West London Waste Authority

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". 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 (updated 23 February 2017)" 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.

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 2017.

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 2017 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).	We had no matters to report.

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 30 August 2017.
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 2016 Code of Audit Practice.	Our certificate was issued on 22 September 2017.

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

Helen Thompson
Associate Partner
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 2016/17 Audit Results Report to the 22 September 2017 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 27 January 2017 and is conducted in accordance with the National Audit Office's 2016 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 2016/17 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 extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, 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.

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 2016 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 22 September 2017.

Our detailed findings were reported to the 22 September 2017 Audit Committee.

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

Significant Risk	Conclusion
Management override of controls 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. 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.	We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements. We reviewed accounting estimates for evidence of management bias. We evaluated the business rationale for any significant unusual transactions. We did not identify: ▸ any material weaknesses in controls or evidence of material management override; ▸ any instances of inappropriate judgements being applied; or ▸ any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Significant Risk	Conclusion
Revenue and expenditure recognition 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. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.	We reviewed and tested revenue and expenditure recognition policies. We reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We tested all material revenue and expenditure streams to supporting documentation. Our testing did not identify any material misstatements from revenue and expenditure recognition; or any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.
New Energy Recovery Centre The construction of the Energy Recovery Centre has been completed in 2016/17 and is due to be fully operational in year. The value of the Authority's Energy Recovery Centre is material. 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. The Authority has a significant contract with the Suez Consortium (which provides the Waste Management Service) as part of a 27 year Residual Waste Services Agreement. The nature of the contract and subsequent accounting impact is complex and there is a risk that the terms of the contract have not been followed.	In relation to valuation of the asset, we conducted detailed testing against valuation reports commissioned by management from Wilks Head and Eve. Whilst the recycling centre was valued in the draft accounts at £193,682,500, from our testing we established that the value should be £194,282,500. This was largely because incorrect acreage and land values had been used by Wilks Head and Eve. In assessing the work of Wilks Head and Eve, we identified issues and anomalies in the valuation of other items of land and buildings. These included incorrect valuation assumptions about the freehold versus leasehold status of the transfer stations at Victoria Road and Transport Avenue; incomplete information about the legal status of sub-lease arrangements at both sites; and incorrect depreciation assumptions being used in the depreciated replacement cost calculations for both sites. Wilks Head and Eve subsequently provided updated valuation reports and at the conclusion of these procedures, the valuation of the site at Victoria Road was written down in the revised draft account from £8,390,000 to £6,462,000 and the valuation of the site at Transport Avenue was written down from £10,520,000 to £2,246,000. In relation to the valuation of the associated liabilities and unitary charges:

Significant Risk	Conclusion
	► We tested models supporting those liabilities in detail and we were satisfied that the liabilities were supported by appropriate calculations, assumptions and methodologies. ► We reviewed the contract in place between the Authority and the Suez Consortium. ► We substantively tested transactions that relate to the contract; performed unrecorded liabilities testing, cut off testing on relevant expenditure; reviewed post year end credit notes; and reviewed disclosures made within the statement of accounts to ensure that these are correct and in line with supporting information. From our testing, we were satisfied that finance lease liabilities, deferred income and unitary charges were all correctly stated in the accounts. However, we concluded the valuation of land and buildings should be restated from £214,163,000 to £204,561,000. We subsequently received a revised draft account which included this adjustment of £9,601,700.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1,174,820 We reassessed this based on the actual results for the financial year and decreased this amount to £1,136,620. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £59,000. Based on actual results for the year, this was decreased to £56,831.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy with lower testing thresholds. The areas identified included:

- Remuneration disclosures, including any severance payments, exit packages and termination benefits;
- Related parties transactions; and
- Member's allowances.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements identified from our work.

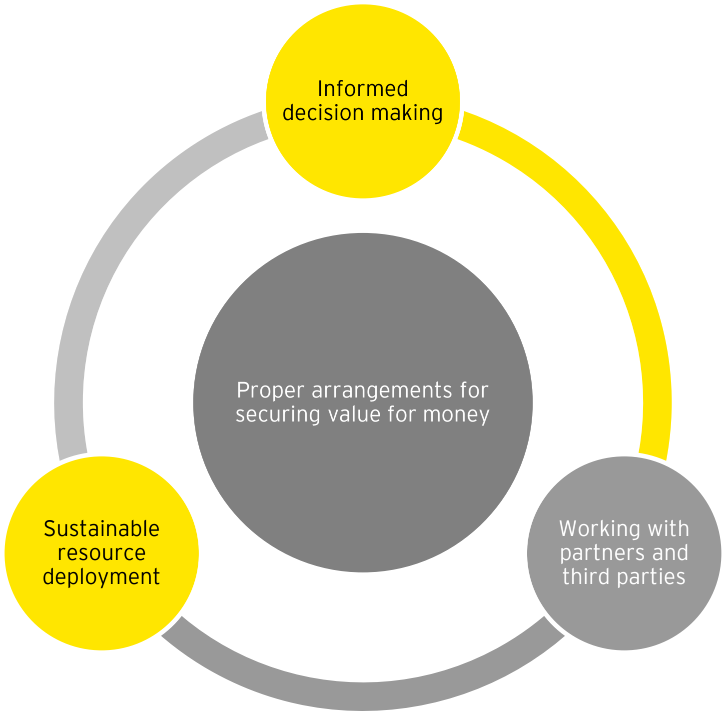
Value for Money

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 did not identify any significant risks in relation to these criteria.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 22 September 2017.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes.

The Authority is below the specified audit threshold of £350 million. Therefore, we were not required to 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 2016/17 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 to the Audit Committee in our Audit Results Report issued on 30 August 2017. 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We note that there were some shortcomings in the data and assumptions supporting the first property, plant and equipment valuation report provided to West London Waste Authority by their valuers Wilks Head and Eve. To correct these, two subsequent valuation reports and, finally, a revised appendix to the third version, needed to be obtained from Wilks Head and Eve. Full valuations are normally obtained only one every five years and this is unlikely to be a recurring issue.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Appendix A

Audit Fees

Appendix A Audit Fees

Our planned fee for 2016/17 was is in line with the scale fee set by the PSAA and reported in our Audit Plan.

The new energy recovery from waste facility increased Property, Plant and Equipment on the balance sheet by some £200 million. Additional audit work was required to gain assurance over the valuation of the facility and the underpinning accounting model. Our work identified errors in the valuation methodology applied by the Authority's valuers, Wilks Head & Eve.

The additional fee was discussed at the 22 September Audit Committee, and confirmation of Authority approval was received from the Chair of the Audit Committee on 10 October 2017. This fee remains subject to approval by the PSAA.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	30,241	19,770	19,770	19,770

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

EY | Assurance | Tax | Transactions | Advisory

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ED None

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