

Audit plan

North London Waste Authority

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

1 This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11. I base my planning on the Audit Commission's risk-based approach. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

2 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 every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end. I undertake my audit work in line with these responsibilities.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Independence and objectivity

5 I am not aware of any matters that may influence my independence and objectivity or that of the audit team, which I must communicate to you under auditing and ethical standards.

6 I comply with the ethical standards issued by the [Audit Practices Board](#) and with the [Audit Commission's requirements](#) about independence, integrity and objectivity.

Fee for the audit

7 The fee for the audit is £35,000, as shown in my letter of 12 April 2010.

8 The Audit Commission scale fee for the Authority is £45,264. The Commission sets scale fees using several characteristics, including the type, size and location of the audited body as set out in the [2010/11 fee scales](#) document. The fee is 23 per cent below the scale fee. This is within the normal variance expected by the Commission and reflects the efficient approach I have been able to adopt in previous years.

9 In setting the fee, I have assumed that:

- the risks of the audit of accounts is consistent with that for 2009/10, save those specific risks identified in table 1;
- you will inform me of significant developments that affect the audit;
- you will provide good quality working papers to support the audit and restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS);
- you will provide good quality working papers on your consolidation of group accounts, in particular on the adjustments to harmonise group accounting policies;
- you will provide prompt responses to draft reports and reasonable requests for information;
- London Waste Limited's external auditors cooperate with requests for information and are able to provide work that I can rely on; and
- Internal Audit undertakes suitable work on all material systems that is available for review in enough time and I am able to rely on their work.

10 Where I am not able to rely on these assumptions and must undertake extra work this may result in an increased audit fee. Where this is the case, I will discuss this first with the Financial Adviser and will issue replacements to the plan to record any revisions to the risk and the impact on the fee.

Specific actions the Authority could take to reduce its audit fees

11 The Audit Commission requires auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions the Authority could take and provide continuing audit support.

Auditors report on the financial statements

12 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of Authority as at 31 March 2011.

13 I will carry out the audit of the financial statements under [International Standards on Auditing \(UK and Ireland\)](#) issued by the Auditing Practices Board (APB). This year's audit will be the first under a changed set out auditing standards known as the "clarity" standards. I summarise the differences you will see in appendix 1. The Audit Commission has committed to absorbing extra costs arising from increased audit procedures.

Identifying opinion audit risks

14 I need to understand the Authority fully to identify any risk of material misstatement (whether because of fraud or error) in the financial 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 workings and controls within the Authority's information systems.

Value for money conclusion

15 I am required to give a statutory VFM conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

16 I base this on the criteria, specified by the Commission, related to your arrangements for:

- financial planning and financial health;
- understanding costs and achieving efficiencies;
- financial reporting;
- risk management and internal control, and
- managing natural resources.

17 These are the same criteria against which I assessed your 2009/10 value for money conclusion. Where it is fitting to do so I will bring forward my work from 2009/10 in planning a programme of value for money audit work based on my risk assessment.

18 As in previous years, my review will not provide an annual scored judgement of my local value for money audit work. Instead I will report the results of all my local audit work and the key messages for the Authority in my annual governance report and annual audit letter.

Identification of specific risks

19 I have considered the extra risks that are suitable to the current opinion and value for money audits and have set these out below.

Table 1: **Specific risks**

Specific risks identified

Risk identified	Audit response
International Financial Reporting Standards	
Local Authorities must prepare their financial statements under International Financial Reporting Standards from 2010/11 onwards. While this presents many presentational changes there will be cause to review significant lease arrangements and asset valuations.	Early review of the Authority and group's restated balances and continuing discussion with Authority officers on key accounting judgements.
IFRS: Group accounting	
The most notable risk arising from the Code's introduction of IFRS is your consolidation of group accounts. This is because London Waste Limited does not produce its financial statements under these standards. Instead it prepares accounts to a different set of accounting policies; UK Generally Accepted Accounting Practice or GAAP as allowed by the Companies Act 1985.	I will review work undertaken by LWL's external auditors and seek to place reliance on its findings. I will also 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.

Testing strategy

20 Based on the risks identified above I will produce a testing strategy consisting of testing key controls and substantive tests of transaction streams and material account balances at year-end.

21 During planning I identify the Authority's key financial systems and consider the most efficient approach to gain assurance. The table below sets out the principal approach to gaining assurance:

Table 2: **Key financial systems at North London Waste Authority**

Proposed principal testing strategy

Financial system	Proposed principal testing strategy
General ledger	Examination of key controls, making use of internal audit's work
Accounts receivable	Substantive review of major sources of income, including circularisation with constituent bodies' financial statements.
Accounts payable	Substantive review of major expenditure.

Source: Audit planning 2010/11

22 I recognise that these systems are those of the Authority's host borough, London Borough of Camden, so will seek to rely on work undertaken by Camden's internal auditors where possible.

23 I will also seek to rely on the work of other auditors and experts, as fitting, to meet my responsibilities. For 2010/11, I plan to rely on the work of PKF when considering the balances reported by London Waste Limited for consolidation within the Authority's group accounts. As set out in table 1, this is a key risk area in 2010/11 because of the different reporting standards used by LWL and the Authority. The auditing standards I must follow when reviewing group financial statements and relying on the work of other auditors have also become more demanding in 2010/11 because of the ISA clarity project. I set out more detail on the procedures I am required to adopt when evaluating the work of other auditors for the group accounts in appendix 1.

24 I also plan to rely on the work of the Authority's property valuation experts in evaluating the fair value of its non-current assets.

Whole of government accounts

25 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.

Engagement with the Authority

26 International Audit Standards require me to discuss with the Authority certain matters on how it exercises oversight of internal control. These discussions must include specifically:

- whether the Authority is aware of any frauds (or potential areas of weakness to fraud) that may result in material misstatement;
- how the Authority gains assurance on compliance with relevant laws and regulations; and
- how the Authority has satisfied itself on the appropriateness of preparing accounts on a going concern basis.

27 As in previous years I will write separately to the Chair of the Authority on these matters.

Audit team

28 I set out the key members of the 2010/11 audit team in the table below:

Table 3: **Audit team 2010/11**

Roles and responsibilities

Name	Contact details	Responsibilities
Martin Searle Engagement Lead	m-searle@audit-commission.gov.uk 07876 397608	Responsible for the overall delivery of the audit including the quality of reports, signing the opinion and conclusion, and liaison with the Financial Adviser.
Rich Clarke Audit Manager	rd-clarke@audit-commission.gov.uk 0844 798 2615	Manages and coordinates the different areas of the audit work. Key point of contact for the Head of Finance.
Caroline Attwood Audit Team Lead	c-attwood@audit-commission.gov.uk 0844 798 2064	Responsible for day-to-day direction of the audit work. .

Key milestones and deadlines

29 The Authority must prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

30 The key stages in producing and auditing the financial statements are in the table below.

31 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee depends on the timely receipt of accurate working papers.

32 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 4: **Proposed timetable**

Action	Date
Control and early substantive testing	March 2011
Receipt of accounts	by 30 June 2011
Sending audit working papers to the auditor	July 2011
Start of detailed testing	August 2011
Present report to those charged with governance at the Board	September 2011
Issue opinion and value for money conclusion	by 30 September 2011
Issue opinion on WGA return	by 30 September 2011

Quality of service

33 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 of Professional Practice. His contact address is Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) and will look into any complaint promptly and to do what he can to resolve the position.

34 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The Commission sets out the complaints procedure in the leaflet '[Something to Complain About](#)'. The leaflet is available from the Commission's website.

Planned reports

35 My team will discuss and agree reports with officers before issuing them to the Authority.

Table 5: **Planned reports**

Showing planned timing

Report	Proposed Board
Audit opinion plan	June 2011
Annual governance report (including auditor's reporting giving an opinion on the financial statements, report on financial controls and value for money conclusion).	September 2011
Annual Audit Letter	December 2011

Source: Audit planning 2010/11

Appendix 1 2010/11 opinion audit: changes you can expect to see

1 In delivering the audit of your financial statements I must comply with the International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

2 As with all guidance and frameworks, the auditing profession often revises and updates auditing standards, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. The audit profession refer to this as the Clarity Project.

3 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. The Project achieved this by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

4 The [new clarified standards](#) will apply to my audit of your 2010/11 financial statements. The application of these new standards will bring some changes in the way my audit team delivers your audit and the information they seek. The purpose of this document is to highlight to you the main changes and how they will impact you.

5 In summary the main changes you will see concern:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Audit materiality;
- Group financial statements; and
- Reporting deficiencies in internal control.

Journals

6 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach with your offices.

Related Party Transactions

7 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and gain an understanding of the controls that you have set up to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

8 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will ask for a list of these from you. I will need to know in particular:

- the method you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether you discussed any alternative estimates and why you rejected them;
- how you assess the degree of estimation doubt (this is the doubt arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Audit materiality

9 As in previous years, I must consider the materiality of matters arising when assessing my response and reporting responsibilities. My current plan based on your projected spending is to set the numerical materiality at £961,000. However, I will revisit this position when I receive your draft financial statements and must also consider the sensitivity of items when assessing my approach.

10 I must also consider whether any matters arising are 'clearly trivial' when deciding my approach. Again, although I consider sensitivity of items, the guideline numerical threshold beneath which I will consider items as 'clearly trivial' is £9,000.

11 The new audit standards introduce "performance materiality". This does not affect how I report to you, but will affect how I conduct my audit. The change is likely to increase testing as it lowers the numerical threshold for my testing of in the financial statements. My team will discuss in detail with the Authority's officers our testing approach to ensure it remains efficient and proportionate.

Group financial statements

12 ISA (UK&I) 600 (Special Considerations - Audits of Group Financial Statements) introduces some new audit procedures for group auditors. Because of the changes, there will be an increase in communication between auditors, audited bodies and other entities within the group. Auditors will also need to know:

- the controls involved in the group, for example, accounting policies used;
- how the Authority manages the consolidation; and
- whether any other auditors audit part of the group.

13 I intend to seek reliance on PKF's work when reviewing the information provided by London Waste Limited to inform the Authority's group financial statements. Under these standards I must therefore liaise closely with PKF, especially over any emerging audit risks at LWL that I must incorporate within the planning. I have begun this liaison for 2010/11 and will update the Authority should any matters arise that require me to undertake extra work that would lead to added audit fee.

Deficiencies in internal control

14 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

15 If I identify a deficiency in any of your internal controls during the audit, I will undertake extra audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Board.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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



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