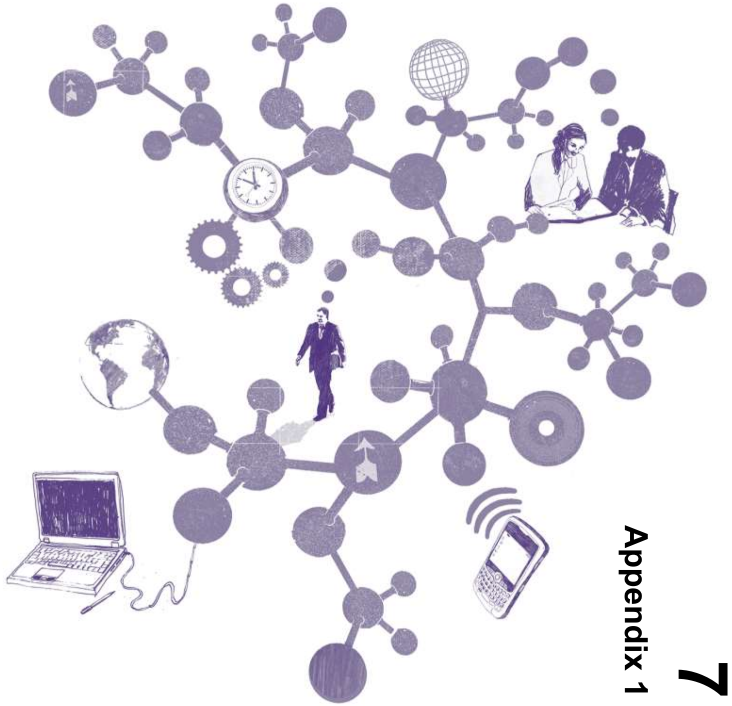
The Audit Findings for Merseyside Waste Disposal Authority

Year ended 31 March 2017

6 September 2017



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

Perminder Sethi
Senior Manager
T 0113 245 5514
E Perminder.Sethi@uk.gt.com

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

Appendix 1

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Private and Confidential

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

Grant Thornton UK LLP
Royal Liver Building
Pier Head
Liverpool
L3 1PS
T +44 (0) 151 224 7200
www.grant-thornton.co.uk

6 September 2017

Audit Findings for Merseyside Waste Disposal Authority for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of the Merseyside Waste Disposal Authority, the Authority itself), to oversee the financial reporting process, 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 officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 sincerely

Jackie Bellard

Engagement lead

Contents

Section 1: Executive summary

We anticipate providing an unqualified opinion on the financial statements and an unqualified value for money conclusion.

Purpose of this report

This report highlights the key issues affecting the results of Merseyside Waste Disposal Authority ('the Authority')and the preparation of the group and Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority and Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 17 March 2017.

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

- completing testing of operating expenses, debtors and creditors
- reviewing the final version of the financial statements
- obtaining and reviewing the management letter of representation
- reviewing the revised version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- completing work on the Whole of Government Accounts.

We received draft financial statements and accompanying working papers before the end of May. This early closedown by the Authority will help ensure the audit is completed by the earlier statutory deadline next year of 31 July.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Authority's reported financial position based on our audit work completed to date. The draft financial statements for the year ended 31 March 2017 show net expenditure in the provision of services of £6,602k.

In reviewing the carrying value of Mersey Waste Holdings Limited (MWHL) in the Authority's accounts, we noted that the investment was recorded at £5,041k based on last year's accounts as the audited accounts for the current year were not available at the time the Authority prepared its draft accounts. The 2016/17 audited accounts have now become available and show the investment at £5,261k, an increase of £220k. Management are not minded to amend for this adjustment given it is not considered material.

We have also agreed various adjustments to improve the presentation and disclosure of the financial statements with the Director of Finance**.** None of these amendments impact on the Authority's income and expenditure position.

Further details are recorded in section two of this report.

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

- the draft financial statements were provided to the audit team well in advance of the statutory audit deadline
- the accounts were supported with adequate working papers.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Other Statutory Powers and Duties

There has been no need for us to exercise our statutory powers or duties during the year.

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

The Authority continues to face on-going financial pressures, but has in place effective arrangements to manage its finances and deliver a balanced outturn position. However, the Authority's reserves have continued to be used over the last few years to avoid levy increases. This has resulted in general reserves falling to £11.64 million at the end of 2016/17. The Authority plans to use £8.8 million of these reserves to fund the Authority's expenditure in the current year which will reduce reserves to £2.84 million at 31 March 2018. There is a need for the Authority to formalise levy increases for the medium term to allow Officers to better plan for future operations. In addition, the Authority should carefully consider the adequacy of current reserves to cater for unforeseen events, and whether they should be increased.

The Resource Recovery Contract (RRC) became fully operational on 1 September 2017. Given the significant size of the RRC and the operational impact on the Authority, there is a need for the Authority to continue to carefully monitor and manage the contract, including the delivery of key targets and outputs, routine monitoring of budgets and their achievement, as well as ensuring effective governance and reporting arrangements are in place.

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.

Further details of our work on other statutory powers and duties is set out in section four of this report.

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 two recommendations, which are set out in the action plan at Appendix A. The recommendations have been discussed and agreed with the Director of Finance.

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
6 September 2017

Section 2: Audit findings

We anticipate providing an unqualified opinion on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £1,299k being 1.7% (rather than 1.8% as reported in the audit plan) of gross revenue expenditure (£1,294k for Group Accounts). We have considered whether this level remained appropriate during the course of the audit and identified, on receipt of the draft financial statements, that we did not need to revise our materiality levels.

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 £65k which also applies to the Group accounts.

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

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	Due to public interest in these disclosures. Any individual misstatements identified would also be evaluated with reference to how material they are to the other party.	£20k
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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 two 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
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.	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 • for Merseyside Waste Disposal Authority, opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Merseyside Waste Disposal Authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
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.	We have performed the following work in relation to this risk: • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	Our audit work to date 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 controls and testing of journal entries has not identified any issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
The expenditure cycle includes fraudulent transactions	Our existing procedures detailed on page 13 provide us with assurance that there has been no identification of fraud regarding expenditure reporting.	Our audit work to date has not identified any issues in respect of expenditure misstatement.
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	We have undertaken the following work in relation to this risk: • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated, assessing whether controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • 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 pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues. Review of the competence, assumptions and methodologies applied by the actuary highlighted no significant issues. The work performed by the pension fund auditor did not identify any significant issues in relation to 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
Valuation of property plant and equipment	The Authority re-values 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 was conducted as at 31/3/16.	We have undertaken the following work in relation to this risk: ▪ 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 to date has not identified any issues in respect of the risk identified.
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording of the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.	Our review of the re-classification of the CIES and reconciliation to the new EFA note was found to be in line with the Code requirements. Our testing of operating expenditure and income did not identify any significant issues in relation to the risk identified.

Audit findings against other risks continued

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 to date has not identified any significant issues in relation to the risk identified. In a number of instances when testing debtors and creditors, supporting documentation was not readily available. In addition, in some instances, accruals in the draft accounts did not agree to actual invoices. The Authority needs to continue to further strengthen its arrangements to ensure all supporting documentation is available and accruals are reviewed to avoid expenditure being misstated.
Estimates and Judgements	Estimates and judgements are used when compiling the financial statements	• We reviewed 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 to date has not identified any issues in respect of the risk identified.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570). The Authority's reserves have continued to be used over the last few years to avoid levy increases. This has resulted in general reserves falling to £11.64 million at the end of 2016/17 and expected to fall to £2.84 million at 31 March 2018. The Authority has taken this approach to minimise levy increases for constituent authorities who remain under financial pressure. A levy increase of 11.5 per cent is planned for 2018/19 as reserves are almost depleted.

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and we are satisfied with their assessment that the going concern basis is appropriate for the 2016-17 financial statements.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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 2015-16	Our audit work has not identified any issues in respect of Bidston Methane Limited.

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 2016/17 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 2016/17 financial statements.	●
Other accounting policies	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice.	The Authority's accounting policies are appropriate and consistent with previous years.	●

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

Follow up of prior year recommendations

In this section we report on the progress made by the Authority in implementing recommendations made in 2015/16.

Recommendation	Priority	Management response	Progress made
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. Responsibility : Director of Finance - 2016/17 accounts	Audit testing of accruals has again identified that in some instances, accruals included in the draft accounts do not agree to actual invoices. The Authority needs to strengthen its arrangements to ensure accruals are reviewed to avoid expenditure being misstated. This recommendation has been raised in the Action Plan at Appendix A.

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 incidents in the period and no 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 standard 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.
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 Narrative Statement 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.

Adjusted misstatements

There have been no adjustments made to the draft accounts.

Unadjusted misstatements

The table below provides details of the adjustment identified during the audit which has not been made within the final set of financial statements. The Authority meeting 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	The Balance Sheet value of MWHL is £5,042K reflecting its current fair value as at 31/3/16. This value has not been updated to take account of the net asset value of this subsidiary as at 31/3/17 of £5,261K. The impact of this adjustment is to increase in year income and the balance sheet valuation.	-220	220	The amount is not considered material to the Authority's financial statements.
	Overall impact	**£-220**	**£220**	

Misclassifications and disclosure changes

A number of misclassification and disclosure changes were identified during the audit which have been made in the final set of financial statements including:

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	£270	Cash/debtors	Note 16: Debtors overstated by £270K., Cash understated by £270K
2	Misclassification	£167	Provisions/Creditors	Note 18: Creditors overstated by £167K, Long term provisions understated by £167K
3	Misclassification	£5,070	Provisions & cash equivalents	Cash creditors and provisions should not be included within the same line on the balance sheet (long term creditors) and need to be reported separately with the negative cash creditor being included under short term creditors (£5,070K)
4	Disclosure	N/A	Financial Instruments Note 12	Entries in the financial instruments notes were updated to ensure these were consistent with the corresponding entries within the financial statements
5	Disclosure	N/A	Long term loans Note 12	No analysis of fair value of assets at fair value, or liabilities at amortised cost has been included in the accounts for the financial instruments reported in note 12 (second table).
6	Disclosure	N/A	Senior officer remuneration Note 24	Several disclosures in the related parties note were corrected, including incorrect comparators
7	Disclosure	N/A	Related parties note 27	Amendments were made to ensure that the correct value of transactions were reported, and the values associated with related companies were corrected.

There were a number of other minor amendments to disclosure notes. These are disclosure only amendments with no impact on the income and expenditure position or balance sheet. Management have amended the disclosure notes. We recommend management introduce a formal process to ensure the accounts are checked before they are approved.

Section 3: Value for Money

We are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017

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.

Initial risk assessment

Our initial risk assessment was completed in March 2017 and indicated that whilst the Authority continues to face on-going financial pressures, it continues to manage its finances and deliver a balanced outturn position. However, as a result of members not wishing to increase the Authority levy over a number of years to fund expenditure, continued use has been made of the Authority's reserves to achieve a balanced budget. The level of reserves at the end of 2015/16 were £15.6m and at the time of our initial risk assessment, the Authority's 2016/17 outturn position projected £6.39 million would be used from general reserves leaving a balance of £9.2 million at 31 March 2017.

The Authority's budget for 2017/18 was set at £74.4 million requiring £8.8 million of reserves . If reserves continue to be utilised as planned during 2017/18, the Authority's General reserves would almost be depleted at 31 March 2018, limiting the Authority's ability to deal with any significant unforeseen events. The Director of Finance has continued to discuss the level of General reserves and the need for levy increases with members.

At the time of our risk assessment, the Authority was also continuing to develop arrangements to manage the Resource Recovery Contract (RRC) which was likely to become operational during 2017. 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 is situated in the North East of England and at the time of our initial risk assessment was in the commissioning phase with handover expected during April/May 2017.

Update to risk assessment

The Authority's actual outturn position for 2016/17 was an underspend of £136,000 reducing the call on general reserves to £6.26m. With the impact of some lower costs during the later part of the year due to slippage in commissioning the Resource Recovery Contract, the level of General reserves at the end of 2016/17 totalled £11.64m.

The planned use of general reserves during 2017/18 will reduce the Authority's available reserves to £2.84m at 31 March 2018. The Director of Finance has been reporting to members of the Authority for over a year that without levy increases in 2016/17 and 2017/18, the levy increase for 2018/19 will be more significant at some 11.5 per cent. Members recognised the need for a levy increase but due to cost pressures at constituent authorities have put off any increase for as long as possible. There is a need for the Authority to formalise levy increases for the medium term to allow Officers to better plan for future operations. In addition to the 11.5 per cent levy increase expected for 2018/19, there is also a need for the Authority to carefully consider the adequacy of current reserves to cater for unforeseen events, and whether they should be increased.

There was some slippage in the commissioning of the RRC due to issues outside the control of the Authority during the early part of 2017. However, the facility became fully operational on 1 September 2017. Given the significant size of the RRC and the operational impact on the Authority, there is a need for the Authority to continue to carefully monitor and manage the contract, including the delivery of key targets and outputs, routine monitoring of budgets and their achievement, as well as ensuring effective governance and reporting arrangements are in place.

A Strategic Review of Waste Management was commissioned in May 2016 by the Leaders and Chief Executives of the City Region as a study of waste collection and disposal across the Region. The review has been funded by Merseyside Waste Disposal Authority. The draft report was issued in December 2016 and has yet to be finalised.

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 2016/17 of £136k. This was in line with the Authority's expectation for 2016/17
- for 2017/18, the Authority approved its budget in March 2016. Expenditure is budgeted at £74.4m with planned use of reserves of £8.8m
- we have considered the position on future financial challenges as set out in the latest 2017/18 budget which relate mainly to the reduction in reserves and no levy increases. However, a levy increase of 11.5% is planned for 2018/19. 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.

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 B.

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 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

2016/17 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all other services which were identified.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
	Audit of accounts for Mersey Waste Holdings LTD and non audit fees for conversion of financial statements into iXBRL format.	£10,900	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	TOTAL	£10,900		

Section 6: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
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

A. Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Authority needs to continue to further strengthen its arrangements to ensure all supporting documentation is available and accruals are reviewed to avoid expenditure being misstated.	Medium	Agreed.	Director of Finance 31 March 2018
2	There were a number of misclassification and disclosure amendments to the notes in the financial statements. Management should introduce a formal process to ensure the accounts are reviewed before they are released for audit.	Medium	Agreed.	Director of Finance 31 March 2018

B: Draft Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Merseyside Waste Disposal Authority

We have audited the financial statements of Merseyside Waste Disposal Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Finance Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Overview, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Overview, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects Merseyside Waste Disposal Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

To Insert Signature

Jackie Bellard
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

xx September 2017

