

West London Waste Authority

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of Responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of Responsibilities. This report is intended solely for the use of the members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work carried out to discharge our statutory audit responsibilities, together with any governance issues identified. This report summarises findings from the 2015/16 audit, which is substantially complete. It includes messages arising from our audit of the financial statements and the results of our work to assess arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources.

We show below the results and our conclusions on the significant areas of the audit.

Status of the audit	<p>We have substantially completed our audit of the financial statements for the year ended 2015/16 subject to satisfactory completion of the following outstanding items included in Appendix B.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the financial statements.</p> <p>We expect to conclude that the Authority has put in place proper arrangements to secure value for money in its use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) for the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>There are no unadjusted audit differences.</p> <p>Our audit identified a number of audit differences which our team have highlighted to management for amendment. The majority of these are below our reporting threshold and all have been corrected during the audit. There was one audit difference which was above our reporting threshold and further details are provided at Appendix A.</p> <p>These adjustments have not had an impact on useable reserves.</p>
Scope and materiality	<p>As part of our audit planning, when we issued our audit plan, presented at the 29 January 2016 Audit Committee meeting, we set materiality of £1.14 million when deciding on our audit procedures. We reassessed this based on the Authority's actual results and we increased this amount to £1,17 million. The reason for the increase in planning materiality was a higher operating expenditure in 2015/16 compared to the Authority's 2014/15 outturn.</p> <p>The basis of our assessment is 2% of gross operating expenditure.</p> <p>The threshold for reporting audit differences which have an impact on the financial statements is £58,000.</p>

Significant audit risks	<p>We identified the following audit risks during our planning, and reported them in our audit plan:</p> <ul style="list-style-type: none">• PPE valuation;• construction of energy recovery centre;• risk of management override; and• risk of fraud in revenue recognition. <p>The section below, addressing audit risks, sets out how we have gained audit assurance over those issues identified during the audit.</p>
Other reporting issues	<p>We have no other matters to report.</p>
Control observations	<p>We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Authority does not know about.</p>

We would like to take this opportunity to thank the Authority's staff for their assistance during the audit.

Helen Thompson

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Authority's responsibilities

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Authority reports publicly on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements, and any planned changes in future.

The Authority is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report by exception on the AGS;
- consider and report any matters that prevent us being satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

This report also contains our findings on any areas of audit emphasis and our views on any significant deficiencies in internal control or the Authority's accounting policies and key judgements.

We also review and report to the National Audit Office on the Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks when we planned our audit, and reported them in our Audit Plan. We set out below how we have gained the necessary audit assurance.

A significant audit risk is an inherent risk which is both more likely to happen and has a greater effect if it does happen; so it requires special audit consideration. For significant risks, we obtain a relevant understanding of the entity's controls and assess their design and implementation.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>PPE Valuation</p> <p>The value of the Authority's property, plant and equipment is material.</p> <p>Economic conditions continue to be uncertain, which has a potential impact upon the valuation of the property, plant and equipment. There is a requirement to assess the carrying value of assets for impairment every year and under ISAs (UK&I) 500 and 540 we are required to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"> agreed the source data used by the valuer to supporting records; assessed the work of the valuer to ensure that assets have been valued and recorded appropriately; agreed the outputs to the fixed asset register and statement of accounts; and reviewed the Authority's assumptions underlying any impairment review undertaken. 	<p>All PPE assets were valued by an external valuer in 2014/15. The requirement, per the CIPFA Code of Practice on Local Authority Accounting, is for all assets to be valued every five years so there was not a requirement of assets to be externally valued in 2015/16.</p> <p>The Authority is planning to review all assets during 2016/17 following the completion of the Energy Recovery Centre.</p> <p>The Authority undertook an impairment review during the year which identified impairments of £27,000 of fixed plant and vehicles. We have reviewed the Authority's assumptions in reaching this conclusion and we used our own sources of evidence, including the Gerald Eve valuation report for Local Government Bodies, to establish that the risk of material misstatement was sufficiently low to accept the reasonableness of the Authority's assumptions.</p>
<p>Construction of Energy Recovery Centre</p> <p>Construction of the new energy from waste facility is expected to be completed in 2016/17. During the current financial year we are expecting material expenditure to be incurred.</p> <p>There is a risk around ensuring that the accounting for the capitalisation of the expenditure incurred on this construction is in line with the requirements of IAS 16: Property, Plant and Equipment.</p>	<p>We:</p> <ul style="list-style-type: none"> reviewed controls in place around the capitalisation of expenditure at the Authority; carried out substantive testing of capitalised expenditure ensuring that it meets the requirements of IAS 16; and reviewed the contract in place with SITA to ensure that the amounts contributed by the Authority and the SITA consortium are as agreed. 	<p>The results of the work performed around the arrangements in place between the Authority and SITA for the construction of the Energy Recovery Centre did not identify any issues that need to be reported.</p> <p>Detailed testing of construction costs concluded they were in line with the contract agreement in place.</p>

<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewed accounting estimates for evidence of management bias; and • evaluated the business rationale for any significant unusual transactions. 	<p>Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We found no indication of management bias in these estimates.</p> <p>We did not identify any evidence of management override or fraudulent activity.</p>
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Authority, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We:</p> <ul style="list-style-type: none"> • reviewed and tested revenue and expenditure recognition policies; • reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias; • developed a testing strategy to test material revenue and expenditure streams; and • reviewed and tested revenue cut-off at the period end date. 	<p>Our testing gave us no concerns as to inappropriate revenue and expenditure recognition through fraudulent or biased management decisions.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell the Authority significant findings from the audit and any other matters significant to oversight of the Authority's financial reporting process, including the following:

- qualitative aspects of accounting practices, estimates and disclosures;
- matters specifically required by other auditing standards to be reported to those charged with governance, e.g. issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest.

We have no matters to report.

Control themes and observations

It is the Authority's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their actual adequacy and effectiveness. Our responsibility as auditor is to consider whether the Authority has arrangements to satisfy itself that this is indeed the case.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information arising from the audit or our knowledge of the Authority.

Request for written representations

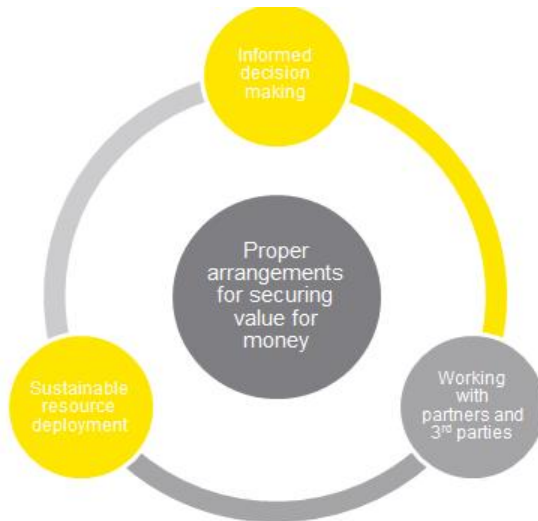
We have asked for a representation letter to gain management's confirmation on a number of matters, as outlined in the papers for the Audit Committee on 23 September 2016.

Whole of Government Accounts

We also review and report to the National Audit Office on the Authority's Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit Committee.

4. Value for money



We must consider whether the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They consist of the Authority's arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

Overall conclusion

We did not identify any significant risks for these criteria through our audit planning risk assessment

We therefore expect to conclude that the Authority has proper arrangements to secure value for money in its use of resources.

Appendix A – Corrected audit differences

We identified the following corrected differences greater than £58,000 during our audit which we believe we should report to the Audit Committee.

These items have been corrected by management in the revised financial statements.

Disclosures

Disclosure	Description of difference
Exit Packages	As budgeted and approved by the Authority, £164,000 was paid to the LPFA in relation to the redundancy of one person. Management drew attention to this transaction indicating that it did not fall into any of the categories identified by the Code's disclosure requirements. We have considered this transaction and have confirmed that an additional disclosure was required per the Code to provide transparency regarding all costs associated to a person leaving the authority.

Appendix B – Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Management representation letter	Receive signed letter of representation	Management and Audit Committee
Pension Liability Valuation	Receipt and evaluation of assurance from the Pension fund administrator's auditor.	EY and LPFA Pension Fund auditor.
Subsequent events review	Complete the subsequent events procedures up to the date the audit report is signed.	EY and management
Whole of Government Accounts	Preparation and submission by management and review of the submission by EY.	EY and management
Final completion of audit procedures and review by the Executive Director	Management and EY to work together to complete any outstanding work.	EY and management

Appendix C – Independence

We confirm that there are no changes in our assessment of independence since our confirmation in the Audit Plan dated 29 January 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we do not know of any relationships that may affect the independence and objectivity of the firm and which auditing and ethical standards require us to report to you.

We consider that our independence in this context is a matter that should be reviewed both by the Authority and by us. It is therefore important that you consider any facts you know about and come to a view. If you wish to discuss any matters concerning our independence, we will be happy to do so at the Audit Committee on 23 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan for doing this was set out in the Audit Plan of 29 January 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	19,770	19,770	n/a

Our actual fee is in line with the scale fee set by the PSAA, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside the PSAA's requirements.

Appendix E – Required communication with the audit committee

We must provide certain communications to the Audit Committees of UK clients, as detailed below:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view on the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit and discussed with management ▶ Written representations requested from management ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process ▶ Findings and issues on the opening balance on initial audits 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about West London Waste Authority's ability to continue as a going concern for the twelve months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements relating to prior periods ▶ A request for any uncorrected misstatement to be corrected ▶ In writing, any significant corrected misstatements 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ non-disclosure by management ▶ inappropriate authorisation and approval of transactions ▶ disagreement over disclosures ▶ non-compliance with laws and regulations ▶ difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Ask the audit committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and which the audit committee may know about 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters bearing on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ the principal threats ▶ safeguards adopted and their effectiveness ▶ an overall assessment of threats and safeguards ▶ information about the general policies and processes to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan and Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

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