Audit Findings Report
Merseyside Waste Disposal Authority

Year ended 31 March 2019

17 July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Waste Disposal Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial statements audit	Under International Standards of Audit (UK) (ISAs) and 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 income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was carried out on site during June and July. Our findings are summarised on pages 3 to 13. We have identified two adjustments to the financial statements that have resulted in a £19.748 million adjustment to the Authority's Statement of Financial Position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Subject to the completion of outstanding work and queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 July 2019. The following areas remain outstanding; • audit work relating to creditors, debtors, income, expenditure, pensions, PPE and review of disclosure notes which remain ongoing; • reviewing the final version of the financial statements and reviewing the revised version of the Narrative Report • obtaining and reviewing the management letter of representation • updating our post balance sheet events review, to the date of signing the opinion. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Merseyside Waste Disposal Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 14 to 16.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We will have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with the Director of Finance.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included an evaluation of the Authority's internal controls environment, including its IT systems and controls.

Audit approach *(continued)*

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Mersey Waste Holdings Limited and an analytical review was required for Bidston Methane Limited.
- Controls testing of the Authority's internal control environment; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you on 26 April 2019.

Conclusion

Subject to the completion of outstanding work and queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 July 2019. The following areas remain outstanding;

- audit work relating to creditors, debtors, income, expenditure, pensions, PPE and review of disclosure notes which remain ongoing;
- reviewing the final version of the financial statements and reviewing the revised version of the Narrative Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

Our approach to 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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Merseyside Waste Disposal Authority.

	Group Amount (£)	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,227,000	1,226,000	• Materiality has been based on 1.7% of the Authority's gross expenditure
Performance materiality	797,550	796,860	• Our performance materiality has been set at 65% of our overall materiality
Trivial matters	61,000	61,000	• This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for specific transactions, balances or disclosures	N/A	20,000	• The senior officer remuneration disclosure in the Statement of Accounts has been identified as an area requiring a lower materiality due to its sensitive nature

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions 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.	**Auditor commentary** 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. Based on the work done so far, we have not identified any significant issues. We will update this once the work has been fully completed.
Management override of controls 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.	**Auditor commentary** We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our journals testing is ongoing, however, so far we have not identified any issues.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of property, plant and equipment The Authority has carried out a revaluation of its asset base on 31/03/19. This valuation informed 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.	We have: • Identified the name of the valuer, the type of expertise, and the objective and scope of the work. • Evaluated the competence, objectivity and independence of the valuer. • Written to the valuer to confirm the methods and assumptions used. • Tested the completeness and accuracy of the information provided to the valuer. • Determined whether the valuation report adequately documents the work performed by the expert, including the conclusions reached. • Tested the reasonableness of the assumptions used by the valuer. As part of this, considered whether revaluation movements at an individual asset level are in line with industry conditions - this included use of Gerald Eve report or other sources. Where revaluation movements are not in line with expectations, we sought and corroborated explanations from the valuer. • For assets revalued during the year, agreed the revalued amount to the FAR and ensured that the transactions have been accounted for appropriately to I and E or the revaluation reserve. • Ensured valuations have been performed in line with the Code (e.g. valuations basis and use of rolling programme). In testing the reasonableness of the assumptions used by the valuer, we identified an increase of £18.9 million in the valuation of the energy from waste plant in Wilton. Our initial queries resulted in a revised revaluation, which reduced the valuation by £11.1 million from the original revaluation estimate. However, this still results in a significant increase of valuation of £7.7 million. Our queries with the valuer remain ongoing at the time of writing this report. We also have a small number of outstanding queries which may lead to adjustments once resolved.

Significant findings - other issues

This section provides commentary on other areas of focus that were communicated in the Audit Plan, and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	
Operating Expenses 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 have • Evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness • Gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluated the design of the associated controls • Undertaken expenditure cut-off testing • Completed substantive testing of a sample of year end creditor balances.	**Auditor view** • This work is currently ongoing. We have not identified any issues from cut-off testing. Creditor balance testing is ongoing, where we are looking at the reasonableness of the year-end estimates. • We will update the report when completed.
PWLB loan The Authority has replaced its St Helens MBC cash overdraft facility with long term PWLB loans.	We have • Reviewed any accounting advice obtained by the Authority and determine whether this is appropriate • Tested whether correct accounting entries have been made, associated disclosures are correct and agreed the year end balances to direct confirmations from the PWLB.	**Auditor view** • PWLB balance has been confirmed with direct confirmation. • Accounting entries in relation to the move from St Helen's overdraft facility to the PWLB loan facility have been reviewed and no issues have been identified.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Pension liabilities – the McCloud judgement	The McCloud ruling concerns the transitional protections given to scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pensions reform. Tapered protections were provided for those 3-4 years younger. On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. If the protections are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced. Protections were applied to all members within 10 years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. Although the case only relates directly to two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. However, there remains some uncertainty about the application to LG pension schemes. An appeal from Government against the judgement in the 'McCloud' case has been considered at the Supreme Court, this appeal was lost after the year end and there is no further recourse to appeal.	The legal ruling around age discrimination has implications for other public service schemes where they have implemented transitional arrangements on changing benefits. Protections were applied to all members within 10 years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. For example, LGPS introduced a new CARE benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (i.e. aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In respect of police, there is an ongoing police case with the employment tribunal in respect of alleged unlawful discrimination arising from transitional provisions in the 2015 Police Pension Regulations. The ruling from the McCloud case impacts on both employer bodies (e.g. local authorities, fire authorities, police bodies, housing associations, education bodies (HE, FE and Academies), charities, companies) and the pension funds where public sector schemes have been impacted by transitional provisions. The Authority instructed its experts to carry out an assessment and has shared the outcome with us. We have reviewed this and agree that the impact on the Authority is not material. As a result, no adjustment has been made by the authority. However, we have agreed that a disclosure is to be made within the financial statements. This issue has been treated as an unadjusted audit misstatement, please refer to page 22 for further details.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Property, plant and equipment - valuation	Extract from PPE note: "Property, Plant and Equipment are revalued on a three year cycle in accordance with RICS guidance. All assets were revalued at 31st March 2019 by the Authority's valuer, Mr Bernard White (MRICS) of Bell Ingram. The accounting policies provide further information on revaluation and depreciation policies. The significant assumptions applied in estimating the fair values are: • The Authority has good title to the property and that they are not subject to any unusual or onerous restrictions; • No deleterious or hazardous materials nor techniques have been used in the construction of the property from past or present uses • There are no environmental factors which would cause the valuation to alter. The Authority has a relatively small asset base (except for its interests in the PPP contracts) so re-values its assets periodically, currently on a three year cycle, rather than via a rolling revaluation programme. In between periodic valuations the Authority has extended the appointment of the valuer to provide their views on whether asset values in the interim periods are likely to have changed materially."	We are in the process of carrying out the procedures listed in page 6 in response to the significant risk identified. We have reviewed the valuations per the valuation exercise at the year-end and queried a small number of assets whose values seemed to be significantly outside of our audit expectation based on the indices reported within the Gerald Eve report. We received a response which included a significant amendment due to a significant reduction in the asset life of the RRC asset. This change is significant to the valuation of the asset so we seeking an explanation for the reduced asset life. We also have a small number of other queries outstanding with the Authority, which may lead to material adjustments to the accounts.	●

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Debtors and creditors	Extract from the accounting policies: "i) Accruals of Income and Expenditure Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular: • revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority; • revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority; • supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. • Levies received from the constituent authorities are recognised in the year to which they relate and are credited to the surplus / deficit on the provision of services • expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; • where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected."	Many of the year-end debtor and creditor accruals are estimates based on various prior period (month, quarter year etc.) invoices. Some of the contracts involved have a lengthy reconciliation process which are completed typically months after the completion of the audit. Therefore, there was a lack of tangible evidence or detailed workings to support these balances. We are working on assessing the reasonableness of these balances as part of our sample testing.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - Going concern

Our responsibility

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) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management has asserted going concern on the following basis: *"The authority as a local authority can not go out of business – in the event of a change in legislation all assets/liabilities etc would pass on to a successor, either local or central government. The Authority is required by statute to set a budget that ensures its planned expenditure is financed by its income and resources – this is approved annually by the Authority. The three year medium term financial plan shows how the Authority continues to maintain this statutory requirement."* Management has an established process in place and prepare a detailed budget each year which is approved by Members. The budget is developed based on a number of assumptions including levy funding, use of reserves, cost improvement programmes required to be delivered and the pressures facing the Authority. To ensure effective management, the budget is broken down and routinely monitored on a monthly basis with performance reported to the Authority. Cash flow is also monitored as part of the Authority's management arrangements. In assessing its going concern position, management look ahead twelve months from its reporting date and have regard to its future cash flow position including whether current spending is in accordance with budget.	Following its review of going concern, management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis. The Authority has a good track record of delivering efficiencies and managing financial pressures to ensure expenditure remains below budget. We have considered management's assessment of going concern as a basis for compiling the financial statements. The arrangements management has in place are appropriate. The budget setting processes used to prepare the annual budget and the monitoring arrangements in place are considered appropriate and adequate. The reserve level is monitored and there is a plan which is being implemented, to stop using the general fund balance to fund budget deficits by increasing levy. The Director of Finance routinely monitors the Authority's financial position and reports regularly to Members.
Work performed We considered management's going concern assessment including the assumptions used.	Our work confirmed that management's arrangements for assessing going concern are adequate and management's use of the going concern basis of preparation is reasonable. We have not identified any material uncertainties that may cast significant doubt on the Authority's ability to continue as a going concern for the foreseeable future.
Concluding comments	On the basis of our work, it is appropriate to issue an unmodified audit opinion on going concern.

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
Matters in relation to fraud	We have written to the Chair of the Authority and to management in relation to the risk of fraud. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A standard letter of representation has been requested from the Authority which is separately presented.
Confirmation requests from third parties	We requested from management permission to send a number of confirmation requests to confirm balances and investments. This was granted and the requests were returned with positive confirmation.
Disclosures	Our work in this area is ongoing to review the disclosures made by the Authority. In particular, work is ongoing regarding the Closing Capital Financing Requirement.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management have been or are in the process of being provided, although for certain samples we still await the full set of evidence. We were provided with information and documentation on request, and on occasions we were referred to other personnel within the organisation to obtain explanations/ supporting documentation.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. • No inconsistencies have been identified to date. We plan to issue an unqualified opinion in this respect. • Our review of the Narrative Report is ongoing. So far no significant issues have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
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 work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2018/19 audit of Merseyside Waste Disposal Authority in the audit opinion.

Value for Money

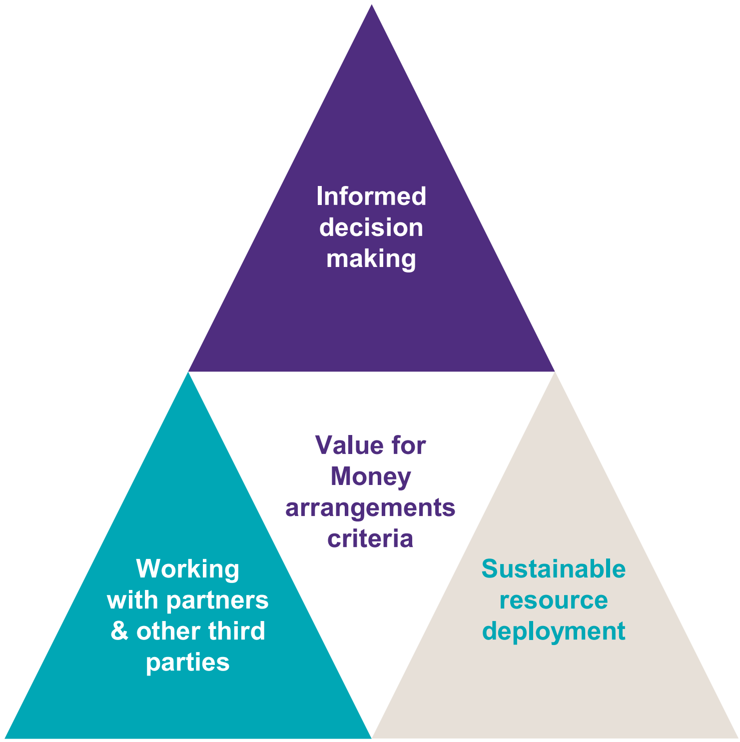
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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:



Risk assessment

We carried out an initial risk assessment in March 2019 and identified a significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 19 March 2019.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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

We have focused our work on the significant risk that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- 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 have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on page 15.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
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.	As part of our audit we: • reviewed the Authority's financial position, in particular the level of general reserves; and • reviewed the proposals for levy increases over the medium term. We found that: • The level of general fund reserve is at £1.985m as at 31 March 2019. This has reduced from £4.5m in PY due to funding the £2.8m deficit. • The planned use of general reserves during 2018/19 was expected to reduce the Authority's available reserves to £3.9m at 31 March 2019 – which means that the authority has used more of the reserves than it had planned. This has brought the level of reserve down to £1.9m – this means that the Authority needs to plan to bring the reserve level back to a sufficient level to deal with unexpected issues, through levy increases and efficiency savings. • The 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 (see authority budget 2019/20). Currently, the authority plans to use no reserve contribution from 2020/21 onwards, which means that there will be a further subsidisation of levy by the authority's reserves in 2019/20. However, this is only limited to a maximum of £1.98m (which is the current general fund balance) – and will completely deplete the reserve. The plan is to use £1.4m of reserves in 19/20 • The authority has kept the reserve level under review and the June 2019 meeting of the authority received an outturn report on the authority's finances (see attached), where the reserve level was discussed (see extract below). This recognises the lower than planned level of the reserve balance.	Based on the work done, we conclude that the authority has proactively sought to increase the levy to manage the budget deficit as well as the pressure on the general fund reserve. As this increasing of levy is a very sensitive political issue locally, and the authority is made up of representatives of the local councils, it's difficult to achieve the aim of increasing the levy to a break-even level. This has resulted in a stepped approach, leading to a plan to break-even by 2020/21, making 19/20 the last year of dependence on the reserves to break even. The Authority needs to avoid the use of reserves to fund deficits of income over expenditure and re-build the reserve level back up to a sufficient level. Based on the current situation, the Authority needs to achieve its budget in 2019-20. Not achieving the budget will affect the reserve level further, and may result in a qualified value for money opinion next year.

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 Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Authority'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 sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and 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. No non-audit services were identified which were charged from the beginning of the financial year to July 2019 as well as the threats to our independence and safeguards that have been applied to mitigate these threats

Action plan

We have identified 1 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	**Authority reserves and levy increases** Based on the work done, we conclude that the authority has proactively sought to increase the levy to manage the budget deficit as well as the pressure on the general fund reserve. As this increasing of levy is a very sensitive political issue locally, and the authority is made up of representatives of the local councils, it's difficult to achieve the aim of increasing the levy to a break-even level. This has resulted in a stepped approach, leading to a plan to break-even by 2020/21, making 19/20 the last year of dependence on the reserves to break even. However, the Authority not only needs to stop relying on reserves, but also build the reserve level back up to a healthy level.	The Authority needs to limit the use of reserves in the medium term to fund deficits of income over expenditure through levy increases and/or further efficiency savings. **Management response** The Medium Term Financial Strategy is designed to ensure that the Levy and the Authority's expenditure are more closely aligned and that a prudent level of reserves is maintained.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Merseyside Waste Disposal Authority's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. *We have followed up on the implementation of our recommendations and note two are still to be completed.*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	As part of preparing its routine working papers each year, MWDA should liaise with St Helens MBC to ensure its cash position is agreed with the corresponding balances included by St Helens MBC in their accounts at the year end.	This recommendation has not yet been implemented.
✓	There is a need for the Authority to carefully consider the adequacy of current reserves to cater for unforeseen events, and whether they should be increased.	The authority has monitored its reserve level throughout the year and has implemented levy increase for the year, including further agreed increases to gradually stop reliance on the reserves to fund budget deficit.
X	Management should consider any additional ways to further strengthen its arrangements for accounts preparation and review to further reduce any amendments required to the draft accounts going forward.	This recommendation has not yet been implemented.

Assessment
- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Correction to the valuation of assets relating to the Resource Recovery Contract	0	-19,748	0
Reanalysis of bank balance from current liabilities to current assets £4407K	0	0	0
Correction to ensure the revaluation of fixed assets is correctly reflected in the revaluation reserve. Matter in discussion	TBC	TBC	TBC
Overall impact	**£0**	**-£19,748**	**£0**

Audit Adjustments

Misclassification and disclosure issues

All misclassification and disclosures issues are set out in the table below.

Disclosure omission	Detail	Adjusted?
Note 10 – Property, plant & equipment	Note 10 did not include the RRC assets under the memo service concession column	✓
Note 11 – Financial instruments	Creditors carrying value and fair value to be corrected from £778K to £5,184K to reflect creditors recorded in the balance sheet	✓
Note 11 – Financial instruments	Service concession fair value for the Gilmoss MRF and the RRC to be corrected from £337,138K to £335,529K	✓
Note 13 – Investments	Share capital disclosure to be updated to reflect 1 ordinary shares of £1 of the issued share capital of MWHL	✓
Note 28 – Defined benefit pension scheme and group notes	Various updating of pensions disclosures	✓
Note 27 – Service concession	Total service concession liability for the Gilmoss MRF corrected from £378,379K to £347,561K	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Authority is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
McCloud case – pension liability	0	-131		• Not material
Overall impact	**0**	**-131**		

Fees

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Authority Audit	£22,610	TBC
Audit of Mersey Waste Holdings Ltd	£10,200	TBC
Total audit fees (excluding VAT)	**£32,810**	**TBC**

Fees for non-audit services

There were no fees for other services. No non-audit or audit related services have been undertaken for the Authority.

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