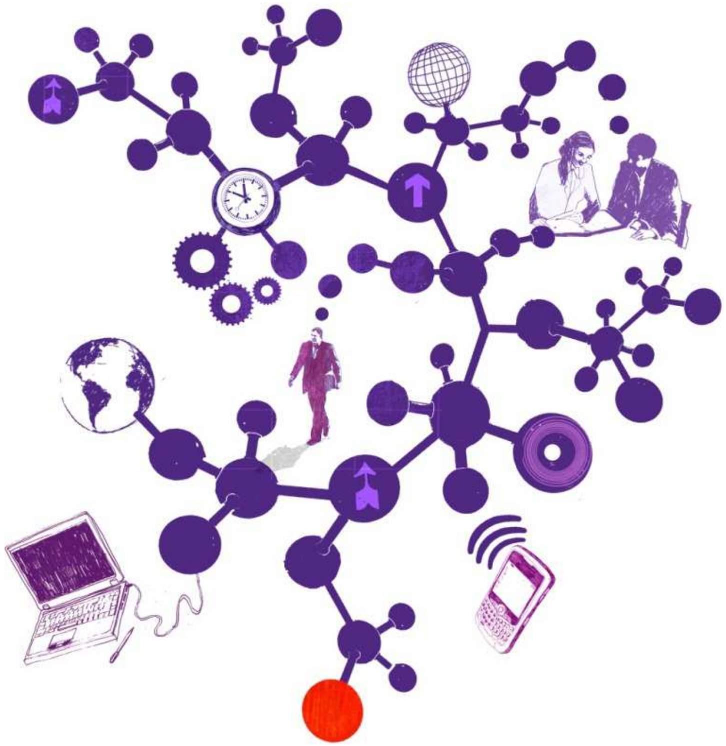
The Audit Plan
for Merseyside Waste Disposal Authority

Year ending 31 March 2016

31 March 2016



Jackie Bellard
Engagement Lead
T 0161 234 6394
E jackie.bellard@uk.gt.com

Perminder Sethi
Senior Manager
T 0113 200 2547
E perminder.sethi@uk.gt.com

Chris Blakemore
Executive
T 0161 214 6397
E chris.blakemore@uk.gt.com

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.

Grant Thornton

Chair and Members of the Authority
Merseyside Waste Disposal Authority
Floor 7
No.1 Mann Island
Liverpool
L3 1BP

Royal Liver Building
Liverpool
L3 1PS
T +44 (0)151 224 7200

www.grant-thornton.co.uk

31 March 2016

Dear Members

Audit Plan for the Merseyside Waste Disposal Authority for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance , an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Authority and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Audit Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Authority's financial statements
- satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Jackie Bellard

Engagement Lead

Contents

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. Financial Position

- The Authority's revised 2015/16 budget shows expenditure of £69.1 million, some £2.5 million less than the original budget mainly as a result of underspends on contracts and delays to the opening of a new waste recycling centre. The latest 2015/16 outturn position indicates £0.25 million will be added to the general reserve.
- The Authority's reserves have continued to be used over the last few years to avoid levy increases. This has resulted in the general reserve falling to £16.3 million at the end of 2015/16.
- The Authority's budget for 2016/17 was set at £75.5 million without a levy increase requiring the use of reserves of £9.9 million.

2. Resource Recovery Contract

- The Authority awarded a thirty year contract valued at over £1 billion to Sita Sembcorp 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.

3. Dividend from Mersey Waste Holding Limited

- During the year, Mersey Waste Holding Limited is expected to pay a dividend of £4 million to Merseyside Waste Disposal Authority.

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require Authorities to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

Our response

1. Financial Position

- We will monitor the financial position of the Authority throughout the year and where unexpected variances have occurred, we will investigate and discuss the reasons with management.
- We will consider the adequacy of reserves with management as part of our VFM work. This will consider the Authority's Medium Term Financial Plan.
- We will review the progress made in delivering savings for 2015/16 as part of our VFM conclusion work.

2. Resource Recovery Contract

- 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.

3. Dividend from Mersey Waste Holding Limited

- We will consider the on-going de-capitalising of Mersey Waste Holding Limited as part of our group accounts work.
- We will also consider the accounting treatment within Merseyside Waste Disposal Authority's accounts.

4. Earlier closedown of accounts

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities and continue to produce early accounts.
- We aim to complete all substantive work in our audit of your financial statements during July 2016.

Developments and other requirements relevant to your business and the audit

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

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Other requirements

- The Authority is required to submit a Whole of Government Accounts (WGA) pack on which we provide an audit opinion.

Our response

1. Fair value accounting

- We will keep the Authority informed of changes to the financial reporting requirements for 2015/16 through invitations to our technical update workshops.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

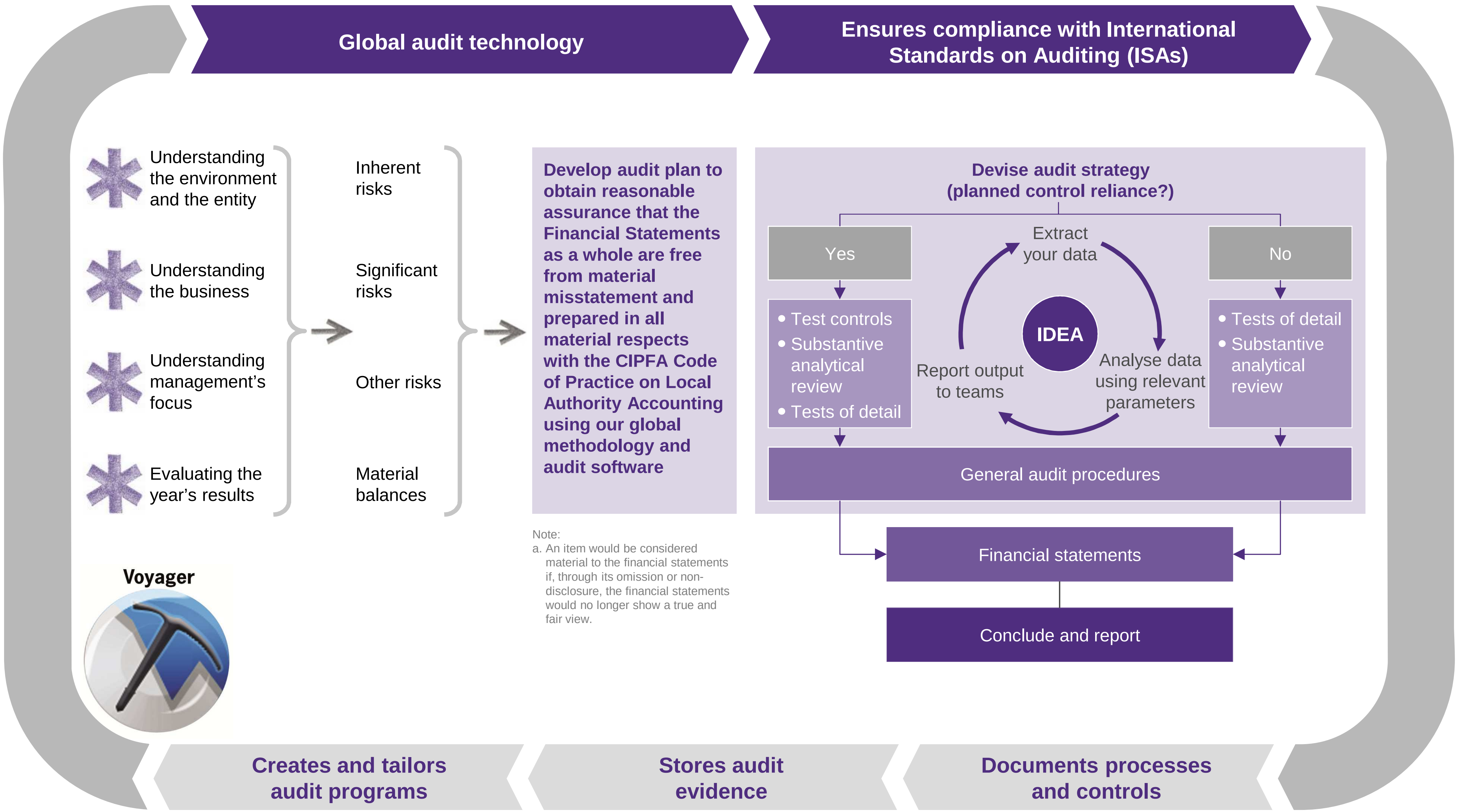
2. Corporate governance

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Authority and the requirements of CIPFA guidance.

3. Other requirements

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

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Authority. For purposes of planning the audit we have determined overall materiality to be £1.175 million (being 1.7% of gross revenue expenditure in 2014/15). We will consider whether this level is appropriate on receipt of the 2015/16 financial statements and advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £58k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. It should be noted that our approach to auditing these disclosures is unchanged to work completed in previous years.

We have identified the following items where we will undertake audit procedures as these are key figures/disclosures in the accounts that should be correct:

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Authority affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

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. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: ● there is little incentive to manipulate revenue recognition ● opportunities to manipulate revenue recognition are very limited as most income is set by levy ● the culture and ethical frameworks of local authorities, including Merseyside Waste Disposal Authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** ● Review of controls around journal entries. ● No issues have been identified from our work completed to date. **Further work planned:** ● Testing of journal entries up to 31/03/2016. ● Review of unusual significant transactions up to 31/03/2016.
The expenditure cycle includes fraudulent transactions	We are also required to consider the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, especially where the body is required to meet targets (Auditing Practices Board Practice Note 10).	We have considered this risk and do not consider it to require additional audit procedures because of your 2015/16 gross budgeted expenditure: • 97% relates to supplies and services of which a significant element is contract based • 3% relates to employee costs. Each of these areas is addressed by our procedures in response to the identified risk as set out on pages 11 to 13.

Significant risks identified continued

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Authority revalues its assets on a rolling basis. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements. A full valuation of property assets is to be conducted as at 31/3/16.	**Work planned:** • Testing of revaluations made during the year to ensure they are input correctly into the Authority's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of management's expert • Review of the instructions issued to valuation experts and the scope of their work. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding
Estimates and Judgements	Estimates and judgements are used when compiling the financial statements	**Work planned:** • Review of significant management judgements and estimates including testing relating to the year end revaluation of fixed assets and the calculation of the closed landfill provisions.
Valuation of pension fund net liability	The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	**Work planned:** • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the data sent to the actuary with the payroll system. • We will review the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from your actuary.

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 (UK & Ireland) 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	Creditors understated or not recorded in the correct period (Completeness)	**Work completed to date:** ● Walkthrough of operating expenses. ● No issues have been identified from our work completed to date. **Work planned:** ● Review of significant cash payments in the period following the financial year end ● Testing of significant accruals, including accruals relating to contract payments made in respect of the final quarter of 2015/16.
Operating expenses	Operating expenses understated (completeness)	**Work completed to date:** ● Updated our understanding and documentation of the accounting system processes and key controls ● Walkthrough of the key controls to determine whether controls are designed effectively ● Months 1-10 operating expenses substantive testing undertaken. ● No issues have been identified by our work completed to date. **Further work planned:** • Substantive testing of sample of operating expenses for months 11 and 12 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.

Other risks identified continued

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Waste Levy Revenues
- Other Revenues
- Investments (long term and short term)
- Financing and investment income and expenditure
- Property Plant and Equipment
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Usable and unusable reserves notes
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Authority.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.

Value for Money

Background

The Code requires us to consider 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out alongside:

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money continued

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will consider if any significant risks are identified. If this is the case, we will discuss the work programme with management..

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter. We will agree any additional reporting to the Authority on a review-by-review basis.

We will include our VfM conclusion as part of our report on your financial statements.

Results of interim audit work

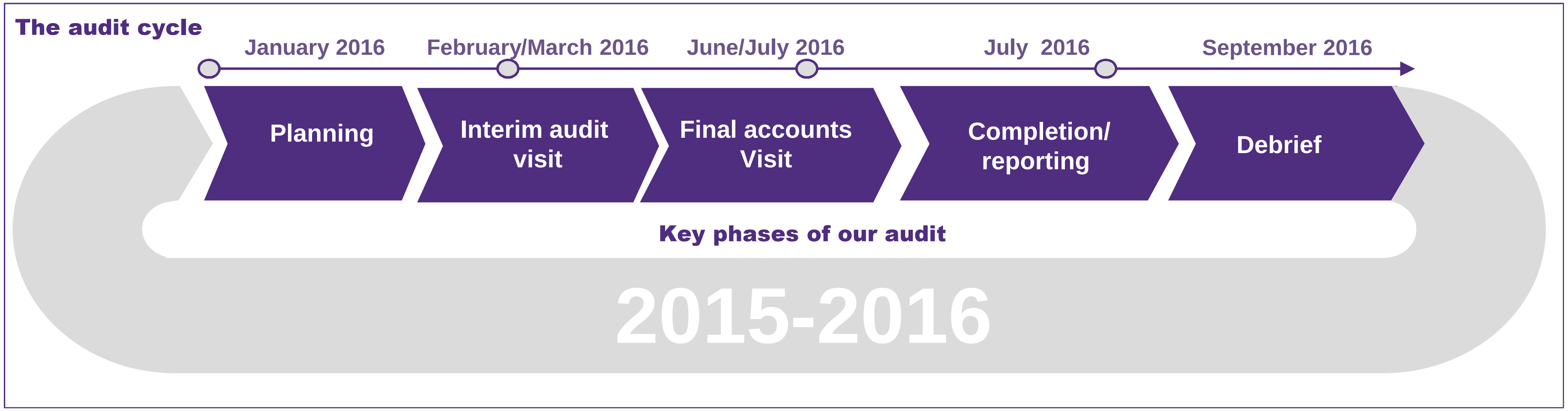
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We reviewed internal audit's work on the Authority's key financial systems to date. 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.
Identification and evaluation of financial systems controls	We have completed walkthrough tests of controls operating within operating expenditure where we consider there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Entity level controls (organisational)	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and 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 identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.

Results of interim audit work (continued)

	Work performed	Conclusion
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.	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.
Early substantive testing	**Operating Expenses** A random sample of invoices to month 10 were selected for testing. These were checked to supporting documentation and checked to ensure that they were valid expenditure transactions. **Income Testing** Levy income to month 10 was tested to ensure that the receipts were correctly recognised and allocated.	**Operating Expenses** Our work to date found that the items were all correctly input, no issues were identified with regards to operating expenses. **Income Testing** Our work to date found that Levy income is being correctly recognised and allocated. We will complete our testing to the year end as part of our final accounts work for months 11 and 12.

Key dates



Date	Activity
January 2016 onwards	Planning
February 2016	Interim site visit
March 2016	Draft audit plan
June/July 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with management
September 2016	Report audit findings to those charged with governance
September 2016	Sign financial statements opinion and value for money conclusion
September 2016	Complete opinion work on Whole of Governments Accounts (WGA) submission if required.

Fees and independence

Fees

	£
Authority audit	£29,363
Total audit fees (excluding VAT)	**£29,363**

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.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

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 requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). 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		✓
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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