

Audit plan

Merseyside Waste Disposal Authority

Audit 2011/12

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Appendix 1



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This plan sets out the work for the 2011/12 audit. The plan is based 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 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 Authority, as those charged with governance, of their responsibilities.

Change of name

On 7 December 2011 Merseyside Waste Disposal Authority changed its name to Merseyside Recycling and Waste Authority. However, this is not yet a statutory change of name and therefore we are still required to address you using your legal title.

Accounting statements

I will carry out the audit of the accounting statements in accordance with 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 the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

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 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 and specific risks**

Risk	Audit response
<p>Quality of the financial statements presented for audit</p> <p>The 2010/11 accounts presented for audit included a number of significant errors. There were weaknesses in the working papers provided to support the financial statements and some difficulties and delays in obtaining supporting documents and explanations.</p>	<p>I have agreed with the Treasurer to split our final audit visit into two phases to give the finance team more time to address audit queries and provide information. I will discuss QA arrangements and working paper requirements with the team during the year and review these prior to the start of our final audit visit.</p>
<p>Group accounts</p> <p>The group accounts presented for audit contained errors and were reworked by the finance team during the audit to ensure accuracy and compliance with IFRS. There were some delays in confirming inter-company balances to the MWDA ledger.</p>	<p>I will discuss the arrangements the finance team has in place to obtain accurate and timely information from the MWHL finance team and to reconcile intercompany balances to the MWDA ledger. I will continue to place reliance on the audit opinion on the MWHL accounts provided by their external auditors.</p>
<p>Cash balances with St Helens Council</p> <p>In 2010/11 St Helens Council changed the accounting treatment for cash balances with MWDA. They are now accounted for as accounts receivable (debtors) rather than cash. This was agreed with MWDA in late June after the first draft of accounts had been prepared. There were delays in reconciling the St Helens balances to MWDA records and a material adjustment to the accounts was required.</p>	<p>I will discuss the arrangements the finance team have in place to agree accounting treatments and obtain appropriate evidence to support bank balances held by St Helens. I will request written confirmation of the debtor balances from St Helens Council. I will also place reliance on the audit work undertaken by the St Helens external auditors.</p>
<p>Disposal of New Technologies Demonstrator Plant</p> <p>MWDA plan to dispose of the former NTDP site and equipment at Huyton during 2012. Under IFRS the accounting arrangements for valuation and disposal of property, plant and equipment require some technical accounting adjustments and disclosures.</p>	<p>I will discuss the accounting treatment for the disposal of the NTDP plan with the finance team during my interim audit.</p>

Group accounts

I am responsible for the direction, supervision and performance of the group audit. I will contact the external auditors of Merseyside Waste Holdings Limited as part of my audit procedures.

Testing strategy

My audit involves:

- review of the work of your internal auditors;
- testing of the operation of controls where appropriate;
- 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 reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

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

Table 2: **Proposed work**

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Audit work
Interim visit	Review of their reports on the RRC contract and governance arrangements			Update systems/controls documentation and perform a walk-through test on each material system. Roll-forward and reassess controls assurance on contracts. Review accounting treatment for any technical areas (eg NTDP disposal). Test opening balances on the ledger.

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Audit work
Final visit		External auditors of MWHL Audit Commission audit team at St Helens Council for work on bank balances Audit Commission auditors of the Merseyside Pension Fund	Pensions liabilities and assets – Mercers, and our own consulting actuary Valuers of property, plant and equipment	Substantive testing of all material accounts balances and income/expenditure. Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

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 extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

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

For 2011/12 the Commission has determined that the scope of my work on value for money at the Authority is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of any 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.

The resource recovery contract (RRC) remains the most significant factor in the long term financial resilience of the Authority. This is the largest local government procurement exercise on Merseyside and, given its size, involves a high degree of risk for the Authority to manage. I have identified it as a significant risk to the Authority achieving value for money as it is technically complex, covers a long period and is of such high value. 2011/12 and 2012/13 are critical years as the Authority calls for final tenders and lets the 30 year contract. I therefore propose to undertake specific work on the procurement project including:

- attendance at Authority meetings and Scrutiny Panel meetings relating to the contract;
- discussions with senior management and members on the progress of the contract; and
- review of the process and correspondence relating to the contract.

I will report on the progress of the contract in my Annual Governance Report and Annual Audit Letter.

I will also undertake a review of your AGS. On the basis of this review I will determine whether there are any other matters that I need to report. I am not aware of any relevant work of other relevant regulatory bodies or inspectorates.

Key milestones and deadlines

The Authority is required to 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 outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	December 2011 to February 2012	
Opinion: receipt of accounts and supporting working papers	June 2012	
Opinion: substantive testing	July 2012	
Value for money: Ongoing review of arrangements on the RRC procurement	April 2011 – September 2012	Annual Governance Report and Annual Audit Letter
Present Annual Governance Report at the Audit Committee	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 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
Michael thomas District Auditor	m-thomas@audit-commission.gov.uk 0844 798 7043	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Claire Deegan Audit Manager	c-deegan@audit-commission.gov.uk 0844 798 4819 07791 404003	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Julie Murray Technical Manager	j-murray@audit-commission.gov.uk 0844 798 4928 07866 620189	A member of our standards and technical team providing specialist support on the resource recovery contract procurement.

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.

As the Treasurer to the Authority is a former employee of the Audit Commission there is a potential threat to our independence as there are employees of the Audit Commission who have maintained a personal relationship with him.

I can confirm that I have applied appropriate safeguards to ensure that no-one in this position works in any capacity on the audit team. I have therefore reduced this threat to an acceptably low level to maintain my independence, objectivity and integrity.

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. He will look into any complaint promptly and to do what he can to resolve the position.

Chris can be contacted at:

The Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

c-westwood@audit-commission.gov.uk

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 revised to £71,500 as discussed with you at the Authority meeting on 18 November 2011.

The audit fee

The Audit Commission has set a scale audit fee of £65,250 which represents a 13 per cent reduction on the scale fee for 2010/11. I wrote to the Director on 15 April 2011 setting this as the fee for the audit.

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 reduction resulting from the new approach to local VFM audit work; and
- a reduction 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. Following my findings from the 2010/11 audit I have revised the fee at to £71,500, 10 per cent above the scale fee. This reflects the ongoing risks relating to the RRC contract, which require specific local VFM audit work at MWDA. It also reflects the specific risks highlighted on page five and the impact these will have on the scope and timing of my audit work.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with [the Director 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

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. Improving the quality of the working papers and the accounts presented for audit could reduce the fee in future years.

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 stringent 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 5: **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 are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, 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 additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted 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 in relation to the audit of the accounting statements is not significantly different to that identified following the 2010/11 audit. For example:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors; and
 - I am able to rely on the work of experts
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11 relating to the RRC contract.
- Internal Audit meets professional standards.
- The Authority provides:
 - working papers and records to support the accounting statements and the text of the other information to be published with the statements by the agreed start of the audit visit;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

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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.

