

The Audit Plan and Interim Report for Merseyside Waste Disposal Authority

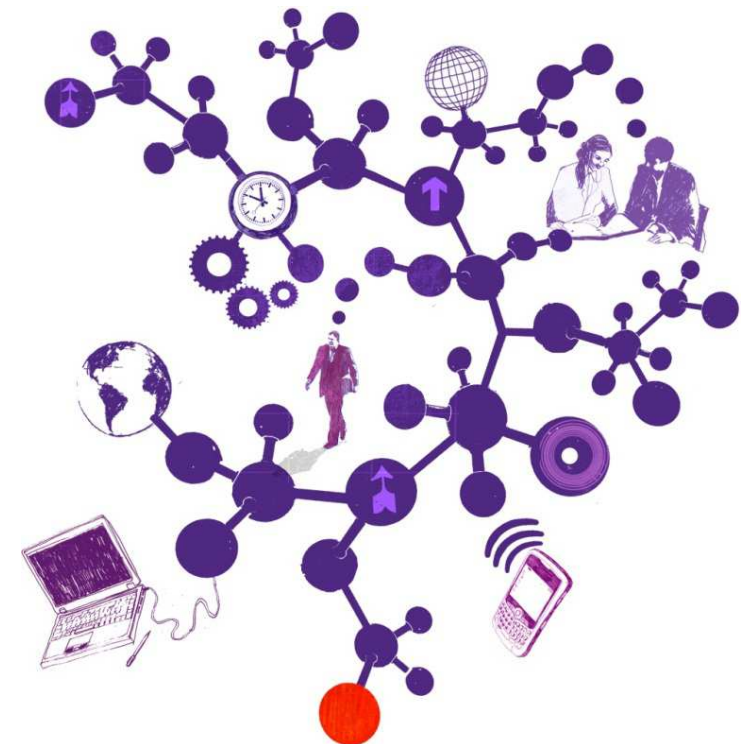
Year ended 31 March 2015

30 March 2015

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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 Sita Semcorp UK (SSUK) 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.
- The new facility in the North East of England is currently under construction.

2. District Council Levies

- The Authority's partner Councils continue to be subject to on-going spending cuts as part of central government's deficit reduction programme. The Authority has worked closely with Council's to minimise any increase in levies due.
- Given financial pressures, and without an increase in the levy, the Authority will need to utilise its reserves in future years.

3. Sinking Fund

- The balance on the Authority's sinking fund stood at £28.9m at 31 March 2013. Towards the end of 2013/14, the Authority agreed to transfer this balance into the newly established Waste Development Fund to contribute towards the joint waste strategy with partner Councils.
- Early in 2014/15, the Authority dispersed the total balance to its partner local authorities.

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 how the contract has been incorporated into the Authority's long-term financial strategy. We will also consider the appropriateness of the disclosure in the financial statements.

- The Authority recently agreed that the total amount levied on partner Council's will not increase in 2015-16. We will consider the financial planning underpinning the 2015-16 budget as part of our assessment of the Authority's arrangements to secure Value for Money.
- We will also consider the Authority's longer term plan to maintain future financial balance and the possible impact of utilising reserves as a mechanism to avoid future levy increases.

- We will consider the arrangements that the Authority has put in place to satisfy itself that these monies have been or will be appropriately used by the respective authorities in accordance with the agreed memorandum of understanding.
- We will also consider the adequacy of disclosure in the Authority's 2014-15 financial statements.

- We will consider the outcome of the Authority's review and undertake appropriate testing to understand the accounting impact on the financial statements and 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

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12) which update the arrangements for accounting for group entities.

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword.

3. Pensions

- The impact of the 2013/14 changes to the Local Government Pension Scheme (LGPS) which has moved LG pensions from a final salary scheme to a career average scheme from 1 April 2014.

4. Financial Pressures

- The Authority continues to operate in a difficult financial climate with its partner Councils under financial pressure.

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 discussions with management and our substantive testing
- appropriate disclosure is made for the new group accounting standards.

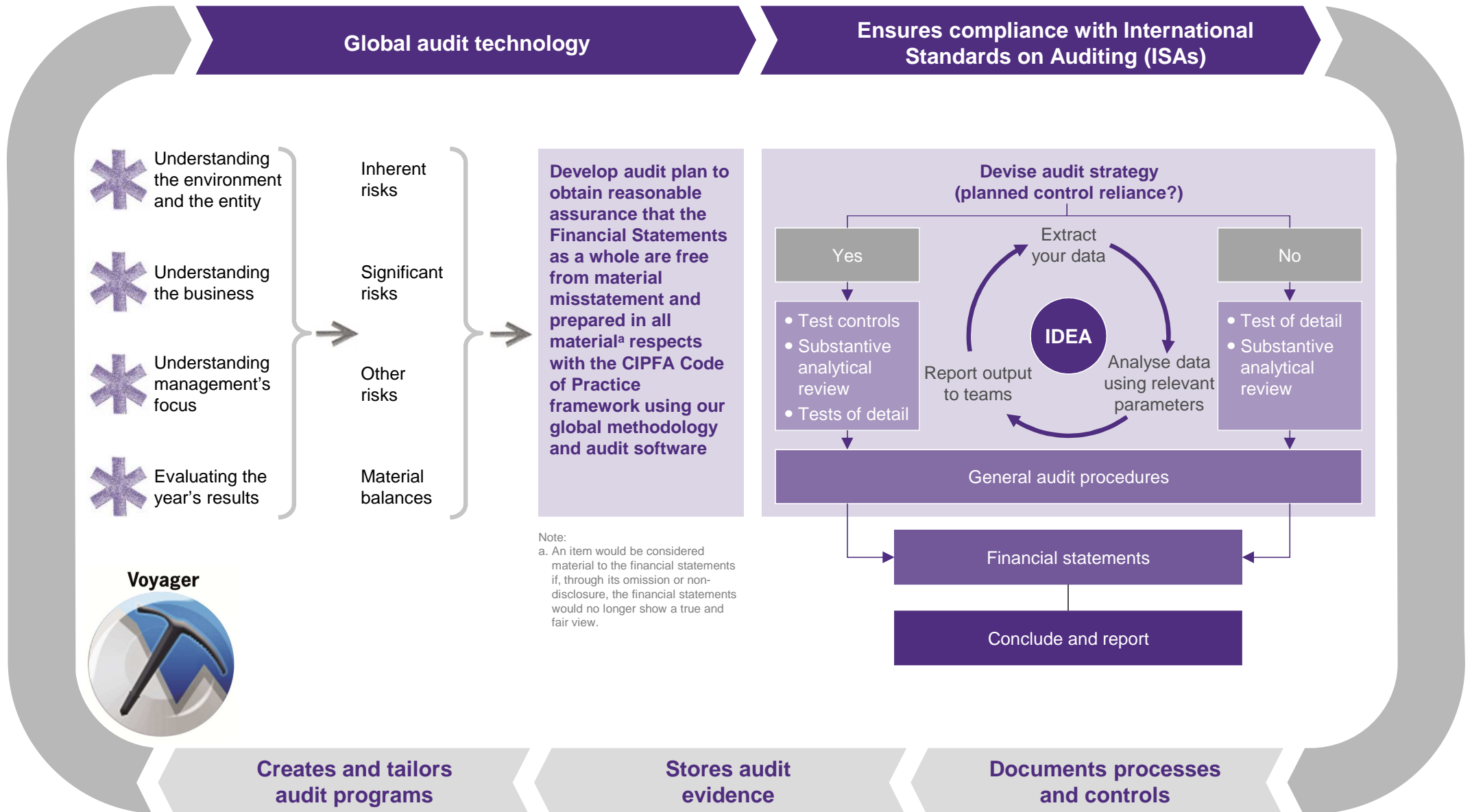
- We will review the arrangements the Authority has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- The number of staff employed by the Authority is relatively small. We will consider how the Authority has dealt with the impact of the changes through our meetings with senior management.

- We will continue to discuss the impact of these pressures with the Authority through our regular meetings with senior management and those charged with governance, providing a view where appropriate
- We will also review the Authority's performance against the 2014/15 budget to date, including consideration of performance against the savings plan.

- We will carry out work on the WGA pack in accordance with audit requirements.

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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Merseyside Waste Disposal Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • a significant proportion of revenue comes directly from levies • opportunities to manipulate revenue recognition are limited • the culture and ethical frameworks at Merseyside Waste Disposal Authority, mean that all forms of fraud are seen as unacceptable. <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of material revenue streams
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>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

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 risks	Description	Audit Approach
Operating expenses	<p>Creditors understated or not recorded in the correct period</p> <p>Operating expenses understated</p>	<p>Work completed to date:</p> <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. <p>Further work planned:</p> <ul style="list-style-type: none"> • 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 • Substantive testing of a sample of operating expenses and year end payables / accruals to source documents to ensure valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement.
Property, Plant & Equipment	Revaluation measurement not correct	<p>Work planned:</p> <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 almost all of the Authority's properties were re-valued in 2012/13 with two remaining properties to be re-valued this year (2014/15). We will consider the outcome of the valuation exercise and also how management has satisfied itself that the carrying value of property, plant and equipment is not materially misstated at the year end. • 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 2014-15.

Other risks identified continued

Other risks	Description	Audit Approach
Repayment from the Waste Development Fund (former sinking fund)	Merseyside Waste Disposal Authority repaid monies from the Waste Development Fund to partner Councils at the beginning of 2014-15.	<p>Further work planned:</p> <p>We will consider the arrangements made by the Authority to satisfy itself that the monies repaid have been or will be spent in accordance with the memorandum of understanding signed by partner councils.</p>
Pension Fund Deficit	Ensure that this is correctly accounted for in the financial statements.	<p>Further work planned:</p> <p>Undertake a review to ensure that the pension fund deficit is correctly reflected in the financial statements, ensure that the correct notes to the accounts have been included and accounted for in respect of IAS19.</p>

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	Fully scoped in review of audited accounts	<ul style="list-style-type: none"> • Creditors misstated • Cash at Bank balance misstated • PPE misstated • Repayment of Provision 	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.
Bidston 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

Value for money

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.

2014/15 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.

Work to be undertaken

Specifically we will:

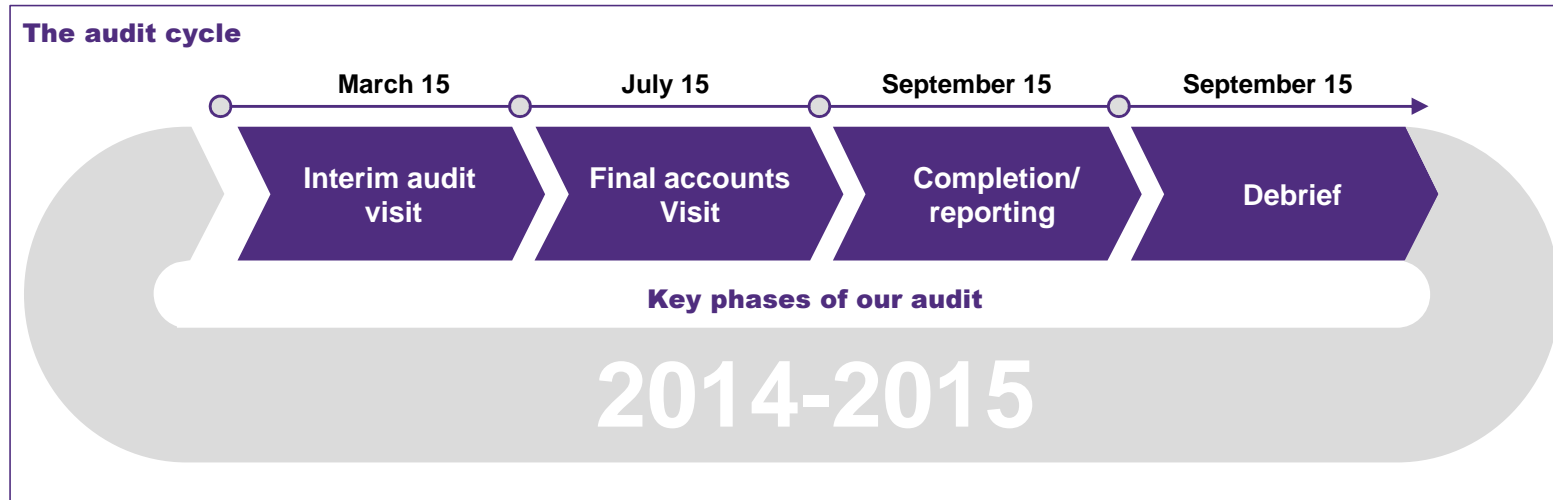
- Review your Annual Governance Statement to ensure it is consistent with our knowledge of the Authority.
- Review the reports of external regulators where they impact on our VFM conclusion such as any reports by the Audit Commission, DEFRA or the Environment Agency.
- Consider the need for any risk based work should the need arise.

Results of interim audit work

The 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	We reviewed and considered internal audit's work on the Authority's key financial systems to date. In addition, we have noted the work of Internal Audit that informs other aspects of our work. We have not identified any significant weaknesses impacting on our responsibilities	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	Our walkthrough testing remains on-going. From testing completed to date of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, we have not identified any issues which we wish to bring to your attention.	Our work to date has not identified any weaknesses which impact on our audit approach.
Entity level controls (High level controls operating at the organisational level)	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices. 	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
Journal entry controls	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.	Our work to date has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.

Key dates



Date	Activity
February – March 2015	Planning
March 2015	Interim site visit
April 2015	Presentation of audit plan to the Authority meeting
June 2015	Year end fieldwork
August 2015	Audit findings clearance meeting
September 2015	Report audit findings to those charged with governance (Authority meeting)
September 2015	Sign financial statements opinion

Fees and independence

Fees

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

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

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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		✓



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