

West London Waste Authority

Annual Audit Letter for the year
ended 31 March 2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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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.



01 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 2018.

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 2018 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.



Executive Summary (cont'd)

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 8 June 2018 and presented to the Audit Committee on 29 June 2018.
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 29 June 2018.

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



02 Purpose and Responsibilities

Purpose and Responsibilities

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 2017/18 Audit Results Report to the 29 June 2018 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 January 2018 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 2017/18 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 the 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 £500 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.



03

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 29 June 2018.

Our detailed findings were reported to the 29 June 2018 Audit Committee.

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

Significant Risks	Conclusion
<p>Misstatements due to fraud or error</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>To gain assurance we:</p> <ul style="list-style-type: none">• Enquired of management about risks of fraud and the controls put in place to address those risks.• Updated our understanding of the oversight given by those charged with governance of management's processes over fraud.• Considered the effectiveness of management's controls designed to address the risk of fraud.• Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. <p>We identified no material weaknesses in controls or evidence of material management override based on our work.</p>
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>To gain assurance we:</p> <ul style="list-style-type: none">• Reviewed and tested revenue and expenditure recognition policies.• Conducted cut off testing to test the correctness of revenue and expenditure allocation to accounting periods.• Assessed topside adjustments/journal entries for evidence of management bias and evaluate for business rationale.• Assessed accounting estimates for evidence of management bias, this included the pension fund liability, the valuation of property, plant and equipment and short term creditors.• Completed focused testing on year end accruals balances. <p>We identified no material misstatements from revenue and expenditure recognition and no evidence of misreporting the Authority's financial position.</p>

Financial Statement Audit

Significant Risks contd	Conclusion
<p>Valuation of property, plant and equipment</p> <p>During 2016/17, as a new energy recovery centre came into use, West London Waste Authority's Property, Plant and Equipment increased in value from £5,166,000 at 31 March 2016 to £204,796,000 on 31 March 2017.</p> <p>Some £204.5 million of the 31 March 2017 balance comprised land and buildings which are valued every five years applying fair value assumptions using independent professional valuations to reflect the current value to the Authority in their existing use. A full valuation was undertaken in March 2017 by Wilks, Head and Eve, Chartered Surveyors and at the time of writing this report, although an impairment exercise was planned, there are no formal arrangements for indexing the land and buildings at 31 March 2018 to reflect any estimated changes in market conditions.</p> <p>As the asset values are high, there is a risk that even a small fluctuation in indices could have an impact on the Comprehensive Income and Expenditure Statement and on asset carrying values. Furthermore, we note that some £8.7 million of the land and buildings are held under leasehold agreements. At the time of our audit planning, options for purchasing these assets were being considered. Developments around any possible future purchase could also impact on valuations.</p>	<p>To gain assurance we:</p> <ul style="list-style-type: none">• Reviewed the Authority's impairment exercise.• Consulted with our EY valuation specialists on the methodology applied by the Authority for the in-depth impairment review.• Monitored progress around the possible purchase of leasehold land and buildings ay Victoria Road and Transport Avenue. <p>Our review noted that the Authority's initial impairment exercise did not take account of asset ageing, cash flows from assets or movement in indices, Management carried out a more detailed review which resulted in a downward movement in valuation of £1.3 million for the Severnside Energy Recovery Centre.</p> <p>We welcome management's decision to review the highest value asset in detail regularly between the five yearly full revaluation.</p>



Financial Statement Audit (cont'd)

The other areas of audit focus identified as part of our audit were as follows:

Area of Audit Focus	Conclusion
<p>Pension Asset/Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the London Pensions Fund Authority (LPFA) Pension Fund.</p> <p>The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2017, this totalled £8.6 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to LPFA.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>To gain assurance we:</p> <ul style="list-style-type: none"> • Liaised with the auditors of LPFA, to obtain assurances over the information supplied to the actuary in relation to the Authority. • Assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. • Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. <p>We identified no issues from the work completed.</p>
<p>Agresso upgrade and waste data management system migration</p> <p>In our audit plan, we noted that two significant IT projects were planned for completion by February 2018. The current "Access" Waste Data Management System (which supports waste accounts receivable and accounts payable invoicing) was due to be replaced by the "Open Sky" system on 31 January 2018, with full data migration having occurred between the two systems. Agresso (the general ledger) was planned to be transferred from London Borough of Ealing servers to the cloud by February through normal IT change processes. At the time of writing our audit plan, the timeline for waste data migration had been shared with us. However, a detailed project plan for the Agresso upgrade had not yet been produced.</p>	<p>To gain assurance we:</p> <ul style="list-style-type: none"> • Conducted walkthrough testing on the "Access" waste data management system in December 2017; and on the replacement system as part of our interim audit in early 2018. • Obtained and reviewed project plans for the waste data migration and test results for the Authority's testing of transaction and data migration. <p>We identified no issues as a result of our work.</p> <p>We note that the Agresso upgrade was delayed until June 2018 and therefore had no impact on the 2017/18 accounts and audit process.</p>

Financial Statement Audit (cont'd)

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	<p>We determined planning materiality to be £0.958 million (2016/17 £1.136 million), which is 2% of gross revenue expenditure reported in the accounts.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p>
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £48,000 (2016/17: £57,000).

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 unadjusted differences arising from our audit.

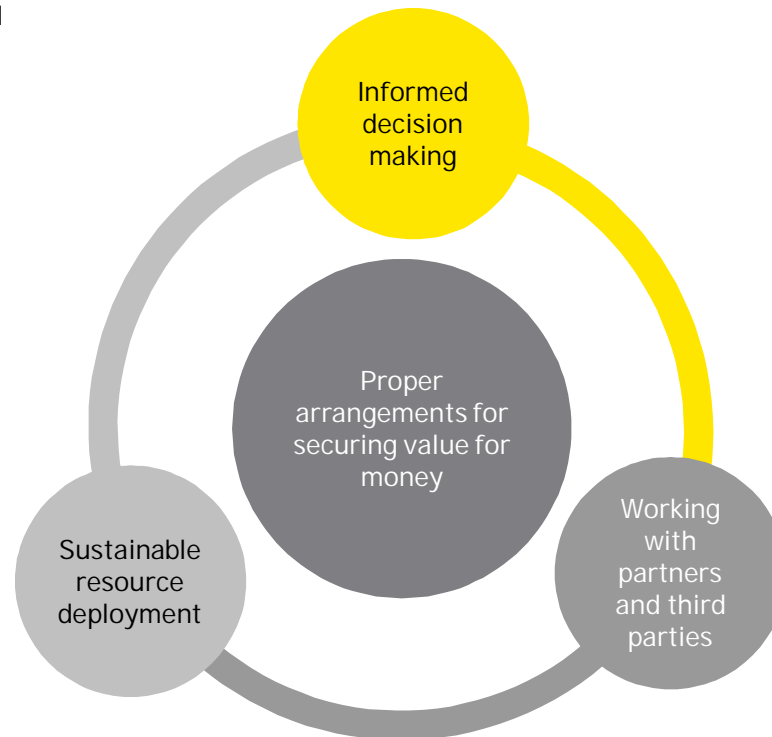


04 Value for Money

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 in our audit plan.

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 29 June 2018.



05 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. We had no issues to report.

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 requested enhanced reporting in relation to the Head of Internal Audit's findings. We have also suggested the Authority may wish to consider the principles set out in the CIPFA publication 'Delivering good governance in Local Government' for future reporting.

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 2017/18 financial statements from members 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 29 June 2018. 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.

Other Reporting Issues (cont'd)

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

Our audit did not identify any controls issues in 2017/18 to bring to the attention of the Audit Committee.



06 Data Analytics



Use of Data Analytics in the Audit

Data analytics – Journal testing

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtained general ledger journal data and interrogated the financial systems for unusual journal entries by performing a series of analyses. This included review of manually entered journals made by management, checks on journals with unusual descriptions and posting details (such as unexpected system users we would not anticipate posting journals themselves, such as senior management) and identifying journals that are considered likely to be outside of the normal course of daily operations.



07 Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; council tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of local authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of local authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on local authority trading companies who will have material revenue streams arising from contracts with customers. Whilst the impact on the Authority is unlikely to be significant, due to the nature of its income streams, early consideration should be given to the guidance issued by CIPFA as it becomes available.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to review its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) and reported in our June 2018 Audit Results Report. A minor fee variation is proposed for the Authority– details are shown below.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee – Code work	TBC*	19,770	19,770	30,241**

* We have agreed with officers an additional fee of £913 arising from the work required following the transfer of waste management data from the Access system to the Open Sky system. We have also agreed with officers a further additional fee of £931 associated with the work, and discussions, over the valuation of the Severnside Energy Recovery Centre. The proposed fee increase will be subject to further review and approval by PSAA.

** We agreed an additional fee of £10,471 following the completion of the 2016/17 audit for the additional work required in relation to the Severnside Energy Recovery Centre coming into use for the first time. This fee was approved by PSAA in December 2017 and billed to the Authority in January 2018.

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

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