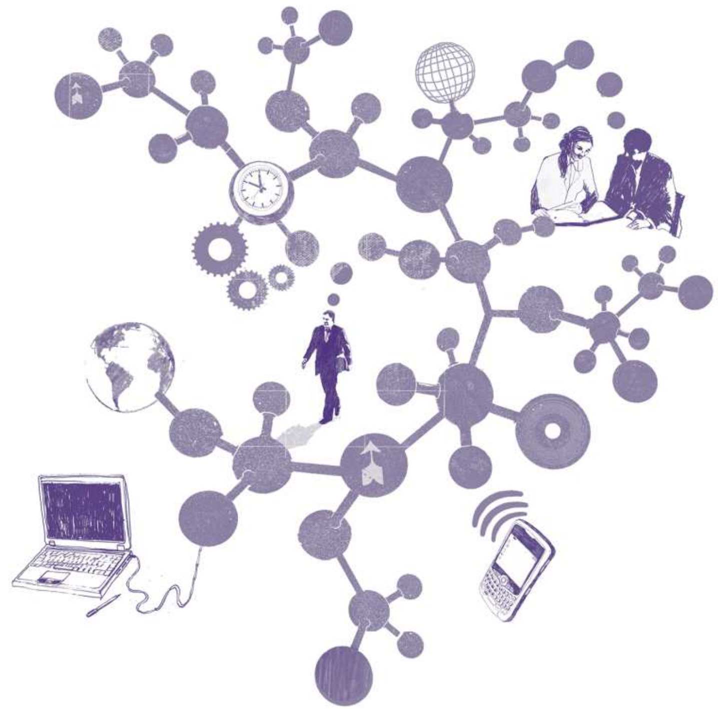
The Annual Audit Letter for Greater Manchester Waste Disposal Authority

Year ended 31 March 2016

11 October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Greater Manchester Waste Disposal Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Audit and Standards Committee, as those charged with governance, in our Audit Findings Report on 15 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 20 July 2016. However, we included an "emphasis of matter" paragraph in our audit opinion on the Authority's financial statements to draw attention to disclosures made in the Accounts concerning the proposed future transfer of the Authority's functions, assets and liabilities to the Greater Manchester Combined Authority (GMCA) and the consequent dissolution of the GMWDA as a separate public body. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.

Value for money conclusion

We were satisfied that the Authority has put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion given on 20 July 2016.

In arriving at our conclusion, we carried out a detailed risk assessment of the arrangements in place at the Authority to deliver Value for Money. In particular, we considered the financial position of the Authority including achievement of its savings targets. We also considered how robustly the Authority monitored the PFI contract and achievement of recycling targets.

Following a period where the Authority has maintained a zero increase in the levy for constituent authorities, by using its available reserves, it is now actively exploring strategic options to identify significant savings to mitigate the potential for an increase of 9.6% and 7.6% identified for 2017/18 and 2018/19, respectively.

Whole of government accounts
We completed work on the Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 20 September 2016.

Certificate
We certified that we had completed the audit of the accounts of Greater Manchester Waste Disposal Authority in accordance with the requirements of the Code on 20 September 2016.

Working with the Authority

We have provided the Authority with our insights on emerging issues affecting the public sector together with our national thought leadership publications. We have met with the Authority to understand the financial pressures it faces and the options for making savings during 2016/17 and beyond. We will continue to work with the Authority as it seeks to achieve a smooth transition of its functions to the Greater Manchester Combined Authority, which is expected to be finalised during 2017/18.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £2,300,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from the levy during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and audit fees.

We set a lower threshold of £250,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative report and Annual Governance Statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of property, plant and equipment The Authority revalues its assets on a rolling basis over a five year period using the external valuer Bilfinger GVA Ltd (previously GVA Grimley). The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	• Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation expert, Bilfinger GVA Ltd and the scope of their work • Discussions with Bilfinger GVA Ltd about the basis on which the desk top valuation was carried out, challenging key assumptions and choice of indices for asset value uplift • Review and challenge of the information used by the valuer to ensure it was robust and consistent with • Testing of revaluations made during the year to ensure they were input correctly to the asset register **We did not identify any issues to report. Management agreed that, in future, they would provide clearer challenge to the external valuation reports where uncertainty exists.**
Impairment of property, plant and equipment During the year there was disruption to the Mechanical & Biological Treatment (MBT) hydrolysis tank "wet" side process within the Longley Lane (Sharston) and Cobden Street (Salford) MBT plants. Remediation work to mitigate this disruption is on-going. The risk concerns the level of impairment to these facilities based upon management's judgement and the view of the professional valuer.	• Gaining an understanding of the impairment transaction including a review of supporting documentation • Obtain and review of the detailed Rectification Plan for Longley Lane MBT and the commitment by Costain PLC (the construction contractor of the main contractor, Viridor Laing Greater Manchester PLC). to repair the affected MBT assets • Review of the instructions issued to valuation experts, Bilfinger GVA Ltd and the scope of their work on the affected assets • Discussions with Bilfinger GVA Ltd about the basis of their impairment review, challenging key assumptions • Testing of the transactions in the financial statements to ensure they were consistent with our understanding • Review of the accounting entries to ensure they complied with the CIPFA Code of Practice **We are satisfied with management's judgement and treatment of asset impairment.**
Valuation of pension fund net liability The Authority's pension fund share of assets and liabilities as reflected in its balance sheet represent significant estimates in the financial statements.	• Understanding the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated • Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary **We did not identify any issues to report.**

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 20 July 2016, in advance of the 30 September 2016 national deadline. This places the Authority in a strong position for when the statutory deadlines will be brought forward, from 2017/18 onwards.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

In forming our opinion on the financial statements we drew attention by emphasis of matter to the disclosures made in notes 1.i and 27 to the financial statements concerning the proposed future transfer of the Authority's functions, assets and liabilities to the GMCA. We consider that these disclosures are fundamental to gaining a full understanding of the financial statements as they set out that, since the year end, it has been approved, in principle, that the Authority's functions, assets and liabilities will transfer to the GMCA with effect from 1 April 2017, subject to a public consultation period and final approval by the Secretary of State.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit and Standards Committee on 15 July 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. The Authority published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work on the Authority's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We did not need to exercise any of these additional powers and duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO, in November 2015, which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

In arriving at our VFM conclusion, we focused our work on reviewing key Authority documents to assess whether proper arrangements are in place to secure value for money. These included the Authority's Risk Register, Annual Governance Statement, Corporate Plan, Treasury Management Practices and meeting minutes reviews.

In forming our conclusion, our main considerations were:

- achievement of recycling rates and landfill diversion
- delivery of planned savings and monitoring of progress by the Resources Committee throughout the year
- the Authority's General Fund balance has remained at £9.434m
- the Authority continues to manage the PFI contract in a robust manner
- plans for Costain PLC to rectify the corrosion issues at Longley Lane and Cobden Street MBTs and other affected facilities

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Forward view

Looking ahead, the Authority is proposing to transfer its assets, liabilities, services and functions to the GMCA during 2017/18.

In agreement with the Association of Greater Manchester Authorities (AGMA) the Authority has been using its available reserves to minimise the impact of levy increases over the three year period to 2016/17. However, beyond 2017/18 these reserves will be exhausted and unless savings can be identified there is the potential for 9.6% and 7.6% rises in the levy identified for 2017/18 and 2018/19, respectively.

The Authority is actively exploring strategic options to achieve the significant level of savings required.

Working with the Authority

Our work with the Authority in 2015/16

We continue to enjoy a constructive working relationship with the Authority, achieving successful outcomes as follows;.

An efficient audit – we delivered the accounts audit opinion on 20 July 2016 , 10 weeks before the statutory deadline and in line with the timetable we agreed with you.

Improved financial processes – during the year we reviewed your financial systems and processes including non- pay expenditure and property plant and equipment.

Sharing our insight – we provided regular Audit and Standards Committee updates covering best practice. Areas we covered included, Your Generation – Making decentralised energy happen, Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government.

Providing training – we provided the Finance team with a technical update on financial accounts and annual reporting at our annual Chief Accountant Workshop.

We will continue to liaise closely with the senior finance team during 2016/17 on important financial reporting and auditing developments, with timely feedback on any emerging issues.

We will liaise with the Authority over the next financial year regarding its financial challenges and the implications for the accounts and our audit arising from the proposed options for generating savings.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit
- Understanding your financial and operational health – we will focus our value for money conclusion work on the development of the Authority's savings options and preparations for transfer of functions to the GMCA.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Authority	31,418	31,418	41,891
Total fees (excluding VAT)	**31,418**	**31,418**	**41,891***

***** In addition to the scale fee of £41,891 set by Public Sector Audit Appointments Ltd, for 2014/15, there were further audit fees of £18,989 due to additional work required in assessing the accounting treatment for the Runcorn CHP and PFI model outputs.

Reports issued

Report	Date issued
Audit Plan	1 March 2016
Audit Findings Report	20 July 2016
Annual Audit Letter	11 October 2016

Grant Thornton