

The Audit Plan for Merseyside Recycling & Waste Authority

Year ending 31 March 2026

22nd April 2026



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The Backstop

The Future of the Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations require audited financial statements to be published by a specific date. The upcoming backstop dates are as follows:

- for years ended 31 March 2026 by 31 January 2027
- for years ended 31 March 2027 by 30 November 2027; and
- for years ended 31 March 2028 by 30 November 2028.

The Regulations are supported by the National Audit Office's (NAO) Code of Audit Practice 2024. The backstop dates were introduced to clear the backlog of historic financial statements and support the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Local Audit Recovery

In the audit report for the year ended 31 March 2025, we issued a disclaimer of opinion as a consequence of the statutory backstop. Notwithstanding this outcome, during the 2024/25 audit we were able to obtain substantive assurance over in-year transactions and the majority of year-end balances, with the exception of the net pension liability and reserves.

This position has informed our audit approach for 2025/26. Our planned approach will be a full audit for 2025/26 and to aim to buildback assurance where we were unable to obtain it during 2024/25. The two areas where we need to obtain further assurance are in respect of the net pension liability and reserves.

We will continue to work closely with the Authority to support the progressive rebuilding of audit assurance in these areas, in line with the sector-wide recovery and reset approach following backstop-related disclaimers.

Our Work

In order to meet future statutory deadlines, for 2025/26 we will be working towards an internal audit completion date of 30 November 2026.

Our objective is to maintain and extend audit assurance through a full-scope, risk-based audit approach, while applying appropriate professional judgement to areas that continue to be subject to ongoing complexity, particularly pensions and reserves. Our approach will be kept under review as the audit progresses, in line with the sector-wide recovery and reset framework and will be dependent on the availability of sufficient and appropriate audit evidence.

We will need the cooperation and input of management throughout the rebuilding process.

Introduction and headlines



Purpose

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

Respective responsibilities

The National Audit Office (‘the NAO’) has issued the 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 in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor. We draw your attention to these documents.

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’s financial statements that have been prepared by management with the

oversight of those charged with governance (the Audit and Governance Committee); and we consider whether there are sufficient arrangements in place at the Authority and Group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

The audit of the financial statements does not relieve management or the Audit and Governance Committee 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 and Group and is risk based.

Introduction and headlines (continued)

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 control
- closing valuation of Land and Buildings; and
- closing valuation of Pension Fund net liability.

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 £1.918m (PY £1.141m) for the Authority, which equates to 2% (PY 1.5%) of your prior year gross operating costs 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 £0.095m (PY £0.072m).

Group Audit

The Authority is required to prepare group financial statements that consolidate the financial information of Mersey Waste Holdings Limited (MWHL). Group planning materiality has been set at £1.921m.

Value for Money arrangements

Our risk assessment of the Authority's arrangements to secure value for money has identified the following risk of significant weakness:

- **Governance** – We identified weaknesses in budget monitoring arrangements during 2024/25. These arose primarily from the implementation of a new finance system, which resulted in reduced effectiveness and timeliness of financial monitoring. We have retained this as a risk of significant weakness, pending our review of the arrangements in place for 2025/26.

Audit logistics

Our planning and interim visit took place in March and April and our final visit will take place from June. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor's Report and Auditor's Annual Report.

Our proposed fee for the audit is £170,708 (PY: £178,559) for the Authority, subject to the Authority delivering a good set of financial statements and working papers, no significant changes in scope to the Audit, management being responsive to audit requests and providing sufficient appropriate audit evidence when requested.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) 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.

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.

Significant risk	Audit team's assessment	Planned audit procedures
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>Risk relates to</p> <p>Authority and Group</p>	<p>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• review accounting estimates, judgements and decisions made by management;• review unusual significant transactions;• make enquiries of finance staff regarding their knowledge of potential instances of management override of controls;• evaluate the design effectiveness of management controls over journals;• analyse the journals listing and determine the criteria for selecting high risk unusual journals and those falling into certain criteria determined by the audit team; and• test a sample of journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 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) 550).

Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue</p> <p>Risk relates to</p> <p>Authority</p>	<p>We have identified and completed a risk assessment of all revenue streams for the Authority. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams (Fees, charges and other service income, interest from levy and Interest income)</p> <p>We have assessed these revenue streams, and we have rebutted the risk of fraud in revenue recognition for revenue streams this is due to the low fraud risk in the nature of the underlying transactions, or immaterial nature of the revenue streams both individually and collectively.</p>	<p>We do not consider this to be a significant risk for the Authority and therefore our standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.</p> <ul style="list-style-type: none"> • evaluate the Authority's accounting policy for recognition of income for appropriateness and compliance with the Code; • update our understanding of the system for accounting for the income and evaluate the design of associated processes and controls; • agree on a sample basis relevant income and year end debtors/income accruals to invoices and cash payment or other supporting evidence; and • carry out testing on sample basis of invoices issued in the period prior to and following 31 March 2026 to determine whether income is recognised in the correct accounting period, in accordance with the amounts billed to the corresponding parties.



Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (continued)

Significant risk

The expenditure cycle includes fraudulent transactions

Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.

Risk relates to

Authority

Audit team's assessment

We have identified and completed a risk assessment of all expenditure streams for the Authority. We have considered the risk that expenditure may be misstated due to the improper recognition of revenue for all expenditure streams and concluded that there is not a significant risk.

Notwithstanding this, due to errors identified during the prior year audit in relation to contract payments, we have assessed an elevated inherent risk of error in this expenditure stream, reflecting the increased susceptibility to misstatement based on historical performance.

We have rebutted the presumed risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams due to the low fraud risk in the nature of the underlying transactions, or the immaterial nature of the expenditure streams both individually and collectively.

Planned audit procedures

We do not consider this to be a significant risk for the Authority and therefore our standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.

We will, however, still perform the following procedures:

- evaluate the Authority's accounting policy for recognition of expenditure for appropriateness and compliance with the Code;
- update our understanding of the system for accounting for the completeness of expenditure and evaluate the design of associated processes and controls;
- agree on a sample basis relevant expenditure and year end creditors and accruals to invoices or other supporting evidence;
- carry out testing on sample basis of invoices received in the period prior to and following 31 March 2026 to determine whether expenditure is recognised in the correct accounting period, in accordance with the amounts billed to the corresponding parties; and
- perform focused substantive testing over contract payments, including agreeing payments to underlying contracts and approved rates, to assess whether expenditure has been accurately calculated, appropriately authorised, and recorded in the correct accounting period.

Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
Valuation of Land and Buildings Risk relates to Authority	<p>The valuation of land and buildings represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p> <p>The CIPFA/LASAAC Code of Practice for 2025/26 requires all non-current assets to be subject to a full valuation on a rolling five-year basis, with indexation applied in the intervening years between full valuations. The Authority has adopted this updated requirement for 2025/26 and will be applying indexation to property, plant and equipment in periods where a full valuation has not been undertaken. This represents the first year in which the Authority has applied the revised approach under the Code.</p>	<p>We will:</p> <ul style="list-style-type: none">• document our understanding management's process and controls for the calculation of the estimate;• evaluate the competence, capabilities and objectivity of management's expert;• evaluate the consistency of the disclosure with the valuation report;• evaluate the basis on which the valuations have been carried out;• evaluate the information and assumptions used by the valuer;• evaluate the accounting entries for the valuation;• evaluate the reasonableness of the assumptions used to form the estimate; and• evaluate the appropriateness of key indices used by the Authority and check the basis of accounting entries.

Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>Valuation of the pension fund net liability</p> <p>Risk relates to Authority</p>	<p>The valuation of the pension fund net liability represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p>	<p>We will:</p> <ul style="list-style-type: none">• document our understanding management's process and controls;• evaluate the competence, capabilities and objectivity of management's expert;• evaluate the consistency of the disclosure with the actuarial report;• evaluate the reasonableness of the assumptions used to form the estimate;• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;• obtain assurances from the pension fund auditor on the underlying data shared by the fund to the actuary which has been used in the calculation of this estimate• assess any asset ceiling calculation;• following the publication of the triennial valuation of Merseyside Pension Fund as at 31 March 2025, we will consider the impact of this on the pension fund net liability;• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report; and• where IFRIC 14 is applicable we will review the IFRIC 14 assessment carried out by the actuary and evaluate the reasonableness of the assumptions used as part of the assessment.

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 and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 financial statements, consider and decide upon any objections received in relation to the financial statements
 - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act)

- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- 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.

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.

Description

Determination

We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Authority and Group, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements

We have increased the materiality percentage to 2.0% (prior year: 1.5%), reflecting the Authority's improved financial reporting and closure of statutory recommendations. In particular, the 2024/25 accounts were produced to statutory deadlines and successfully audited, addressing previous concerns arising from prolonged audit delays. On this basis, we consider a higher level of planning materiality to be appropriate for the current year.

Planned audit procedures

We determine planning materiality in order to:

- establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- assist in establishing the scope of our audit engagement and audit tests
- determine sample sizes; and
- assist in evaluating the effect of known and likely misstatements in the financial statements.

Other factors

An item does not necessarily have to be large to be considered to have a material effect on the financial statements

An item may be considered to be material by nature when it relates to instances where greater precision is required.

Reassessment of materiality

Our assessment of materiality is kept under review throughout the audit process

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.

Our approach to materiality (continued)

Description	Amount (£)	Qualitative factors considered
Materiality for the group financial statements	£1.921m	This equates to 2% of prior year Group gross operating costs*. In setting materiality, we consider: <ul style="list-style-type: none"> • The ownership structure of the Group • The control environment of the Group • The Group’s business environment • Whether the Group has any complex debt arrangements • Any other sensitivities that would require materiality to be reduced
Materiality for the Authority financial statements	£1.918m	This equates to 2% of prior year Authority gross operating costs*. In setting materiality, we consider: <ul style="list-style-type: none"> • The ownership structure of the Authority • The control environment of the Authority • The Authority’s business environment • Whether the Authority has any complex debt arrangements • Any other sensitivities that would require materiality to be reduced
Performance materiality for the Authority financial statements	£0.959m	This equates to 50% of headline materiality. In setting performance materiality, we consider: <ul style="list-style-type: none"> • Large number of adjustments and audit findings in the previous years audit
Materiality for senior officers' remuneration disclosures	£0.011m	This equates to 2.5% of prior year Senior officer remuneration disclosures. We have assessed this disclosure to be particularly sensitive and of public interest therefore setting lower materiality for this disclosure.

*Note we will revisit our materiality calculations on receipt of the unaudited 2025/26 statement of accounts.



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) 320)

Progress against prior year audit recommendations

We identified the following issues in our 2024/25 audit of the Authority's financial statements, which resulted in five recommendations being reported in our 2024/25 Audit Findings Report in respect of the financial statements audit. We have followed up on the implementation of our recommendations below:

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In Progress	Journal Controls - Our review identified that there is currently no journal approval hierarchy in place within journal templates meaning templates can be filled and submitted to St Helens for posting without any formal approval/review process.	Since the prior year findings were reported, the Authority has continued to operate its existing journal processing arrangements, supported by compensating controls. These include regular balance sheet reconciliations and the preparation and review of monthly financial reports designed to identify material or inappropriate journal entries. While a formal journal approval hierarchy has not been introduced, management considers these controls to provide adequate oversight. During 2025/26, management's ability to post journals has changed and, accordingly, we will review the updated journal processes and controls as part of the 2025/26 audit.
In Progress	Reconciliations - Our audit work identified that reconciliations were not always performed during 2024/25.	Following the issues identified in the prior year, management has implemented more regular reconciliation processes. Monthly reconciliations commenced in May 2025 following the stabilisation of the new financial system and have continued throughout the current financial year. These arrangements will be followed up by the audit team as part of the 2025/26 audit.
In Progress	Related parties – Our audit testing identified instances where declarations of interest were incomplete, with some members' interests either outdated or not declared. At the Authority, declarations are completed on appointment, with members required to notify management of changes and declare interests at meetings. Our work also resulted in adjustments to the related parties disclosures in the financial statements.	Following the issues identified in the prior year, management has taken steps to strengthen the process for obtaining and monitoring related party declarations. Declarations continue to be issued to all Members annually, with follow-up requests sent where responses are not received. In addition, management has committed to establishing a more formal protocol to ensure declarations are completed on an annual basis and are sufficiently comprehensive. The audit team will follow up the implementation and effectiveness of these arrangements as part of the 2025/26 audit.

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
Addressed	Service Level Agreement for St Helens - We noted the most recent SLA during the audit related to 2022/23 and was not signed by either party.	The SLA with St Helens for 2025/26 was signed on 27th January 2026.
In Progress	Amendments to the accounts - We noted a high level of adjustments, including prior year adjustments, during the audit, in terms of disclosures and financial adjustments to the draft version of accounts that were provided for audit.	Management has strengthened the year-end accounts preparation process, including enhanced internal review of draft financial statements and earlier Finance team involvement to improve first-draft quality. Regular budget monitoring and detailed ledger review arrangements have been established to identify anomalies at an earlier stage. These actions are intended to reduce the level of audit adjustments and support the Section 151 Officer's certification of the accounts. These arrangements will be followed up by the audit team as part of the 2025/26 audit.

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audits and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audits will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach. We will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Unit 4	Financial Reporting	<ul style="list-style-type: none">Detailed ITGC assessment (design and implementation)

Value for Money Arrangements

Approach to Value for Money work for the period ended 31 March 2026

The National Audit Office updated its Code of Audit Practice in November 2024. The Code expects auditors to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report a commentary each year under the specific reporting criteria and where significant weaknesses in arrangements are identified. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement was introduced from November 2025. The three specified reporting criteria are set out below:

Financial sustainability

How the Authority plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the Authority ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness

How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.



We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our AAR. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. Any significant weaknesses identified will be reflected in our AAR and included within our audit opinion.

Risks of significant VFM weaknesses

As part of our initial planning work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources where we needed to perform additional procedures. The risks we have identified are detailed on the table overleaf along with the further work we will perform. We will continue to review the Authority's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

Potential types of recommendations



Statutory recommendation

Written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Authority to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

Auditors may also include areas for improvement or to keep in view even if they do not identify any underlying significant weaknesses in arrangements. These recommendations set out actions for consideration which are not a result of identifying significant weaknesses in arrangements, but which if not addressed could increase the risk of a significant weakness in future periods.

Risks of significant weakness in VFM arrangements

Risk assessment of the Authority's VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor's work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2025/26. We will continue to evaluate risks of significant weakness and if further risks are identified, we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 risk-based procedures planned
Financial sustainability	G No significant weaknesses in arrangements identified and no improvement recommendation made.	No risks of significant weakness identified	As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code.

- G** No significant weaknesses or improvement recommendations.
- A** No significant weaknesses, improvement recommendation(s) made.
- R** Significant weaknesses in arrangements identified and key recommendation(s) made.

Risks of significant weakness in VFM arrangements

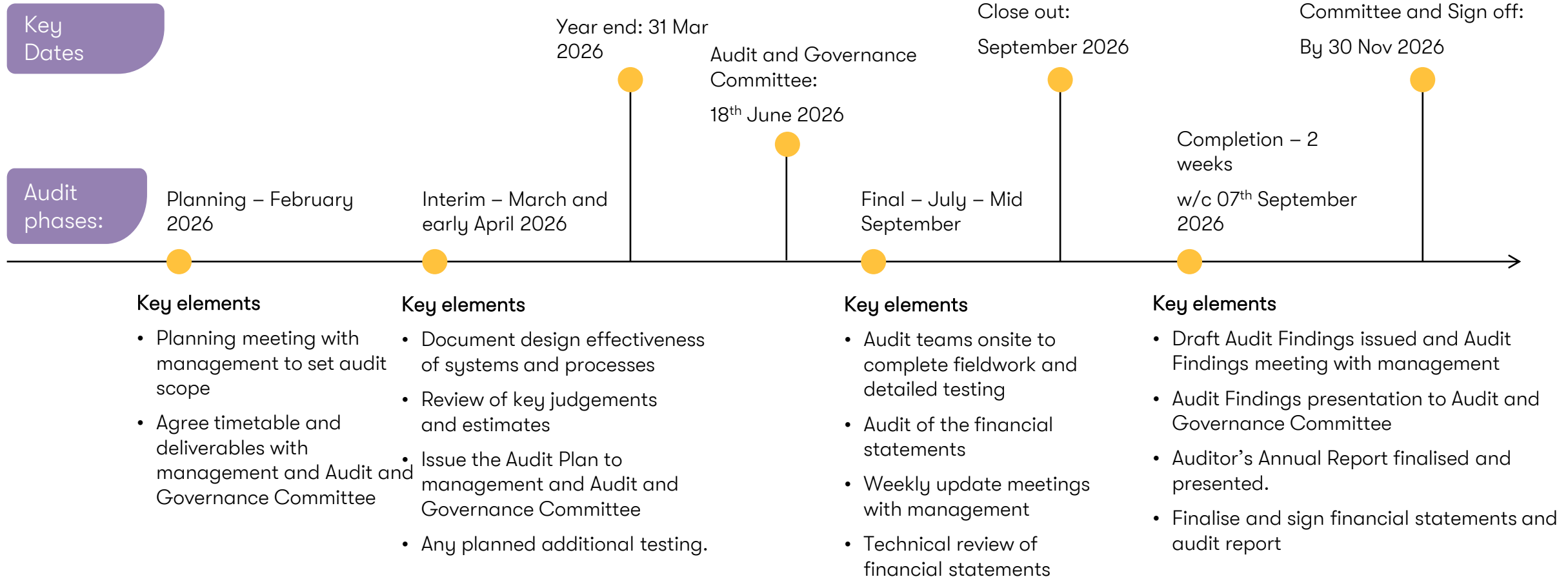
(continued)

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 risk-based procedures planned
Governance	<p>R</p> <p>Significant weakness in arrangements identified relating to budget monitoring and a key recommendation raised. We also raise improvement recommendations relating to committee development and member training, the conclusion of negotiations relating to a service level agreement and oversight of waivers.</p>	<p>One risk of significant weakness has been re-identified in relation to budget monitoring.</p>	<p>Given the risk of significant weakness identified, we will undertake additional risk-based procedures to assess the design and operating effectiveness of the Authority's budget monitoring arrangements, including the actions taken by management to address the key recommendation raised in prior years. Our work will focus on evaluating whether arrangements are in place to support timely, accurate and effective budgetary control during 2025/26.</p>
Improving economy, efficiency and effectiveness	<p>A</p> <p>No significant weaknesses in arrangements identified, but one improvement recommendation made in relation to completing the review of the Performance Management Framework and embedding arrangements.</p>	<p>No risks of significant weakness identified.</p>	<p>As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code and follow up improvement recommendations made in 2024/25.</p>

- G** No significant weaknesses or improvement recommendations.
- A** No significant weaknesses, improvement recommendation(s) made.
- R** Significant weaknesses in arrangements identified and key recommendation(s) made.

Logistics

The audit timeline



Our team and communications

Grant Thornton core team

Liz Luddington

Engagement Lead/Key Audit Partner

- Key contact for senior management and Audit and Governance Committee
- Overall quality assurance

Curtis Wallace

Audit Manager

- Audit planning
- Resource management
- Performance management reporting

Isaac Avery

In-charge

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

Glenroy Dacosta

VFM Client Lead

- Value for Money planning
- Main contact for review of VFM arrangements
- Preparation of the VFM commentary in the Auditor's Annual Report

Pool of specialists:

- Internal IT audit team

	Service delivery	Audit reporting	Audit progress	Technical support
Formal communications	<ul style="list-style-type: none"> • Annual client service review 	<ul style="list-style-type: none"> • The Audit Plan • The Audit Findings • Auditor's Annual Report 	<ul style="list-style-type: none"> • Audit planning meetings • Audit clearance meetings • Communication of issues log 	<ul style="list-style-type: none"> • Technical updates
Informal communications	<ul style="list-style-type: none"> • Open channel for discussion 		<ul style="list-style-type: none"> • Communication of audit issues as they arise 	<ul style="list-style-type: none"> • Notification of up-coming issues

Our fee estimate

Our fee estimate

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Authority will:

- prepare good quality sets of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant estimates made during the course of preparing the financial statements;
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements;
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment; and
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the following areas:
 - Land and Buildings valuations and the valuation of net defined pension fund liability

Previous year

In 2024/25 the scale fee set by PSAA was £166,059. The actual fee charged for the audit, including audit of subsidiary companies (where applicable) was £178,559.

As the audit opinion for the 2024/25 financial statements was a disclaimer of opinion due to the imposition of the statutory backstop date, we have considered the implications for our audit approach to opening balances. Based on the work undertaken in the prior year, assurance was obtained over in-year transactions and closing balances for all material balances, with the exception of pensions and reserves. Accordingly, our additional opening balance procedures for 2025/26 will be focused on those balances where assurance was not previously obtained. We will discuss the practical implications of this approach with management as part of our audit planning.

Company	Audit Fee for 2024/25 (£)	Proposed fee for 2025/26 (£)
PSAA Scale Fee	166,059	170,708
MWDA Additional Fee for IFRS 16 work	2,500	£0
New system implementation	5,000	£0
Overruns in respect of adjustments to the accounts	5,000	£0
Regaining Assurance	£0	TBC
Total (Exc. VAT)	178,559	170,708

Our fee estimate (continued)

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2022 PSAA awarded a contract of audits for the Authority to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2025/26 audit is £170,708.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year or opinion issued (but not before 1 December 2025)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Independence considerations (continued)

As part of our assessment of our independence at planning we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Authority/Group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Authority/Group.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Authority/Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Authority/Group .
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Authority/Group's board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Communication of audit matters with those charged with governance

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 including significant risks and Key Audit Matters	●	
Planned use of internal audit	●	
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	●	●
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	●	●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance (Continued)

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Our communication plan	Audit Plan	Audit Findings
Views about the qualitative aspects of the Authority/Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●

Financial reporting changes

Changes to the CIPFA Code of practice on local authority accounting for 2025/26

The main change is a revaluation expedient for property, plant and equipment. From 1 April 2025, revaluations are required once every five years or on a five year rolling basis with indexation in intervening years. This is a substantial change to the accounting for non current asset, that may require engagement with valuers, changes to underlying systems, asset records and accounting treatment.

New or revised accounting standards that are expected to be adopted by the CIPFA Code in future years.

Amendment to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity

The International Accounting Standards Board (IASB) issued amendments to IFRS 9 and IFRS 7 to improve the reporting of nature-dependent electricity contracts, such as power purchase agreements (PPAs). These contracts, which secure electricity from sources like wind and solar power, can vary due to uncontrollable factors like weather. The amendments clarify the 'own-use' requirements, permit hedge accounting for these contracts, and introduce new disclosure requirements to help users of the accounts understand their impact on an entity's financial performance and cash flows. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities (including settling financial liabilities using an electronic payment system), adds guidance on the solely payment of principal and interest (SPPI) criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the comprehensive income and expenditure statement as well as introduce specific disclosure requirements. Some of the key changes are:

- introducing new defined categories for the presentation of income and expenses
- introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal
- disclosure of management defined performance measures
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 will be effective in the UK from 1 January 2027 and so could impact the CIPFA Code from [2027/28](#).

Group audit scope and risk assessment

In accordance with ISA (UK) 600 Revised, 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	Risk of material misstatement to the group	Planned audit approach and level of response required under ISA (UK) 600 Revised	Response performed by	Risk identified and Scoping	Auditor
Merseyside Recycling and Waste Authority	Yes	Audit of the entire financial information of the component	Group auditor	Valuations of land and buildings: Significant risk Valuation of pensions: Significant risk	Grant Thornton UK
Mersey Waste Holdings Limited (MWHL)	Yes	Specific audit procedures	Group auditor	Valuation of net pensions liability: Not significant risk Existence of cash: Not significant risk	DJH Limited

Fraud and litigation

We have not been made aware of any actual or attempted frauds in the year during our planning procedures performed to date. Should any factors arise in relation to fraud risk or actual or attempted fraud we ask that you inform us of this at the earliest possible opportunity.

Appendix

Letter regarding 2025-26 audit timelines

16 February 2026

Dear Audit and Governance Committee Chair

Copied to: S73 Officers

Proposals for the annual accounts and external audit timeframes from 2026 onwards

Ahead of us starting our work on your 2025-26 Accounts, we wanted to send you a letter to set out our plans for your audit timelines over the course of the next two years and what we will need from you as a Authority as part of these plans.

As I am sure you are aware, on 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027.

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

As you know, the Merseyside Waste Disposal Authority has recently received a disclaimer of audit opinion on its 2024/25 accounts, following several years in which audits could not be completed due to the challenges of producing accounts in line with the government backstop requirements. While this represents a more challenging position than in previous periods, it is now essential that we work collaboratively to strengthen the Authority's financial reporting arrangements.

To support future assurance and prevent further delays, it will be important for the Authority to work closely with us to bring forward the completion of the audit and ensure that all required information, evidence, and responses are provided in a timely manner. This joint effort will be critical in restoring timely and robust audit outcomes going forward.

To be able to achieve the targets for the next two financial years, as a firm we are looking to put things in place to enable us to achieve the end of November 2027 deadline. In order to help make this achievable, we are going to undertake a 'dry run' of finishing our work on the 2025-26 Accounts by the end of November 2026. On this basis, we would like you to assist with this process by firstly setting an Audit and Governance Committee date in advance of the end of November 2026 (if not currently in place), to enable us to sign off our opinion by that date. We would note that the NAO has already set a requirement that our Value for Money (VfM) work is completed by 30 November each year which has been set to align with the upcoming 30 November accounts deadline.

(cont.)

Letter regarding 2025-26 audit timelines (cont.)

One area which we see as crucial to supporting a November completion date is to make increased use of our planning and interim audit work. We are seeking to perform an enhanced interim audit involving early, advanced sample testing on a number of areas by the end of April 2026. We will be liaising with the finance team to support audit testing of transactions in the first nine to ten months of the financial year. This should reduce the level of detailed transactional testing from the year-end audit work in the Summer and Autumn.

We are aiming to start our work on your accounts from the end of June 2026, following receipt of the Authority's draft accounts. We are committed to working closely with finance colleagues from the commencement of our audit and throughout, with weekly meetings expected to take place to monitor progress and achievement against key milestones, through to November's Audit and Governance Committee.

This plan should allow us as a firm to deliver all of our 2025-26 Local Government audits by the end of November 2026, which will then put us in a strong position ahead of the backstop formally moving to the end of November 2027. We appreciate this will require a change on how both sides will need to work to make this a reality, but we are committed to making this happen.

We will undertake early engagement with your finance team to clearly set out our expectations and what is needed to make a success of these plans. MHCLG have asked us as a firm to report by 31 July 2026, on a case by case basis, our assessment of the Authority's ability to both maintain and where necessary rebuild assurance. Having a clear and agreed project plan to complete all financial statements and VFM work by 30 November 2026 is a key part of this assurance.

If you have any queries or questions, then do not hesitate to let us know.

Yours sincerely

Elizabeth Luddington

Key Audit Partner & Engagement Lead for Merseyside Waste Disposal Authority



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