

Audit Plan

APPENDIX 1

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# Audit Plan

**Merseyside Waste Disposal Authority**

**Audit 2006/2007**

(See standing guidance 2006/07 appendix 13 for definition of other local gov bodies)

<b>Document Control</b>	
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## Introduction

- 1 This plan sets out the audit work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
  - our responsibilities under the Code of Audit Practice;
  - your local risks and improvement priorities; and
  - current national risks relevant to your local circumstances.

## Our responsibilities

- 2 In carrying out our audit duties we have to comply with the statutory requirements governing them, and in particular:
  - the Audit Commission Act 1998;
  - the Code of Audit Practice 2005 (the Code);and
  - the Local Government Act 1999.
- 3 The Code defines auditors' responsibilities in relation to:
  - the financial statements of audited bodies; and
  - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by September 2006 as part of the 2005/06 audit.

## The fee

- 4 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 5 The total fee estimate for Merseyside Waste Disposal Authority for 2006/07 is £45,494 (2005/06: £34,677, this includes a £2,000 uplift to reflect ISA+ requirements). This fee includes all work identified in this plan unless specifically excluded. The most significant element of the increase is £9,000 which has been included to enable us to fulfil our duties in respect of the PFI scheme which is highly significant. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions the Authority could take to reduce its audit fees and the process for agreeing any additional fees.
- 6 In addition we estimate that we will charge approximately £1,709 for the certification of grant claims. Further details are provided in Appendix 1.
- 7 Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. This is particularly relevant to the work related to the opinion on the 2006/07 accounts since we have yet to audit the accounts for 2005/06. We will formally advise you of any changes if this is the case.

## Summary of key audit risks

- 8 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
  - provide an opinion on your financial statements;
  - provide a value for money conclusion;
  - provide a report on the Authority’s best value performance plan.
- 9 In assessing risk we have taken account of the impact of the Waste Strategy and the proposed PFI scheme for Waste Disposal across Merseyside which you are developing.
- 10 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including internal audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.
- 11 The expected outputs from this work are outlined in Appendix 2.

## Value for money conclusion

- 12 We will focus our work so as to enable us to conclude whether you have put in place proper arrangements to secure economy, efficiency and effectiveness with regard to the use of resources.
- 13 The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 3. We will take our assurance from our cumulative knowledge and experience including the results of previous work and the work of other regulatory agencies (including internal audit).
- 14 From our initial risk based planning assessment we have identified the following areas of audit risk to be addressed.

**Table 1 Summary of use of resources audit risks**

Audit risk	Response
Performance management	We will consider how well the principles of performance management are embedded in the Authority by following up on our work from 2005/06
Your business at risk - IT security	We will provide an on-line self assessment which will identify areas where your IT security environment is at risk enabling you to address those risks.

Audit risk	Response
PFI scheme	We will review your arrangements for providing strategic waste solutions through the PFI proposals
Giving our vfm conclusion in September 2007	We plan to use the results of the Inspection which is taking place in spring 2006 to inform our conclusion. We will consider the need to follow up progress on any recommended actions arising from the Inspection to ensure our knowledge is as up to date as possible.

## Best Value Performance Plan

- 15 We are required to report on whether or not you have complied with legislation and strategy guidance in respect of the preparation and publication of your best value performance plan (BVPP).
- 16 We will review your arrangements for collating and publishing performance information in the BVPP, concentrating on those indicators prepared by you which are used by others as part of their CPA assessments.

## Financial statements

- 17 We will carry out our audit of the 2006/07 financial statements and have regard to the International Standards on Auditing UK and Ireland (ISA UKIs).
- 18 We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements. We will report if it does not meet these requirements or if the Statement is misleading or inconsistent with our knowledge of the Authority.
- 19 On the basis of our preliminary work to date we have identified the following audit risks.

**Table 2 Summary of opinion risks**

Opinion risks	Response
Treatment of PFI in the accounts	We will review the way that ongoing costs are treated in the accounts. We will also consider proposed accounting treatments and will give a view within an agreed timescale.
Changes to SORP	We will work with you to understand the

Opinion risks	Response
	impact of changes to the SORP as they occur and to ensure you have accounted in line with the requirements.

- 20** Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will continue to be improved. We also assume that:
- internal audit will complete their planned work on key information systems to the agreed quality and by the end of the financial year; and
  - that the accounts will be prepared and fully supported by working papers by June 2007.
- 21** We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statement audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
  - our documentation and initial testing of material systems;
  - our assessment of the closedown arrangements;
  - and any changes in financial reporting requirements.
- 22** When we have finalised our risk assessment in respect of your financial statements, we will issue a separate plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

## Whole of government accounts

- 23** The government is introducing Whole of Government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with stakeholders. The fee for this work is not included in this plan and we will discuss this with the Treasurer when further details are available.



## Certification of claims and returns

24 We will continue to certify the Authority's grant claims:

- claims for £50,000 or below will not be subject to certification.
- claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit; and
- claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

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## Voluntary improvement work

We are able to offer discretionary additional work, outside of our Code of Audit Practice responsibilities, where a council requests additional work to help with their improvement agenda and we are well placed to provide support. The fee for any such work would be agreed separately with the Authority.

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## Other information

### The team

**Table 3**

<b>Name</b>	<b>Title</b>
Judith Tench	District Auditor
Peter Williams	Audit Manager
Peter Forrester	Area Performance Lead
Michael Foote	Audit Team Leader

- 25** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 26** We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Future audit plans

- 27 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:
- The PFI scheme on an ongoing basis
  - Financial planning - as costs increase
- 28 We will discuss this in more detail as the audit year progresses.

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## Appendix 1 – Audit fee

*Guidance note – the headings in this appendix enable auditors to comply with new requirements in relation to fee disclosure, as per paragraph 9.2 of standing guidance.*

**Table 4**

Fee estimate	Plan 2006/07	Plan 2005/06
Audit		
Accounts	19,464	22,874
Use of resources	16,963	9,803
Total audit fee	36,427	32,677
PFI work	9,067	
Certification of claims and returns	1,709	1,628
Voluntary improvement work		

- 1 The total audit fee (excluding PFI) compared to the indicative fee banding equates to 16 per cent above mid point.
- 2 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 3 The fee above includes all work contained in this plan except:
  - any work required in relation to the Whole of Government Accounts

### Specific audit risk factors

- 4 In setting the audit fee we have taken account of the following specific risk factors:
  - The plans for moving from the current contracts to the revised arrangements;
  - Proposed changes in accountancy rules.

## Assumptions

- 5 In setting the audit fee we have assumed:
  - you will inform us of significant developments impacting on our audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
  - officers will provide good quality working papers and records to support the financial statements by June 2007;
  - officers will provide requested information within agreed timescales; and
  - officers will provide prompt responses to draft reports.
- 6 Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 7 Changes to the plan will be agreed with you. These may be required if:
  - new risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - there are any changes to financial reporting requirements, professional auditing standards or legislation which results in additional work.

## Specific actions Merseyside Waste Disposal Authority could take to reduce its audit fees

- 8 The Audit Commission requires its auditors to inform the Authority of specific actions it could take to reduce its audit fees. We have identified the following actions the Authority could take.
  - the Treasurer should review and sign off all working papers supporting the financial statements to ensure that they tie in to the approved draft accounts, and clearly cross referenced to supporting evidence, and
  - management should take more responsibility for checking the accuracy of performance indicators and internal audit could usefully check that this had been done

## Process for agreeing any changes in audit fees

- 9 If we need to amend the audit fees during the course of this plan we will firstly discuss this with the Treasurer. We will then prepare a report outlining the

reasons why the fee needs to change for discussion and agreement with the Audit Committee.

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## Appendix 2 – Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

**Table 5**

Planned output	Start date	Draft due date	Key contact
Audit plan*	1 February 2006	31 March 2006	Audit Manager
Interim audit memorandum	February 2007	April 2007	Audit Manager
Report to on financial statements those charged with governance	August 2007	September 2007	Audit Manager
Opinion on financial statements	June 2007	September 2007	Audit Manager
Vfm conclusion	March 2007	September 2007	Audit Manager
Final accounts memorandum	1 July 2007	October 2007	Audit Manager
Local performance work	TBA	TBA	Performance Lead
Annual audit letter	October 2007	16 December 2007	Audit Manager

*\* To be revisited during the year to reflect outcome of 2005/06 opinion audit and 2006/07 interim visit. Appendix 3 - Criteria to inform the auditor's conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources*



## Appendix 3 - Value for money criteria

### **Arrangements for establishing strategic and operational objectives and for determining policy and making decisions**

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

### **Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community**

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

### **Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality**

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

### **Arrangements for ensuring compliance with established policies, procedures, laws and regulations**

- 5 The body has put in place arrangements to maintain a sound system of internal control.

### **Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working**

- 6 The body has put in place arrangements to manage its significant business risks.

### **Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body and for ensuring compliance with the general duty of best value (where applicable)**

- 7 The body has put in place arrangements to manage and improve value for money.
- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.

- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

**Arrangements for ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption**

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

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## Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs when auditing the financial statements. 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. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
  - carry out their work with independence and objectivity;
  - exercise their professional judgement and act independently of both the Commission and the audited body;
  - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
  - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.
- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:
  - any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
  - audit staff are expected not to accept appointments as lay school inspectors;

## 20 Audit Plan | Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.