

West London Waste Authority

Annual Audit Letter for the year ended 31 March 2016

October 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.psaa.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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to West London Waste Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 23 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 23 September 2016.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Helen Thompson

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 23 September 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 29 January 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ on the 2015/16 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Authority;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the Authority, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Authority

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

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

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 23 September 2016.

Our detailed findings were reported to the 23 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Risk of management override</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</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 have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.</p>
<p>Risk of fraud in revenue recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>Our testing gave us no concerns as to inappropriate revenue and expenditure recognition through fraudulent or biased management decisions.</p>

Significant Risk	Conclusion
<p>PPE valuation</p> <p>The value of the Authority's property, plant and equipment is material.</p> <p>Economic conditions continued to be uncertain, which had 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 auditing standards we are required to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p>	<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 no requirement for 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, 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 expected material expenditure to be incurred.</p> <p>There was 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>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>

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

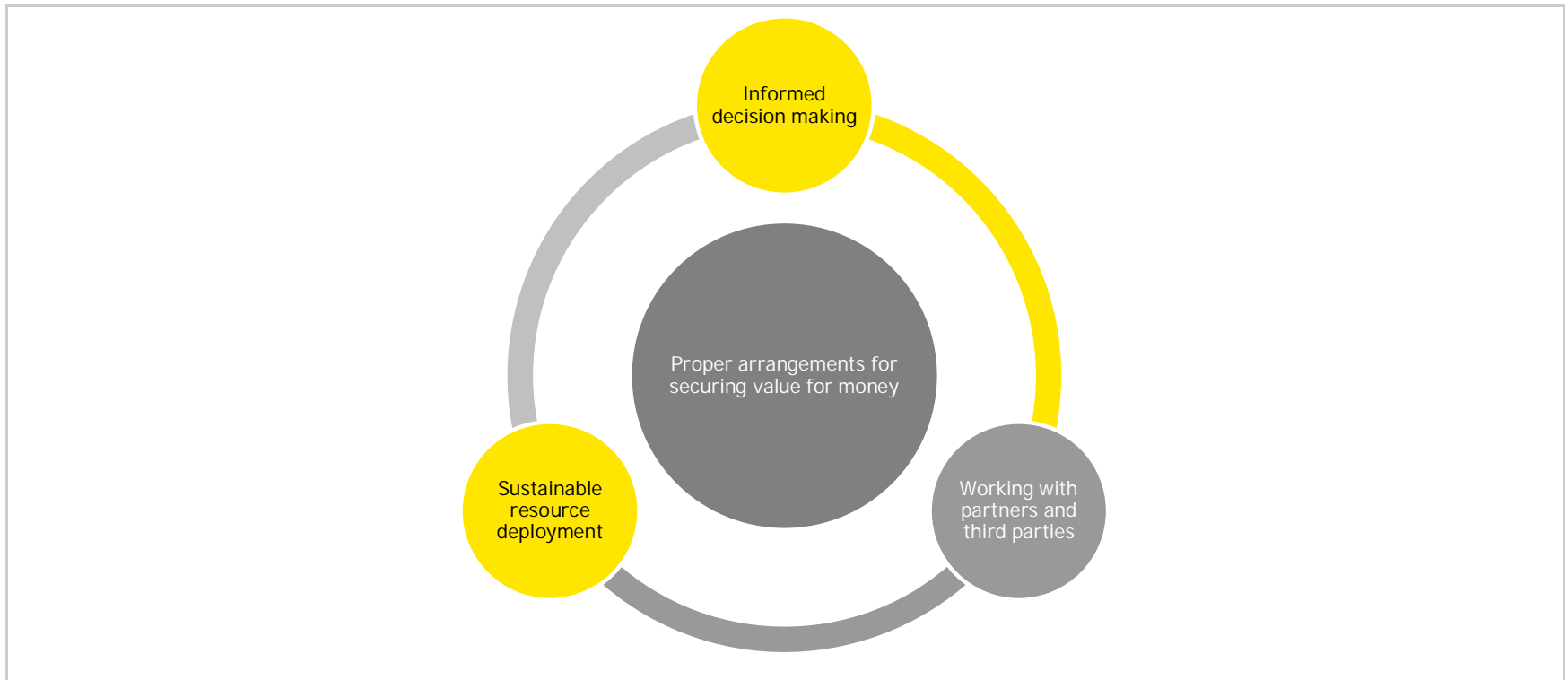
Value for Money

Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on 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 comprise your arrangements to:

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



We issued an unqualified value for money conclusion on 23 September 2016.

We did not identify any significant risks in relation to these arrangements. We therefore have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Authority is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 23 September 2016. 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 regulatory and professional requirements.

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.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
Completion of the Energy from Waste Facility	The Energy from Waste Facility is due to go live in 2016/17. This will change the way the Authority disposes of its waste as well as having a greater reliance on joint working with SITA.	<p>This will have a significant impact on the Authority's accounts, particularly how the contract is accounted for.</p> <p>For the 2016/17 audit, we are working with officers to ensure that the accounting for this arrangement is in line with accounting standards.</p>
Faster close	From the 2017/18 financial year, the deadline for preparing the Authority's financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.	<p>The faster closedown timetable requires the Authority to adjust its timetable for preparing the accounts, as well as the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>
Appointment of auditors	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this, the Authority can exercise choice about whether it decides to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The Authority should consider whether it intends to opt into the appointed person scheme to appoint its own auditors from 2018/19 or if the Authority should make its own arrangements following the legislative requirements.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 23 September 2016 Audit Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	19,770	19,770	19,770

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

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ED None

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