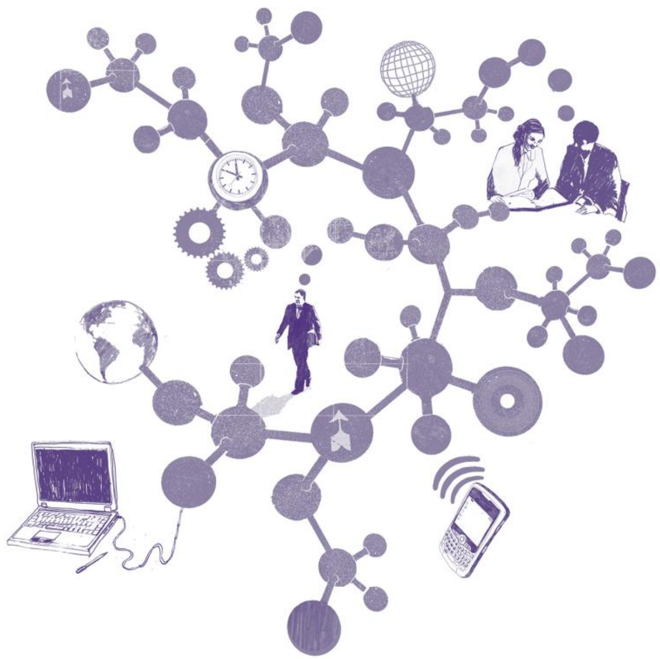
The Audit Findings for Merseyside Waste Disposal Authority

Year ended 31 March 2016

14 September 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

Grant Thornton

Private and Confidential

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)151 224 200
www.grant-thornton.co.uk

14 September 2016

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

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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.

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 and giving a value for money conclusion. 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.

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

Yours Faithfully

Grant Thornton UK LLP

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Merseyside Waste Disposal Authority and the preparation of the group financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 31 March 2016

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

- review of the final version of the financial statements.
- obtaining and reviewing the management letter of representation.
- updating our post balance sheet events review, to the date of signing the opinion.
- review of the Annual Governance Statement.
- agreement of the consolidation of the Group Accounts to take account of audit changes.

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

Key audit and financial reporting issues

Financial statements opinion

We have identified 2 adjustments affecting the Authority's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £196K; the audited financial statements show net expenditure of £1,409K. This change is primarily driven by changes made to year end debtor and creditor accrual calculations, and correction of two prior year transactions. We have also recommended a number of adjustments to improve the presentation of the financial statements.

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

- the working papers were of a good quality
- finance staff responded quickly to all audit queries in line with agreed protocols.

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

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.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance

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

Acknowledgement

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
14 September 2016

Section 2: Audit findings

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 we reported in our audit plan, we determined overall materiality to be £1,175k (being 1.7% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality to £1,273k (being 1.7% of gross revenue expenditure for 2015-16).

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £63k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation
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.

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 (UK&I) 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 three 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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 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.	At the planning stage of our audit, we determined that the risk of fraud is not significant because there is little incentive to manipulate revenue recognition. On this basis we rebutted the risk. We have however undertaken the following procedures: • 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 over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	▪ Review of accounting estimates, judgements and decisions made by management ▪ testing of journal entries ▪ review of unusual significant transactions	Our audit work has not identified any evidence of management over-ride 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 judgements.
3.	**The expenditure cycle includes fraudulent transactions**	▪ Our existing procedures detailed on pages 11-12 provide us with assurance that there has been no identification of fraud regarding expenditure reporting.	Our audit work has not identified any issues in respect of expenditure misstatement .

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	**Valuation of property, plant and equipment** The Authority revalues its assets on a rolling basis over a three year period. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	▪ 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 re-valued 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	Our audit work has not identified any issues in respect of the risk identified.
5.	**Estimates and Judgements**	• 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 provision.	Our audit work has not identified any issues in respect of the risk identified.

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
6.	**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.	• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the payroll data sent to the actuary with the payroll system. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in respect of the risk identified.

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	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: ▪ documented our understanding of processes and key controls over the transaction cycle and walkthrough of the key controls to assess the whether they were in line with our understanding ▪ substantive testing of sample of year end payables / accruals. ▪ Expenditure cut-off testing	Our audit work has not identified any significant issues in relation to the risk identified. The Authority needs to continue to strengthen its arrangements to ensure all accruals are reviewed to avoid expenditure being misstated.
Operating expenses	Operating expenses understated (Completeness)	We have undertaken the following work in relation to this risk: ▪ documented our understanding of processes and key controls over the transaction cycle and walkthrough of the key controls to assess the whether they were in line with our understanding ▪ substantive testing of sample of expenditure to ensure valid spend and appropriate categorisation in the net cost of services headings in the CIES. ▪ Expenditure cut-off testing	Our audit work has not identified any significant issues in relation to the risk identified.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors 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	Work completed	Assurance gained & issues raised
Mersey Waste Holdings LTD	Yes	Comprehensive	Investments carrying value	Full scope UK statutory audit performed by Grant Thornton UK LLP	Our audit work has not identified any issues in respect of Mersey Waste Holdings LTD.
Bidston Methane Limited	No	Analytical	N/A	Desktop review performed by ourselves, using audited accounts signed by KPMG for 2014-15	Our audit work has not identified any issues in respect of Bidston Methane Limited.

Significant matters discussed with management

	Significant matter	Commentary
1.	Following a capital reorganisation, the share capital of the 100% owned subsidiary, Mersey Waste Holdings LTD, reduced from £5,138K to £1. The draft accounts did not reflect this change.	We are currently establishing the appropriate accounting treatment for this change. **Management response** […]
2.		
3.		

Accounting policies, estimates and 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	• Revenue from the provision of services is recognised when the Authority can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Authority.	▪ Revenue recognition policies are in line with the requirements of the Code of Practice on Local Authority Accounting 2015/16 and accounting standards. ▪ We have undertaken substantive testing of levy income, levy adjustments and other revenues and are satisfied that the Authority has recognised income in accordance with its accounting policies. ▪ Revenue recognition policies are appropriately disclosed.	
Judgements and estimates	• Key estimates and judgements include: – Revaluations – Useful lives of assets – Impairments – Accruals – Closed Landfill provisions	We considered the following: • Appropriateness of policy under the relevant accounting framework • Extent of judgement involved • Potential financial statement impact of different assumptions • Adequacy of disclosure of accounting policy Our testing did not identify any significant matters regarding the application of judgements and calculation of estimates.	
Going concern	The Director of Finance has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	

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

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Authority. 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 related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Authority, including specific representations in respect of the Group.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations as necessary to fulfil our audit requirements
6.	**Disclosures**	• Our review found no material omissions in the financial statements. We have made a number of recommendations to improve disclosures

Other communication requirements continued

	Issue	Commentary
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Explanatory Foreword is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Authority acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that minimal work is required as the Authority does not exceed the threshold.

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. We considered and walked through the internal controls for Operating Expenses as set out on page 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	• Our audit work identified an year end accruals that were in % terms significantly different to the actual cost subsequently invoiced to the authority.	• There is a need for the Authority to continue to strengthen its arrangements to ensure all accruals are reviewed to avoid expenditure being accrued more than once and not significantly different to the actual expenditure incurred.

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

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.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Income incorrectly includes a reversal from 2014-15 that was removed from the 2014-15 accounts. Income is therefore understated. Compensated by a correction to Brought Forward General Fund reserves	-356		0
2	Income incorrectly includes a reversal from 2014-15 that was removed from the 2014-15 accounts. Expenditure is understated. Compensated by a correction to Brought Forward General Fund reserves	1299		0
3	The discounting for the closed landfill provision was not unwound by one year. The provision is understated by £203K. Compensated by contribution from the Capital Adjustment Account.	203		0
4	In the MWDA SOFP there is £5,138K relating to a long term investment in the share capital of MWHL. Per a review of the MWHL audited accounts this is £1. This may have a significant direct impact on the MWDA balance sheet. Note also that the narrative in note 12 will need to be updated. The impact of this is being clarified by our technical department. [To be updated]			
5	Debtors testing found that debtors are overstated by £103K	103	-103	103
6	Creditors testing found that for the sample selected for testing, creditors are understated by £166K.	166	-166	166
	Overall impact	**£1,415K**	**£-269**	**£269**

Unadjusted misstatements

The table below provides details of adjustments identified during the audit 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 Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	**There are currently no unadjusted misstatements**			
	Overall impact	**£0**	**£0**	

Misclassifications and 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	Misclassification	143	Short and long term liabilities	The split between long and short term borrowings on the balance sheet is incorrect. The £143K short term borrowing balance has now been reanalysed as a long term borrowing balance. (amended)
2	Disclosure	N/A	Note 16 creditors	The analysis of the comparators is different to that shown in last years accounts, where the comparator reports a closing creditor of £2,318K with central government bodies, but the comparator now allocates this to other local authorities. (amended)
3	Disclosure	N/A	CIES	The CIES incorrectly described the £4,215K adjustment as revaluation for the closed land fill provision. This should be amended to refer to revaluation gain on fixed assets. (amended)
4	Disclosure	N/A	Note 9 fixed assets	The note incorrectly includes a reference to £11,131K infrastructure assets. This column needs to be removed and does not affect the total value of fixed assets recorded in the balance sheet. (amended)
5	Disclosure	N/A	Page 73	Under general principles within the accounting policies section, the note incorrectly refers to financial statements for 2014-15. The accounts have been prepared using the LA CODE 2014-15, SERCOP 2014-15 and in accordance with IFRS and statutory guidance issued under section 12 of the LGA 2003. These have been amended to reflect the correct year.

Misclassifications and disclosure changes-Continued

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
6	Disclosure	N/A	Note 30	The sensitivity analysis figures for longevity and discounting are the wrong way around in note 30. Longevity increase of 1 year should report a figure of (£293K) and rate for discounting should report £260K. (amended)
7	Disclosure	N/A	Note 30	The amount the authority expects to pay in contributions to Merseyside Pension Fund incorrectly relates to the amount payable in 2015-16. The note should be updated to 2016-17 and report an expected figure of £143K as reported on the actuary certificate. (amended)
8	Disclosure	N/A	Note 10	The analysis by maturity of the long term borrowings in note 10 is incorrect and needs to be corrected. (amended)
9	Disclosure	N/A	Note 28	Note 28 does not include disclosure of lease liabilities in respect of Mann Island. (amended)
10	Disclosure	N/A	Note 23	Note 23 officer remuneration shows an incorrect comparator for P.Williams (amended)
11	Disclosure	N/A	MIRS	MIRS total CIES line total should be corrected from (£175K) to (£4,804K) (amended)
12	Disclosure	N/A	Page 103	The LGPS and LAWDC assumptions comparator (page 103) incorrectly show the 2013-14 assumptions. The LGPS and LAWDC assumptions for 2015-16 incorrectly show the 2014-15 assumptions. (amended)

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment and did not identify any significant risks. However, we noted that the Authority is continuing develop arrangements to manage the Resource Recovery Contract (RRC) which is likely to become operational from late 2016. The RRC is a thirty year contract valued at over £1 billion awarded 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 now nearing completion.

Given the significant size of the RRC and the potential impact on the Authority's operations, there is a need for the Authority to continue to develop appropriate arrangements to manage the contract when it becomes operational and to monitor progress once operations commence including the delivery of key targets and outputs, routine monitoring of budgets and their achievement, as well as ensuring effective governance and reporting arrangements.

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 £15.7 million at the end of 2015/16. The Authority's budget for 2016/17 was set at £75.5 million, again without a levy increase requiring the use of reserves of £9.9 million. Given the on-going utilisation of reserves year on year, there is a need for the Authority to consider the adequacy of reserves to cater for unforeseen events, and to consider the arrangements for future funding. We understand the Director of Finance is continuing to focus on these issues with members.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

In arriving at our conclusion, our main considerations were:

- the Authority delivered a small overspend position for 2015/16 of £196k. This was in line with the Authority's expectation for 2015/16
- for 2016/17, the Authority approved its budget in March 2016. Expenditure is budgeted at £75.5m with planned use of reserves of £9.9m
- we have considered the position on future financial challenges as set out in the latest 2016/17 budget which relate mainly to the reduction in reserves and no levy increases. Whilst these challenges exist, the Authority has managed its financial position well in the past although there is a need to consider the adequacy of reserves and future funding arrangements going forward which the Director of Finance is progressing
- the Authority considers and makes all key decisions. This approach enables a clear focus on the progress of the RRC as well as routine monitoring of performance and the Authority's financial position
- the Authority continues to closely manage the introduction of the Resource Recovery Contract.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

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

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
None	**Nil**

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.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 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 (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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud .	✓	✓

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	There is a need for the Authority to continue to strengthen its arrangements to ensure all accruals are accurate.	Medium	Recommendation agreed. Will be implemented for 2016/17.	Director of Finance 2016/17 accounts

8

Appendix 1

Appendix B: Audit opinion

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