West London Waste Authority

Audit Progress Report

Year-ended 31 March 2022

10th June 2022

Audit Committee

West London Waste Authority

10th June 2022

Dear Committee members

Audit Progress Report

We are pleased to attach our June 2022 Audit Progress Report.

This is our first progress report on the audit of WLWA's 2021/22 financial statements. Since concluding the prior year audit we have met with the finance team to agree an outline timetable for the current years audit. In January, we issued an Draft Audit Planning Report to the Committee. We have since met with the management and finance team to discuss the 2021/22 accounts closedown process and expectations/deliverables.

We have enclosed a summary of revised risk assessment, an audit timeline update, and two other areas where we have actioned since last Audit Committee.

We are currently undertaking our year end audit procedures which will include revisiting our risk assessment in order to confirm whether any changes are required to the previously reported plan.

Yours faithfully

Andrew Brittain

For and on behalf of Ernst & Young LLP

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Audit risk

Change in Risk Assessment - New significant risk in revenue recognition in relation to Miscellaneous Income

Risk of revenue recognition specifically in Miscellaneous Income

What is the risk?

At interim audit visit, we were informed by management the possibility of additional income for WLWA in 21/22.

This is driven by rising electricity price and increased third party waste volumes processed at the Severnside Energy Recovery Centre (SERC). The amount of this additional income is £9.8m which is material to the financial statements.

We notice this amount being recorded in Miscellaneous income in the draft financial statements for 21/22. Given the size and nature of this income, we consider there to be a risk of material misstatement in revenue recognition.

What will we do?

- Review and test revenue and expenditure recognition policies;
- Review and discuss with management any accounting estimates on revenue recognition for compliance with accounting standards and identify any evidence of bias;
- Document our understanding of the estimate in line with ISA 540;
- Evaluate the business rationale for significant unusual transactions;
- Develop a testing strategy to test material miscellaneous income streams;
- Review and test revenue cut-off at the period end date. We will specifically focus on key aspects of unrecorded liabilities testing as this will help offer us assurance that the year-end accounts are free from material misstatement;
- Review and test year end accruals.

VFM risk

Change in VFM risk: New risk of Informed Decision Making in relation to SERC waste process volume increase

Informed Decision Making in relation to SERC waste process volume increase

What is the risk?

Over the longer term there may be opportunities to secure income by increasing third party waste volumes processed at the Severnside Energy Recovery Centre (SERC). This is the key facility for managing residual waste as part of the West London Residual Waste Services contract between the Authority and West London Energy Recovery Ltd (WLER). Given the increased capacity of waste process in 21/22, we consider there to be an increased risk of making informed decisions in securing value for money.

What will we do?

- Establish the current status of the SERC contract with third party
- Obtain an understanding of the negotiation process in relation to revenue sharing under the increased waste process volume.
- Obtain evidence of the 2021/22 governance arrangements and evaluate the process of decision making on allowing for increased waste process volume
- Review the outcomes of negotiation and comment on how management has responded to the issues raised and mitigated the risks identified
- Document our findings and any recommendations in the Value for Money commentary included in the Auditor's Annual Report

Audit progress

2021/22 audit

Audit Progress and Timeline Update

Interim Testing: Mar-Apr 2022

- We performed walkthroughs in 7 areas;
- Performed interim expenditure testing up to M10;
- Performed interim income testing up to M10;
- Re-assessed audit risk and value for money risks;
- Carried out initial VFM planning procedures.

Year End Testing: May – Oct 2022

- The majority of samples have been selected and are under testing;
- We engaged EY Real Estate specialist for asset valuation;
- Value for Money assessment is under way;
- We liaised with the external auditor of London Pension Fund, Grant Thornton LLP, and was informed that they will not be able to conclude their audit and issue us IAS 19 letter to us until end of September. This will impact EY's reporting timeline and delay the conclusion on WLWA audit.

Change in reporting timeline

We proposed in our audit plan presented to the committee in Jan 2022 that we will be concluding our audit in July 2022. This is no longer achievable as the LPFA auditor (on whom we rely on for assurance over the pension liability disclosures in the financial statements) has informed us that they will not be able to report to us within that timeline. We however will continue to perform all other audit procedures except work on Pension Liability according to our planned timeline, in order to be able to conclude and issue our opinion as soon as we are able to obtain and evaluation the IAS 19 letter from Pension Fund Auditor.

Audit progress

Other issues

Change in materiality

We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross operating expenditure, we have updated our materiality assessment as below:

	Final	Planning
Planning materiality	£1.36m	£1.28m
Performance materiality	£1.02m	£0.96m
Audit difference	£0.06m	£0.06m

Audit differences

Since our testing procedures in various areas are still ongoing, we are yet to conclude on any audit differences. However we have discussed a number of disclosure amendments required with the management and finance team.

We are aware that management have processed an adjustment in PPE deprecation charge which relates to 2018/19 to 2020/21, and a number of adjustment in relation to revaluation of assets in 21/22.

Audit fees

We have previously explained that we believe the underlying scale fee needs to increase due to changes in work required to address broader professional and regulatory requirements and scope associated with risk, and we expect those increases in costs to be ongoing. In addition to this, in 2021/22 the above mentioned additional risks will require, as outlined, specific areas of audit work. As with any variations in scope that occur within the year, when we are in a position to quantify this we will discuss with management.

EY | Assurance | Tax | Transactions | Consultancy

ED None

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