NORTH LONDON WASTE AUTHORITY
REPORT TITLE: EXTERNAL AUDIT PLAN FOR THE 2015/16 ACCOUNTS
REPORT OF: FINANCIAL ADVISER

FOR SUBMISSION TO: AUTHORITY MEETING	**DATE:** 17 June 2016

SUMMARY OF REPORT:

This report introduces the Audit Plan for 2015/16 which has been prepared by KPMG in its capacity as the Authority's external auditor. The plan sets out the responsibilities of the external auditor and outlines its approach to the forthcoming audit.

The external auditor will be in attendance at the meeting to respond to queries.

RECOMMENDATIONS:

The Authority is recommended to:

The Authority is requested to note the contents of the External audit plan.

Signed by the Financial Adviser

DATE: 7 June 2016

1. Introduction and Background

1.1. The purpose of the Audit Plan is to set out the how KPMG LLP, the Authority's external auditor, will deliver the audit of the Authority's financial statements and its approach to Value for Money work for the financial year ending 31 March 2016.

2. Contents of the Plan

2.1. The Plan for 2015/16 sets out the four stages of the audit process – Planning, Control Evaluation, Substantive Procedures and Completion. Key to the Authority is the opinion on the accounts (including the Authority's Annual Governance Statement) and the Whole of Government Accounts return. This will be presented to the Authority's September 2016 meeting. Additionally, KPMG will publish two reports to the Authority: the Report to Those Charged with Governance (also referred to as the ISA 260 Report) and the Annual Audit Letter. The ISA 260 Report will include the findings of KPMG's final accounts work and will be presented to the September 2016 meeting of the Authority. The Annual Audit Letter summarises the outcomes and the key issues arising from KPMG's audit work for the year and will be presented to the Authority's December meeting.

2.2. For 2015/16, KPMG's approach in their Value For Money (VFM) work has changed. Previously the authority was classified as a 'larger relevant body' by the Audit Commission rather than as a 'principal body'. This classification has been removed and the Authority will now be considered against the full criteria by the Auditor before reaching a VFM conclusion.

2.3. The planned audit fee of £18,270 is in line with KPMG's 2015/16 Audit Fee Letter. The fee is based on the assumption that that no additional work will be required. If KMPG have to undertake more work than was envisaged, additional fees will be charged.

2.4. The audit opinion is planned to be made by no later than 30 September 2016 and therefore arrangements will be made to report this to the Authority at its September meeting. In accordance with normal practice the external auditor will be invited to attend this meeting and present the audit findings.

3. Comments of the Legal Adviser

3.1. The Legal Adviser has been consulted and has no comments to add.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:-
KPMG – 2015/16 Audit Plan and 2015/16 Annual Audit Fee letter.

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External Audit Plan 2015/2016

North London Waste Authority

May 2016

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority needs to comply with.

Materiality

Materiality for planning purposes has set at **£1.0 million** for the Authority.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £50,000 for the Authority.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Risk of fraud in revenue and expenditure recognition.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding. We have not identified any such risks at this stage.

See pages 3 to 5 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is a significant change to previous years. In the past the Authority was classified as a 'larger relevant body' by the Audit Commission rather than a 'principal' body. In practice this meant that the external auditor was required to complete more limited procedures in order to be able to reach a VFM conclusion. There is now no distinction between 'larger relevant bodies' and 'principal' bodies, so we are now required to consider the criteria fully in order to reach a VFM conclusion.

Also, the NAO has made some more general changes to the VFM requirements:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report any VFM significant risks during our audit.

See pages 6 to 9 for more details.

Logistics

Our team is:

- Phil Johnstone - Director
- Antony Smith - Manager
- Ishpal Chaggar – Assistant manager

More details are on **page 12.**

Our work will be completed in four phases from February to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11.**

Our fee for the audit is £18,270 (£18,270 - 2014/15), see **page 10 for more details.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process (stages 2 and 3 are combined for the Authority) which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning
Control Evaluation
Substantive Procedures
Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the initial findings of our VFM risk assessment.

Risk Assessment
Identification of significant VFM risks
VFM audit work
Conclude
Reporting

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during February to March 2016. This involves the following key aspects:

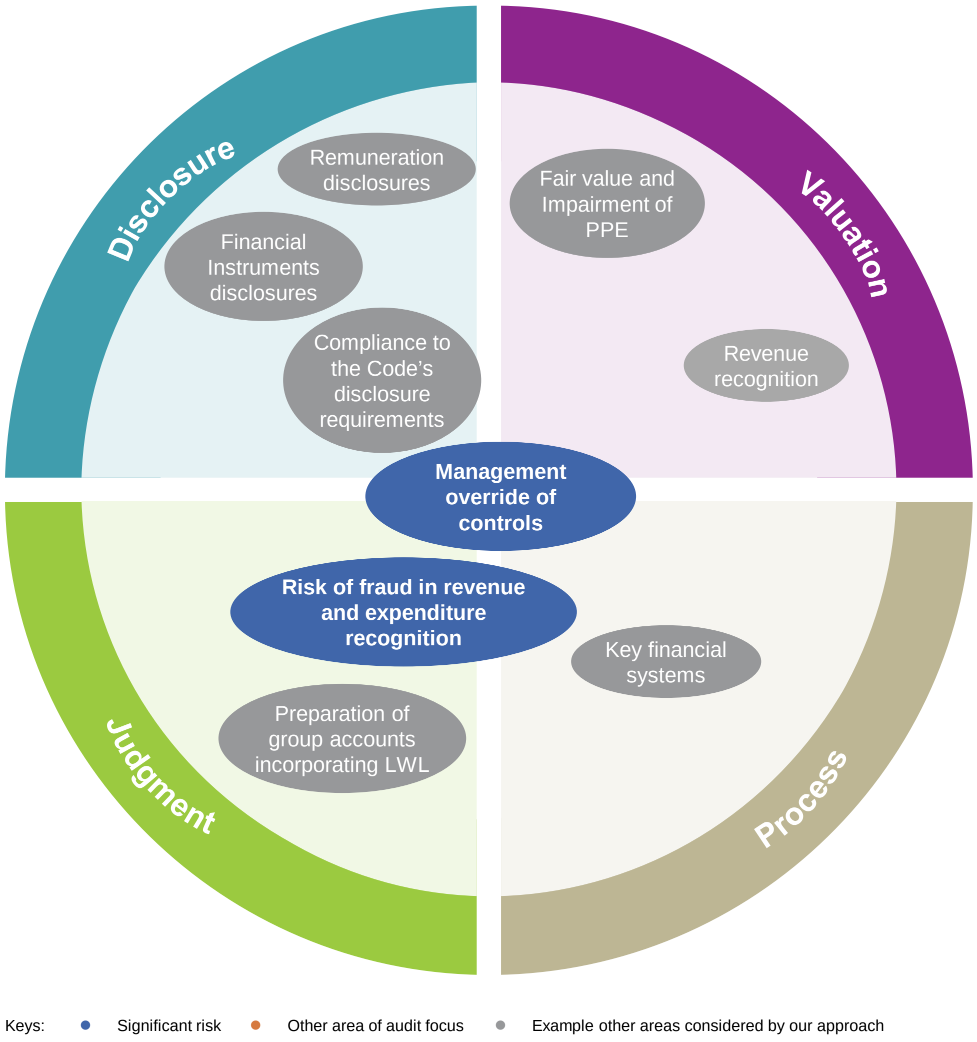
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Risk of fraud in revenue and expenditure recognition – Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. For the Authority we have extended this presumption to the recognition of expenditure. Due to their nature, we do not consider the receipt of Levy or financing income to be a significant risk and these income streams are therefore excluded from this category. We will consider expenditure streams on an individual basis and focus our work on those streams most susceptible to incorrect recognition in the financial statements. We would expect the areas of contracts, leases and other financial arrangements to be the main areas of focus for our audit of the Authority. We do not consider payroll expenditure, depreciation and impairment or pension costs recognised due to IAS19 or interest expenditure to be areas of significant risk.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks

Significant risks are those risks requiring specific audit attention and require specific procedures to address the likelihood of a material financial statement error.

At this stage we have not identified any significant risks for the Authority. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

At this stage we have not identified any other areas of audit focus for the Authority. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgment to represent 'misstatements' unless the application of that judgment results in a financial amount falling outside of a range which we consider to be acceptable.

Reporting to the Authority

For the Authority, materiality for planning purposes has been set at £1.0 million which equates to 1.8% percent of gross expenditure (or 1.2% of net assets at 31 March 2015).

We design our procedures to detect individual errors. For the Authority this is £0.75 million for the year ended 31 March 2016, and we have some flexibility to adjust this level downwards.

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK&I), we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance, and to request that adjustments are made to correct such matters. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

- In the context of the Authority we propose to report all individual unadjusted differences greater than £50,000 to the Authority.
- We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.

Value for money arrangements work

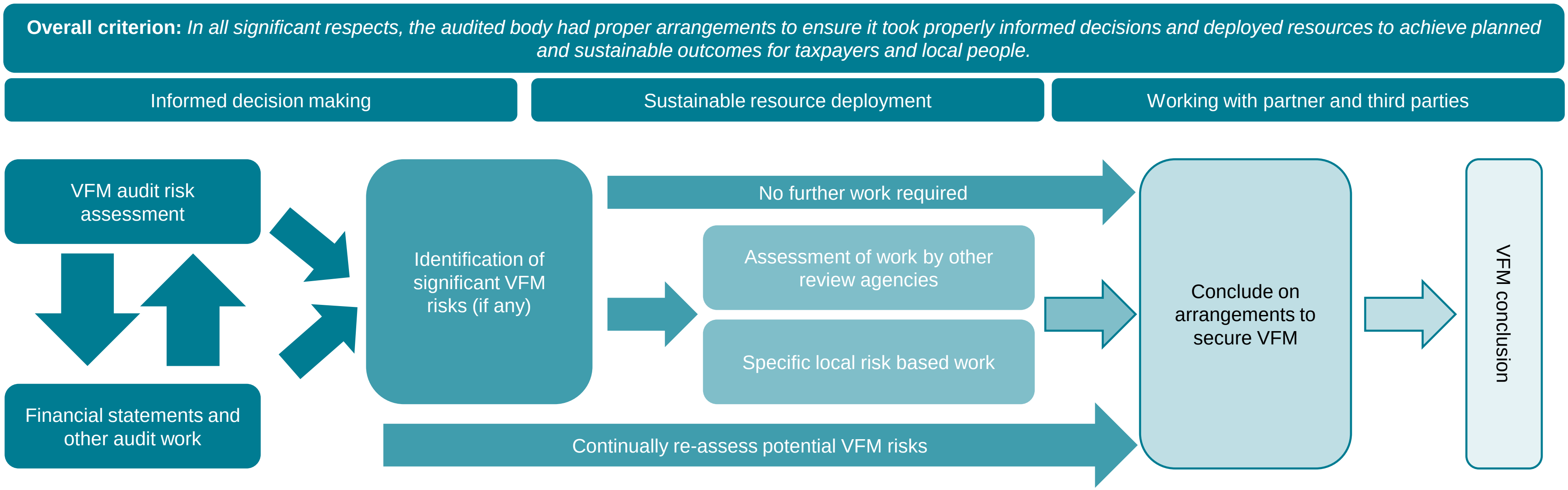
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach has changed significantly compared with previous years. In the past the Authority was classified as a 'larger relevant body' by the Audit Commission rather than a 'principal' body. In practice this meant that the external auditor was required to complete more limited procedures in order to be able to reach a VFM conclusion. There is now no distinction between 'larger relevant bodies' and 'principal' bodies, so we are now required to consider the criteria fully in order to reach a VFM conclusion.

The process is shown in the diagram below. In addition, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The full guidance is available from the NAO website at: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/. Our approach to the value for money is recorded below:



Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	Based on our initial risk assessment we have not identified any significant risks for our VFM conclusion. We will continue to consider whether there are any significant risks throughout our audit. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. In previous years the Authority has fallen below the threshold requiring any substantial work. However, deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Phil Johnstone (Director) and Antony Smith (Audit Manager) providing continuity at a senior level. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Authority. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £18,270 for the Authority. This is the same audit fee as in 2014/15.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Authority, Senior Management and audit team

Audit strategy and plan

ISA 260 (UK&I) Report

Annual Audit Letter

Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Initial planning meetings and risk assessment

Year end audit of financial statements and annual report

Sign audit opinion

Audit workflow

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Authority reporting

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Phil Johnstone and Antony Smith provide continuity on the audit at a senior level. Ishpal Chaggar is new to the audit team this year.

Name	Phil Johnstone philip.johnstone@kpmg.co.uk
Position	Director
	‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Authority, Managing Director and the Clerk and Financial Adviser to the Authority.

Name	Antony Smith antony.smith@kpmg.co.uk
Position	Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Phil to ensure we add value. I will liaise with the Head of Finance and the Finance Team

Name	Ishpal Chaggar ishpal.chaggar@kpmg.co.uk
Position	Assistant Manager
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

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Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Authority.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 1 March 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Phil Johnstone the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.