

The Annual Audit Letter for Merseyside Waste Disposal Authority

Year ended 31 March 2016

20 October 2016

Jackie Bellard

Engagement Lead

T 0161 234 6394

E jackie.bellard@uk.gt.com

Perminder Sethi

Senior Manager

T 0113 200 2547

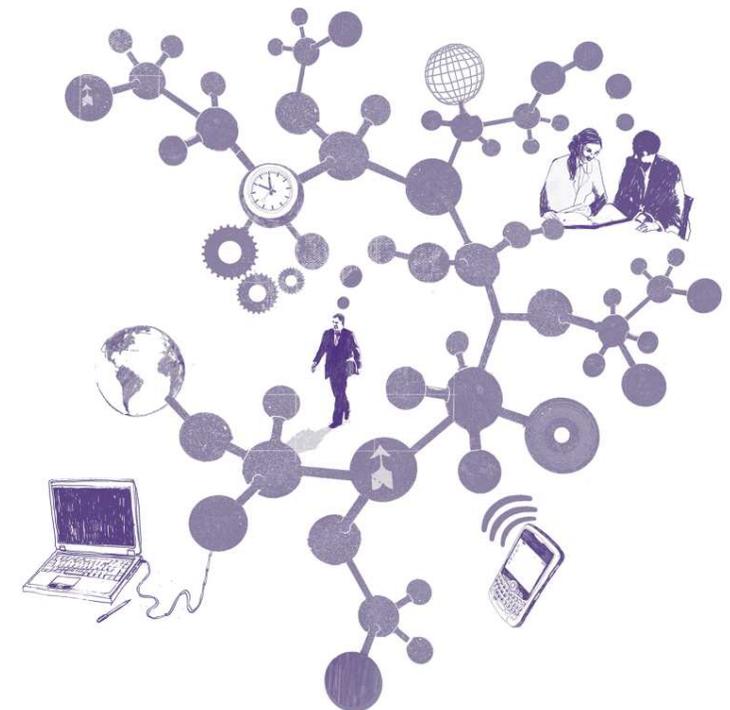
E perminder.sethi@uk.gt.com

Chris Blakemore

Executive

T 0161 214 6397

E chris.blakemore@uk.gt.com



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Merseyside Waste Disposal Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the full Authority as those charged with governance in our Audit Findings Report on 23 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Merseyside Waste Disposal Authority in accordance with the requirements of the Code on 29 September 2016.

Working with the Authority

The Accounts and Audit Regulations 2015 bring forward the approval and audit of the financial statements to 31 May and 31 July respectively from the 2017/18 financial year. We have continued to work closely with the Director of Finance to bring forward work to meet the earlier closedown requirements.

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

Grant Thornton UK LLP
20 October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £1,175k (being 1.7% of gross revenue expenditure). We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £63k, above which we reported errors to the Authority in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the full Authority meeting on 23 September 2016.

We identified a number of adjustments affecting the Authority's reported financial position. The draft financial statements recorded net expenditure of £196K, following audit adjustments, the audited financial statements showed net expenditure of £1,505K. The adjustments related primarily to year end debtor and creditor accrual calculations, the correction of 2014/15 transactions erroneously duplicated in 2015/16, and the reduction in the fair value of Mersey Waste Holdings Limited. We also recommended a number of adjustments to improve the presentation of the financial statements.

Audit of the accounts

Whole of Government Accounts (WGA)

We considered the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts (WGA). Merseyside Waste Disposal Authority is below the reporting threshold, accordingly, a detailed review of the WGA Data Collection Tool (DCT) was not required.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

We carried out an initial risk assessment and did not identify any significant risks. We updated our risk assessment during the final accounts audit and did not identify any further significant risks where we needed to perform work. However, we noted that the Authority is continuing to 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 gross budget for 2016/17 was set at £75.5 million, again without a levy increase requiring the use of reserves of £9.9 million to deliver a balanced budget. 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.

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Working with the Authority

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Bringing forward work - The Accounts and Audit Regulations 2015 bring forward the approval and audit of the financial statements to 31 May and 31 July respectively from the 2017/18. We have continued to work closely with the Director of Finance during the year to bring forward work to meet the earlier closedown requirements.

Providing training – we provided your team with training on financial accounts and annual reporting.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit. We did not provide any non-audit services to Merseyside Waste Disposal Authority.

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).

In addition, we have set out below our fees where we have undertaken work at the Authority's wholly owned subsidiary.

Other	Fees £
Audit services:	
• Mersey Waste Holding Limited	12,200

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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