

Audit plan

North London Waste Authority

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. I base my plan on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the North London Waste Authority's Board, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion. For the 2011/12 financial statements audit, I have provisionally set my reporting materiality at £1.2 million. I will review and update this if necessary based on the position reported in the draft financial statements. I will report to the Board on all unadjusted misstatements greater than £12,000. I will also report any other matters arising that I decide are significant because of their sensitive nature. These may include for example matters about related party disclosures or remuneration of senior staff.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
Group Accounts	
Your subsidiary, London Waste Limited, prepares its accounts under UK Generally Accepted Accounting Practice (GAAP). Therefore, you will have to undertake significant consolidation adjustments as you report under the International Financial Reporting Standards (IFRS). This creates a risk of missed or mistaken consolidation adjustments.	I will review the Authority's procedures for compiling the group accounts, and undertake substantive reviews on how it has restated key balances to allow consolidation under IFRS. I will review work undertaken by London Waste Limited's external auditors and seek to place reliance on its findings. I will also carry out tests of detail on the consolidation adjustments.

Group accounts

I am responsible for the direction, supervision and performance of the group audit. I have identified one significant material risk of misstatement on the audit of the group accounts, as noted above. I will undertake procedures to gain assurance the group accounts present a true and fair view of London Waste Limited's accounts, as noted above. I will contact the auditors of your subsidiary, London Waste Limited, as part of my audit procedures.

Please discuss with me any concerns about me contacting component auditors.

Testing strategy

Based on the risks identified, I will produce a testing strategy which will consist of substantive tests of detail on material account balances. My testing strategy would also involve:

- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to maximise the work I undertake before you prepare your accounting statements.

The nature and timing of my proposed work is as follows:

Table 2: **Proposed work**

Stage	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	None planned at this stage.	None planned at this stage.	I will undertake some substantive testing earlier in the year. I will discuss suitable areas with officers.
Final visit	Group Accounts – PKF as auditors of your subsidiary, London Waste Limited.	Property valuation – Wilkes, Head and Eve as the Authority’s property valuation experts.	All material accounts balances and amounts. Year-end feeder system reconciliations

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The National Audit Office specifies the extent of my review and the nature of my report. As in previous years, the government requires the Authority complete a return to inform the whole of government accounts (WGA) initiative and that I certify the Authority's return. I will liaise with Authority officers to ensure that I am able to complete my testing of the return efficiently and in line with government requirements.

Value for money

I consider the Authority's arrangements to secure economy, efficiency and effectiveness.

For 2011/12 the Commission limits the scope of my work on value for money at the Authority to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as appropriate.

As I am not aware of any relevant work of other relevant regulatory bodies or inspectorates and I have not identified any significant risks requiring specific risk-based work, my work will comprise a review of your AGS. From this review I will decide whether there are any matters that I need to report.

Key milestones and deadlines

The Authority must prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 3: **Proposed timetable and planned reports**

Activity	Date	Findings reporting within
Opinion: controls and early substantive testing	February 2012	Annual Governance Report
Opinion: receipt of accounts and supporting working papers	30 June 2012	Annual Governance Report
Opinion: substantive testing	August 2012	Annual Governance Report
Present Annual Governance Report to the Authority	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Issue opinion on WGA return	By 5 October 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Phil Johnstone (FCCA, CA (NZ)) District Auditor	p-johnstone@audit-commission.gov.uk 0844 798 2881	Responsible for the overall delivery of the audit including quality of reports and signing the auditor's report. Phil is the key point of contact for the Managing Director, Financial Adviser and members of the North London Waste Authority Board.
Rich Clarke (CPFA) Audit Manager	rd-clarke@audit-commission.gov.uk 0844 798 2615	Responsible for day-to-day management of the audit and the key contact for the Head of Finance. Rich is also the first point of contact for resolving technical accounting issues.
Vikesh Barchha Audit Team Lead	v-barchha@audit-commission.gov.uk 0844 798 1333	Responsible for performance of audit fieldwork and day-to-day liaison with the Authority's finance team. A dedicated audit team supports Vikesh in this role.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £30,450, as set out in my letter of 4 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £30,450 which represents a 13 per cent decrease on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a decrease resulting from the new approach to local VFM audit work; and
- a fall following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where you do not meet these assumptions, I may undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Head of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee in the future

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions the Authority could take and provide continuing audit support.

Total fees payable

Based on current plans the fees payable are as follows:

Table 5: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£30,450 ⁱ	£35,000	(£4,550)
Non-audit work	none	none	-
Total	£30,450	£35,000	(£4,550)

- i The Audit Commission is committed to paying a rebate of 8 percent (£2,436) to the Authority reflecting the attainment of internal efficiency savings. This rebate will reduce the net amount payable to the Audit Commission to £28,014.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose strict rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 6: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships.	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	All audit staff must declare all potential threats to independence. Details of declarations go to appointed auditors. Where needed, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with extra consideration of threats to independence after five years.	The Audit Practice keeps and oversees a central database of assignment of auditors and senior audit staff to ensure it meets this requirement.
Gifts and hospitality	The appointed auditor and members of the audit team must adhere to the Commission’s policy on gifts, hospitality and entertainment.	All audit staff must declare any gifts or hospitality irrespective of whether they are accepted. Staff may only accept Gifts and Hospitality with line manager approval.
Non-audit work.	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission’s Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following:

- The risk on the audit of the accounting statements is not significantly different to that identified for 2010/11.
- The risk to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information you plan to publish with the statements by 30 June 2012;
 - other information sought within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where you do not meet these assumptions I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Annual Audit Letter

Report issued by the auditor to the Authority after completing the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports achieving the Authority's policies and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998. As well as the opinion and inclusion this covers the auditor's consideration of exercising any other powers granted by the Audit Commission Act 1998:

- Whether to issue a report in the public interest (section 8)
- Whether to make written recommendations the require consideration by the full Council (section 11(3))
- Whether to issue an advisory notice the Council is planning to incur unlawful expenditure (section 19A)
- Whether there is any item of account for which the auditor would apply to a court to have declared unlawful (section 17); and
- Whether to apply for a judicial review of any decision or omission by the Council that would affect the accounts (section 24).

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Ethical Standards

Pronouncements of the APB that contain basic principles about independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls the Authority sets up to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; also a misstatement is material if it would have a similar influence. An auditor may also consider materiality for any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must present a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

