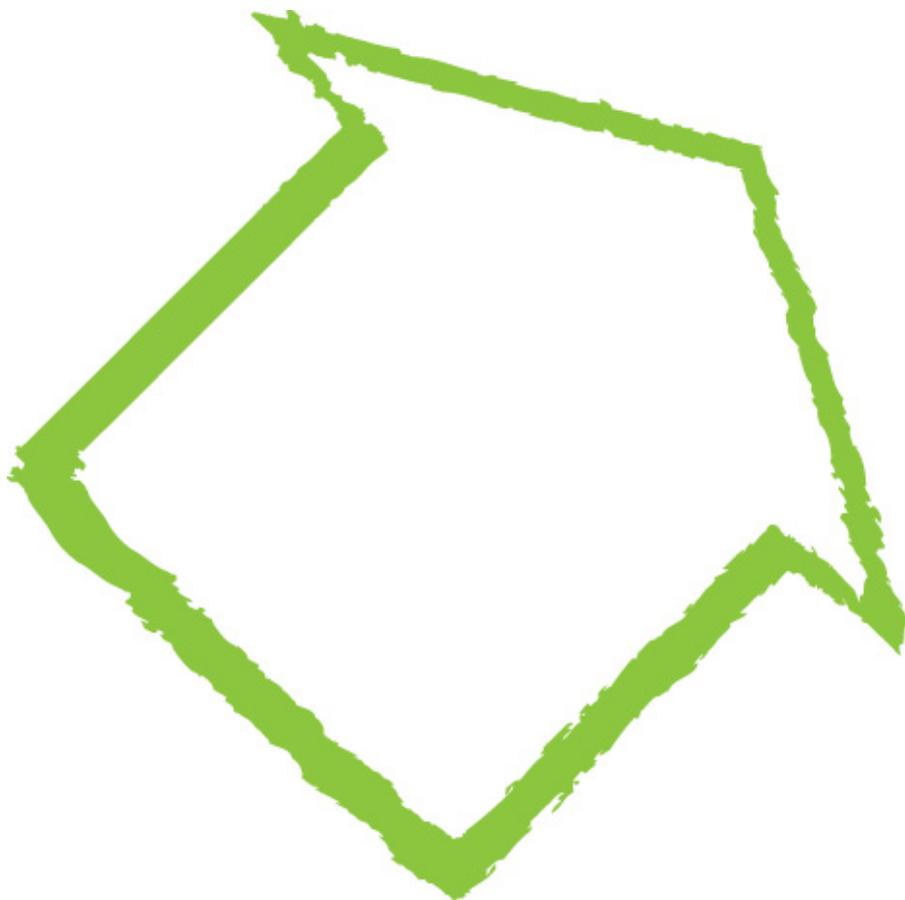


Audit Opinion Plan

North London Waste Authority

Audit 2009/10

April 2010



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Status of our reports

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.
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Introduction

- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan employs the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work directed by the Audit Commission for 2009/10;
 - 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, and we undertake our audit work within these responsibilities.
- 4 We comply with the statutory demands governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Fee for the audit of financial statements

- 5 The fee for the audit is £31,000, which is as stated in my letter of 9 April 2009.
- 6 In setting the fee, we have assumed that:
 - the risk on the audit of accounts is consistent with that for 2008/09 except for known risks detailed in table 1;
 - Internal Audit undertakes suitable work on material systems and this is available for our review.
- 7 Where these assumptions are not met, I will be required to undertake extra work which is likely to result in an increased audit fee. Where this is the case, we will discuss this first with the Director of Finance and will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 Appendix 1 sets out further information on the basis for the fee.

Specific actions North London Waste Authority could take to lessen its audit fees

- 9 The Audit Commission requires its auditors to discuss with audited bodies specific actions it could take to lessen its audit fees. As in previous years, we will work with staff to identify any specific actions the Authority could take and to provide continuing audit support.

Auditors report on the financial statements

- 10 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).
- 11 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 the Authority as at 31 March 2010.

Identifying opinion audit risks

- 12 As part of our audit risk identification, we need a full understanding of the audited body to identify any risk of material misstatement (whether because of fraud or error) in the financial statements. We 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 information systems.

Identification of specific risks

13 We have considered the extra risks that are apt to the current opinion audit and have set these out below.

Table 1 **Specific risks**
Specific opinion risks identified

Risk area	Audit response
In December 2009 NLWA bought the remaining 50 per cent of London Waste and intends to run it as an arms-length subsidiary.	We will subject this significant transaction to separate substantive review.
NLWA's capital programme has stepped up during 2009/10 with major land transactions and associated prudential borrowing plans.	Review significant transactions for proper accounting.
NLWA is embarking on a large procurement.	Review the project plans and updated documentation as available.

Testing strategy

- 14 Based on risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 15 We can carry out testing both before and after production of the draft financial statements (pre- and post-statement testing).
- 16 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where we may carry out early substantive testing.
 - Review of accounting policies.
 - Year-end feeder system reconciliations.

Where we identify other early testing is possible, we will discuss this with officers.

Key milestones and deadlines

- 17 The Authority must prepare the financial statements by 30 June 2010. We must complete our audit and issue our opinion by 30 September 2010. Table 2 shows the key stages in producing and auditing the financial statements.
- 18 We will agree with you a schedule of working papers needed to support the entries in the financial statements.
- 19 We will meet with the key contact and review the status of all queries during the audit. We will meet at a frequency depending on the need and the number of issues arising.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	March 2010
Receipt of accounts	June 2010
Sending audit working papers to the auditor	June 2010
Start of detailed testing	July 2010
Progress meetings	As needed
Present report to those charged with governance at the Board	September 2010
Issue opinion	September 2010

The audit team

20 The table below shows the key members of the audit team for the 2009/10 audit.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Martin Searle Engagement Lead	m-searle@audit-commission.gov.uk 0844 798 2649	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Clerk.
Rich Clarke Audit Manager	rd-clarke@audit-commission.gov.uk 0844 798 2615	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Andrew Sparry Team Lead	a-sparry@audit-commission.gov.uk 0844 798 2681	Responsible for undertaking the audit and day-to-day completion of the audit plan.

Independence and objectivity

- 21 I am not aware of any relationships that may affect the independence and objectivity of the Engagement Lead and the audit staff, which we must by auditing and ethical standards to communicate to you.
- 22 I comply with the ethical standards issued by the APB and with the Commission's requirements for independence and objectivity as summarised in Appendix 2.

Meetings

- 23 The audit team will preserve knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out our proposals.

The audit team

Quality of service

- 24 Our commitment is to provide you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me first. Alternatively, you may wish to contact the London Region Head of Operations, Mr Les Kidner (l-kidner@audit-commission.gov.uk).
- 25 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The leaflet 'Something to Complain About', available from the Commission's website or on request, sets out the complaints procedure.
-

Planned outputs

- 26 We will discuss and agree reports with the apt officers before issue to the Board.
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Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	February 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum (as needed)	October 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission commits to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment starts with identifying significant financial and operational risks applying to the Authority about:
 - our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and continuing audit work;
 - interviews with Authority officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the risk on the audit of the financial statements is not significantly different from that identified for 2008/09 except as stated in table 1;
 - you will tell us of significant developments on the audit;
 - Internal Audit meets the proper professional standards;
 - you will provide good quality working papers and records to support the financial statements;
 - you will provide sought information within agreed timescales;
 - you will provide prompt responses to draft reports; and
- 4 Where these assumptions are not met, I will need to undertake extra work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors must also comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 A summary of the main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards is below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor’s objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee the auditor has charged the client; and
 - confirms compliance with the APB’s ethical standards in writing and that, in the auditor’s professional judgement, they are independent and no issues compromise their objectivity.
- 4 The standard defines ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case, the fitting addressee of communications from the auditor to those charged with governance is the Board. The auditor reserves the right, however, to communicate matters of particular importance direct to the Authority.
- 5 The Commission’s Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively. Also to ensure that they do not act in any way that might result in, or could reasonably be seen to result in, a conflict of interest. In particular, appointed auditors and their staff should avoid entering any official, professional or personal relationships which may, or could reasonably be seen to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or hinder the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform extra work for an audited body (that is work beyond the minimum needed to meet their statutory responsibilities) if it would compromise their independence or might give cause reasonable view that their independence could be compromised. There may be instances where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions. Where this is so, there must be a clear differentiation within the Audit and Inspection Plan noting it as 'additional work' charged for separately from the normal audit fee.
 - 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.
 - The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, change at least once every five years.
 - The Engagement Lead and senior members of the audit team cannot 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.
- 7 The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 – Working together

Meetings

- 1 The audit team will preserve knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

Authority officers	Audit Commission staff	Timing	Purpose
Director of Finance	Engagement Lead and Audit Manager	March, July, September	General update plus: <ul style="list-style-type: none"> • March - audit plan; • July - accounts progress; and • September - annual governance report.
Finance Officer	Audit Manager and Team Lead	Quarterly	Update on audit issues
Board	Engagement Lead and Audit Manager, with Team Lead as fitting	As determined by the Board	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan; • Annual governance report; and • other issues as apt.

Sustainability

- 3 The Audit Commission has committed to promoting sustainability in our working practices and we will actively consider opportunities to lessen our impact on the environment. This will include:
 - reducing paper flow by encouraging you to present documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as suitable; and
 - reducing travel and using public transport where travel is necessary.

The Audit Commission

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.

Copies of this report

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