External Audit Plan

Year ending 31 March 2019

Merseyside Waste Disposal Authority
19 March 2019

Contents

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Merseyside Waste Disposal Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter. We draw your attention to this document.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance; and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or Those Charged with Governance of your responsibilities. 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 audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Mersey Waste Holding Limited.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Revaluation of land and building assets We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £1.226m (PY £1.299m) for the group and £1.226m (PY £1.299m) for the Authority, which equates to 1.7% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.061m (PY £0.65m). ISA (UK and Ireland) 320 also requires auditors to determine lower materiality levels where there are "particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users". We have identified the following disclosure where a lower materiality level is appropriate: Disclosure of senior manager salaries and allowances in the remuneration report. Due to public interest in these disclosures and the statutory requirement for them to be made, we have set a materiality level of £20,000 (PY £20,000).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • The authority continues to face on-going financial pressures but has continued to manage its finances to deliver a balanced outturn position. However, to avoid levy increases, over a number of years, continued use has been made of its reserves to achieve a balanced budget. This has resulted in general reserves falling to £4.5m at the end of 2017/18 (from £11.6m at the end of 2016/17). The authority acknowledged that the 9% levy increase in 2018/19 was not enough to close the gap and further increases over the next few years are inevitable due to the dwindling reserves.

Introduction & headlines

Audit logistics	Our interim visit is planned for March 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £22,610 (PY: £29,363) for the Authority, subject to the Authority meeting our requirements set out on page 13.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

Factors

The wider economy and government policy

Local Government funding continues to be stretched with increasing cost pressures and demand from residents and this continues to directly impact on the Authority's ability to increase levy income from the local authorities in Merseyside.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

The government is consulting on its new waste strategy, which has the potential to have a significant on the Authority's strategy and operations in the next few years.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Financial position

The authority continues to face on-going financial pressures but has continued to manage its finances to deliver a balanced outturn position. However, to avoid levy increases, over a number of years, continued use has been made of its reserves to achieve a balanced budget. This has resulted in general reserves falling to £4.5m at the end of 2017/18 (from £11.6m at the end of 2016/17). The authority acknowledged that the 9% levy increase in 2018/19 was not enough to close the gap and further increases over the next few years are inevitable due to the dwindling reserves, including an agreed 4.9% increase in 2019/20 and a proposed 4.4% in 2020/21 and 3.3% thereafter.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- As part of our going concern work, as well as our value for money work, we will look at the Authority's plans in maintaining a balanced budget without recourse to its reserves, its plans to build up reserves to a healthy level, and the potential impact of continuous rises in the levy on member organisations and the ability to continue the increases to balance the budget.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to 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	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Mersey Waste Holdings limited	Yes	Audit of the financial information of the component using component materiality	Incomplete or incorrect consolidation	Full scope UK statutory audit performed by Grant Thornton UK LLP
Bidston Methane	No	Analytical procedure	None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- We understand Bidston Methane may close in the near future. This is a joint venture to generate electricity for former landfill sites. It has been operating with a deficit for some time, which has slowly been decreasing. However, the authority received a proposal from the JV partners confirming that they wanted to terminate the arrangement. However, talks on the proposal have stalled. If the termination does proceed, it would involve closing down the company and may result in a small financial loss to the authority unless a deal can be agreed with the JV partners.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Group and Authority	Under ISA (UK) 240 there is a rebuttable 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 ISA 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including MWDA, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for MWDA.
Management over-ride of controls	Group and Authority	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	**Group and Authority**	The Authority is due to carry out a revaluation of its asset base on 31/03/19. This valuation will inform the basis of valuation of assets recorded in the 2018-19 financial statements after taking into account any impairments, fixed asset additions and disposals and any other circumstances that have significantly affected the valuation of assets since this last revaluation. This represents a significant estimate by management in the financial statements and a possibly complex valuation assessment.	Interim/ Advance: ▪ Identify the name of the valuer, the type of expertise, and the objective and scope of the work. ▪ Evaluate the competence, objectivity and independence of the valuer. ▪ Write to the valuer to confirm the methods and assumptions used. ▪ Test the completeness and accuracy of the information provided to the valuer. At year-end: ▪ Determine whether the valuation report adequately documents the work performed by the expert, including the conclusions reached. ▪ Test the reasonableness of the assumptions used by the valuer. As part of this, consider whether revaluation movements at an individual asset level are in line with industry conditions - this may include use of Gerald Eve report or other sources. Where revaluation movements are not in line with expectations, seek and corroborate explanations from the valuer. ▪ For assets revalued during the year, agree the revalued amount to the FAR and ensure that the transactions have been accounted for appropriately to I and E or the revaluation reserve. If there are a large number of revaluations consider sample testing balances alongside testing all key material items. ▪ For assets valued prior to the year end, consider the implications of any subsequent changes in their fair value ▪ Ensure valuations have been performed in line with the Code (e.g. valuations basis and use of rolling programme) ▪ For assets not formally revalued in the year, consider evidence provided by the authority that the carrying value is not materially different to the fair value.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other areas of audit focus

We have identified some other areas of audit focus, which we wish to bring to the attention of those charged with governance.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Operating expenses	**Group and Authority**	Non-pay expenses on other goods and services (including contract payments) represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We have identified completeness of non-pay expenses as a risk requiring particular audit attention.	We will • Evaluate the Authority's accounting policy for recognition of non-pay expenditure for appropriateness • Gain an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls • Undertake expenditure cut-off testing • Complete substantive testing of a sample of year end creditor balances.
PWLB loan	**Group and Authority**	The Authority is planning to replace its St Helens MBC cash overdraft facility with long term PWLB loans.	We will • Review any accounting advice obtained by the Authority and determine whether this is appropriate • Test whether correct accounting entries have been made, associated disclosures are correct and agree the year end balances to direct confirmations from the PWLB.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report to check that it is consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

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 Group’s ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

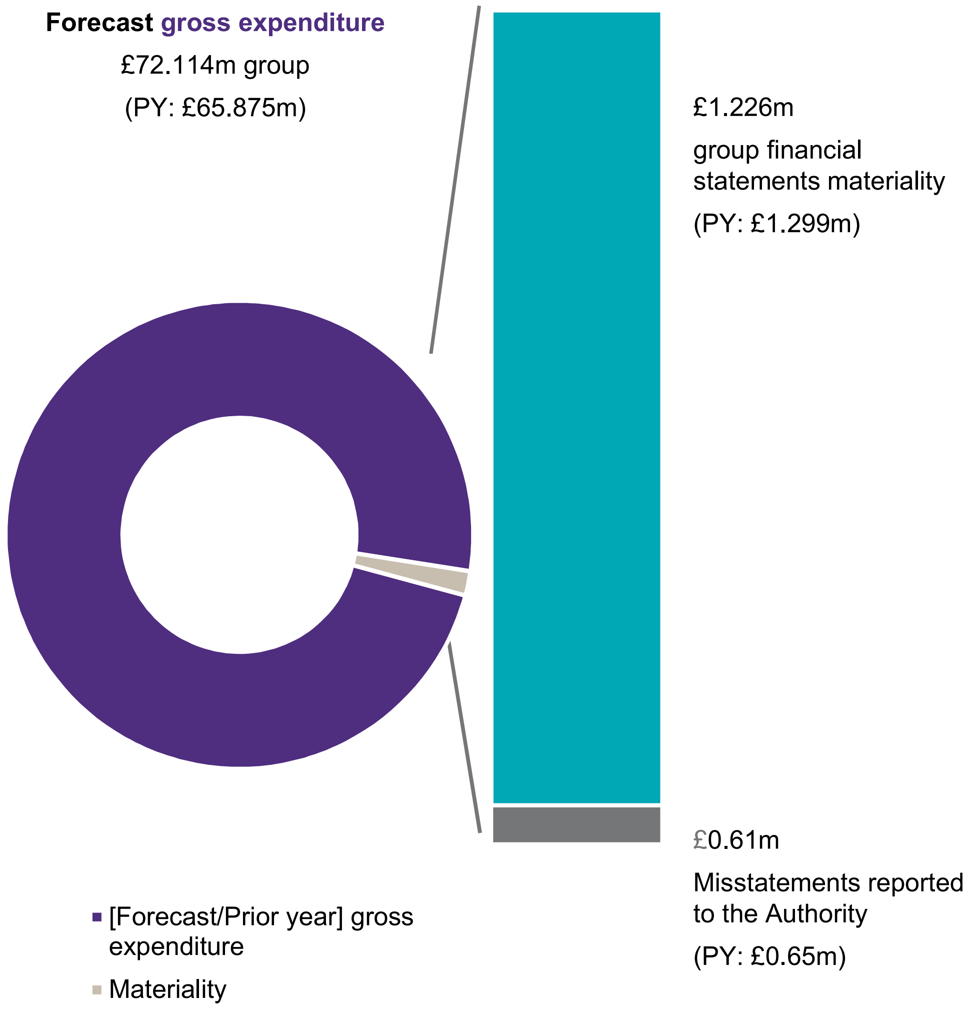
We have determined financial statement materiality based on a proportion of the gross expenditure of the Group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.227m (PY £1.299m) for the group and £1.226m (PY £1.299m) for the Authority, which equates to 1.7% of your forecast gross expenditure for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.61m (PY £0.65m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

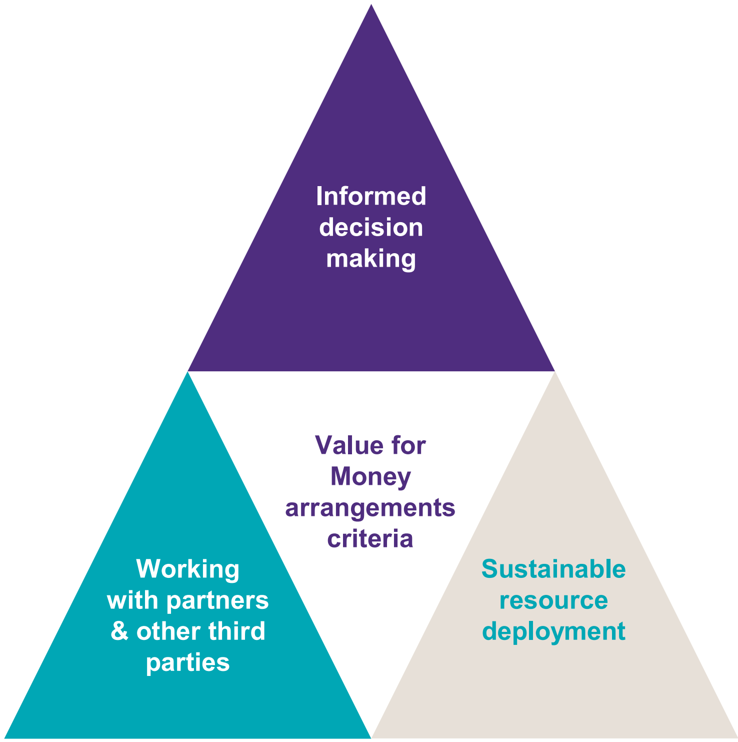
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

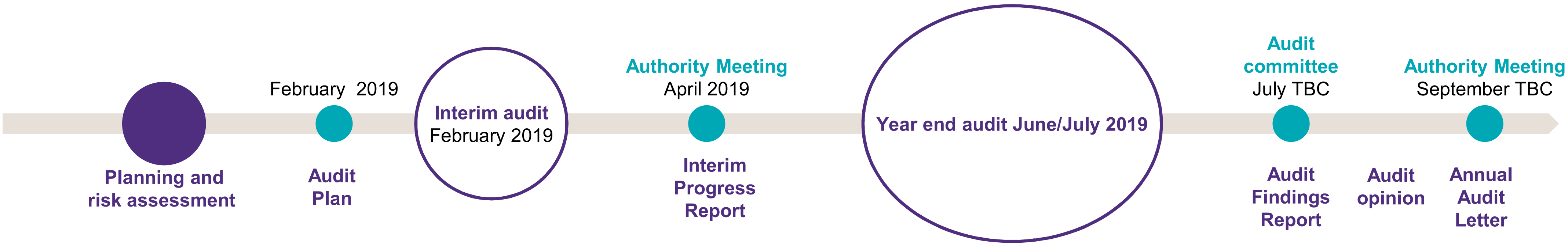
Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Authority reserves and levy increases

The Authority continues to operate under significant financial pressures but has continued to manage its finances to deliver a balanced outturn position. However, to avoid levy increases over a number of years, continued use has been made of the Authority's reserves to achieve a balanced budget. This has resulted in general reserves falling to £4.5m at the end of 2017/18. The planned use of general reserves during 2018/19 is expected to reduce the Authority's available reserves to £3.9m at 31 March 2019. We understand that a levy increase of 4.9% for 2019/20 has been agreed and further increases (of 3.8% for 2019/20 and 3.4% thereafter) are planned.

We will continue to monitor the Authority's financial position, in particular the level of general reserves and proposals for levy increases over the medium term.

Audit logistics, team & fees



Andrew Smith, Engagement Lead

Andy leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meaning the highest professional standards and adding value to the Trust.

Shahed Alam, Audit Manager

Shahed plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your first point of contact for discussing any issues.

Chris Blakemore, Audit Incharge

Chris's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on site audit team.

Audit fees

The planned audit fees are £22,610 (PY: £29,363) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Where additional audit work is required to address risks relating to the application of changes to International Financial Reporting Standard (IFRS) 9 – Financial Instruments and changes to the Authority's recognition and accounting treatment of financial assets and/or liabilities, or the application of changes to International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers and the Authority's recognition and accounting treatment of income from contracts, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12. Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you. In particular, that year end debtor and creditor balances are fully supported by a full analysis of transactions and that there is a full reconciliation between the debtor recorded in the St. Helens MBC accounts and the corresponding cash liability recorded in the accounts.
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Audit of Mersey Waste Holding Limited	10,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,200 in comparison to the total fee for the audit of £22,610 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors.

Appendices

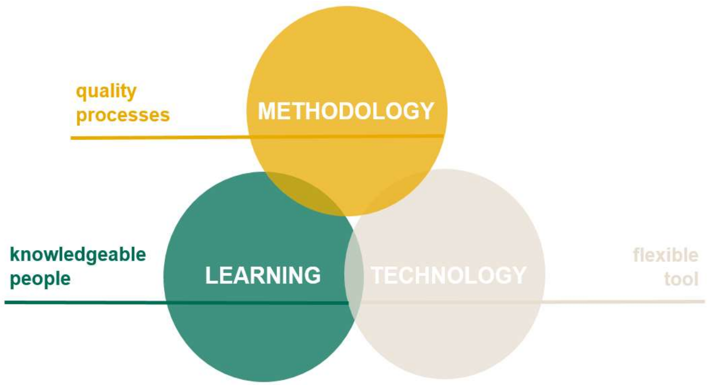
Appendix 1: Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



INFLO

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

Request & share
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

Assess & scope
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

Verify & review
- Automate sampling requests
- Download automated work papers

Interrogate & evaluate
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

Focus & assure
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

Insights
- Detailed visualisations to add value to meetings and reports
- Demonstrate own performance and benchmark comparisons

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

APPIAN

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

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