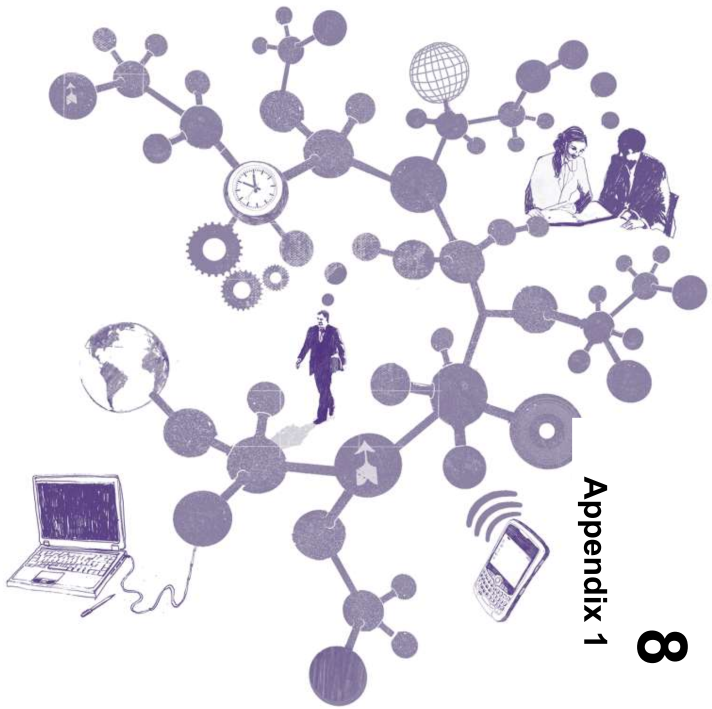
The Annual Audit Letter for Merseyside Waste Disposal Authority

Year ended 31 March 2017

11 October 2017



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Merseyside Waste Disposal Authority (the Authority) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Authority and its external stakeholders, and highlights issues 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 Authority meeting (as those charged with governance) in our Audit Findings Report on 22 September 2017.

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 22 September 2017.

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 2017. We reflected this in our audit opinion on 22 September 2017.

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 22 September 2017.

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 in preparation for next year. The Authority is well placed to meet the earlier closedown requirements in 2017/18.

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
11 October 2017

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Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £1,299k which is 1.7% of the Authority's gross revenue expenditure (£1,294k for Group Accounts). 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 also set a lower level of specific materiality for related parties and senior officer remuneration of £20k.

We set a lower threshold of £65k above which we reported errors to the Authority meeting 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 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 also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts included in the Statement of Accounts on which we gave our opinion.

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 22 September 2017, in advance of the 30 September 2017 national deadline.

The Authority made the accounts available for audit ahead of the agreed timetable and provided supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the Authority's accounts to the full Authority meeting on 22 September 2017. We identified a number of adjustments affecting the Authority's reported financial position. The Authority made adjustments totalling £347k to its draft accounts relating primarily to finance and investment income and closed landfill provisions increasing the total comprehensive income and expenditure from £7,137k to£7,484k. A number of other adjustments identified totalling £70k net to the group were not processed by the Authority as these were considered not material to the Authority's accounts. The audited financial statements record total comprehensive income and expenditure of £7,484k.

We also recommended a number of other minor adjustments to improve the presentation of the financial statements.

Audit of the accounts

Looking ahead to 2017/18, we made two recommendations to further strengthen the closedown arrangements in place which have been agreed by the Director of Finance:

- the Authority should continue to further develop its arrangements to ensure all supporting documentation is available and accruals are reviewed to avoid misstating expenditure; and
- to avoid 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.

Annual Governance Statement and Narrative Report
We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

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 2016 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

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. This has resulted in general reserves falling to £11.64 million at the end of 2016/17. The planned use of general reserves during 2017/18 is expected to 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.

At the time of our risk assessment, the Authority was also continuing to develop arrangements to manage the Resource Recovery Contract (RRC) which was expected 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.

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.

We updated our risk assessment during the final accounts audit and did not identify any further risks where we need to perform work.

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 ended 31 March 2017.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services to Merseyside Waste Disposal Authority.

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 £
Audit Related	
Mersey Waste Holdings Limited – Audit	10,900
Non-Audit Related	
None	0

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place.
- The above non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Appendix A: Reports issued and fees continued

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 identified	Safeguards
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		