical Procedures	None	Confirm through analytical procedures that amounts recognised in the Group statements in respect of this component are consistent with expectation.

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.

2013/14 VfM conclusion

The Audit Commission has specified the approach that auditors should follow in order to provide a VfM conclusion at waste authorities. Our work will comprise the following:

- review of the Annual Governance Statement; and
- review of the results of work undertaken by relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the Authority.

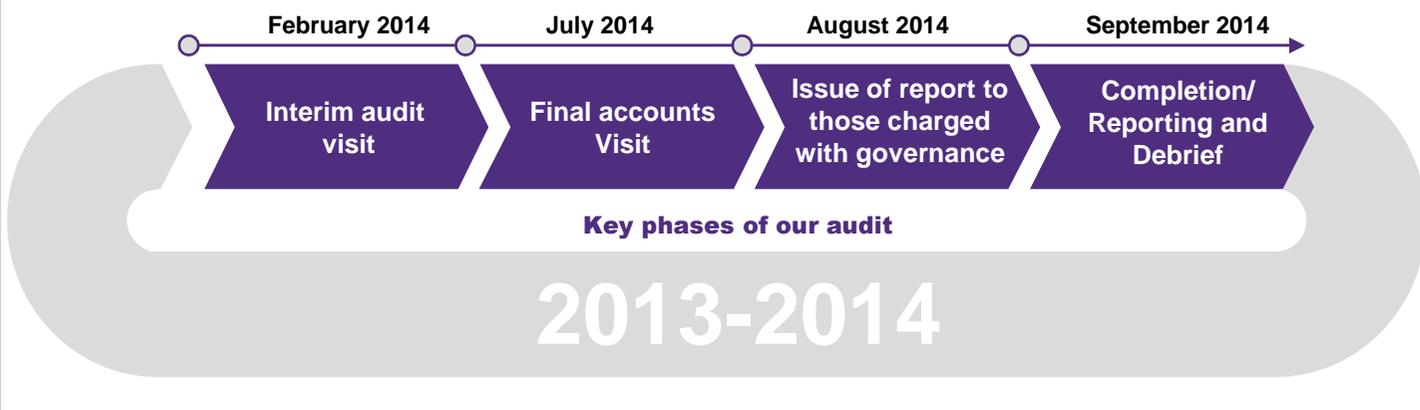
Results of interim audit work

The key findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Authority and that internal audit work contributes to an effective internal control environment at the Authority.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>We have considered in detail the arrangement between the Authority and SHMBC with regards to processing and paying invoices. Most of the Authority's transactions are with a small number of suppliers. However, we identified that SHMBC do not currently require specific authorisation from the Authority to pay a supplier which the Authority has not used previously. Introducing a process whereby requests to add new suppliers are formally authorised by a senior officer would strengthen the control environment by mitigating against the risk that fraudulent payments could be made by SHMBC using the Authority's funds.</p> <p>Some controls relevant to our audit are operated by SHMBC on behalf of the Authority. We will be undertaking work at SHMBC in March 2014 to obtain assurance that the expected controls have been implemented.</p>	<p>We have identified one minor improvement to the Accounts Payable system that the Authority should implement. No other issues have been identified as part of the walkthrough tests we have completed.</p>
Review of Fixed Asset Register	<p>We have met with the consultant engaged to undertake a comprehensive review of the Authority's Fixed Asset Register. This provided a helpful overview of the outcomes arising from the review and the likely implications for our audit. We will commence detailed testing on the proposed adjustments to Fixed Assets before our final accounts visit in the summer.</p>	<p>We will report any significant findings arising from our detailed work as part of our Audit Findings Report.</p>

Logistics and our team

The audit cycle



Date	Activity
December 2013/ January 2014	Planning
February 2014	Interim site visit
March 2014	Presentation of audit plan to Authority
June/July 2014	Year end fieldwork
July 2014	Audit findings clearance meeting with Director of Finance
August 2014	Issue of report to those charged with governance
September 2014	Report audit findings to those charged with governance
September 2014	Sign financial statements opinion

Our team

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Fees and independence

Fees

	£
Authority audit	39,150
Total fees (excluding VAT)	39,150

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- 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

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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.

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 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		✓

Appendices

Action plan

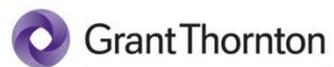
Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	St Helens Metropolitan Borough Council to only pay suppliers not used previously by the Authority if formal authorisation to amend the supplier database has been provided by the Authority.	Low	Agreed.	Mandy Valentine 30 May 2014
2	Include appropriate disclosure in the financial statements of the basis on which the Authority has obtained assurance that the carrying value of property, plant and equipment in Authority's balance sheet, as at 31 March 2014, is not materially misstated.	Medium	Agreed.	Peter Williams 30 June 2014



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