

Audit Opinion Plan

Merseyside Waste Disposal Authority

Audit 2009/10

March 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 is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified 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 our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements 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 total fee for the audit is £75,780, as indicated in my letter of 27 April 2009. This includes work on the financial statements, value for money conclusion and whole of government accounts.
- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of accounts is consistent with that for 2008/09; and
 - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010.
- 7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Assistant Director (Finance) and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 Further information on the basis for the fee is set out in Appendix 1.

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

- 9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Authority could take and we will continue to provide ongoing audit support to identify areas for reduced fees.

Auditors report on the financial statements

- 10 I will carry out the audit of the financial statements in accordance with 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 process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to 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 additional risks that are appropriate to the current opinion audit and have set these out below.

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

Risk area	Audit response
Maintaining strong governance arrangements and demonstrating value for money in the procurement of waste disposal facilities – in particular the resource recovery contract.	We will continue to review your governance arrangements for managing the risks relating to the procurement exercise.
International Financial Reporting Standards will be implemented in full for the 2010/11 financial statements. Some elements of IFRS in relation to PFI/service concessions (IFRIC 12) will be introduced in the 2009/10 financial statements.	We will continue to discuss and monitor arrangements to implement IFRS. Our audit work for the 2009/10 accounts will include audit work on any changes arising from IFRIC 12 in relation to the significant waste management contracts in place.
Accounting for group entities has been more complex due to subsidiaries having a 30 September year-end. Winding down of the activities of subsidiaries may give rise to more estimates of residual liabilities and asset values. We have identified errors in group accounts in prior periods.	Plans to change the year-end of group entities to 31 March will reduce the risks associated with the consolidation of group accounts. The finance team has been strengthened in 2009 and has capacity to manage issues arising from group accounts. We will monitor arrangements and residual provisions /liabilities as the activities of the subsidiaries are wound down.
The Authority does not have a formal service level agreement (SLA) in place for significant accounting and administrative services currently provided by a third party. There is a risk that services could be terminated at short notice, are not being adequately monitored against a defined level of service and are not meeting the needs of the Authority.	We will continue to liaise with officers at the Authority as they develop an SLA with St Helens Council and consider monitoring arrangements in place as part of our value for money assessment.
Management capacity to deal with significant changes planned. New appointments have been made and the finance function has been strengthened.	We will consider any specific risks arising from our review of procurement and continuous planning. We will discuss the need for any further work if appropriate.

Testing strategy

- 14 On the basis of 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 Our testing can be carried out both before and after the draft financial statements have been produced (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 substantive testing could be carried out early.
 - Review of accounting policies.
 - Existence of fixed assets.
 - Year-end feeder system reconciliations.

Where other early testing is identified as being possible, this will be discussed with officers.

- 17 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of the systems work undertaken at St Helens Council on systems which also operate at the Authority. We will also consider the detailed work St Helens internal audit team have undertaken on waste disposal contracts at the Authority.

Key milestones and deadlines

- 18 The Authority is required to prepare the financial statements by June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 19 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 20 Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	March/April 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	30 June 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	September 2010
Issue opinion	By 30 September 2010

The audit team

21 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 **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 the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Claire Deegan Audit Manager	c-deegan@audit-commission.gov.uk 0844 798 4819	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

- 22 During 2009 the Authority appointed Mr Williams, an ex-Audit Commission employee, to a senior post. Mr Williams' wife still works as an audit manager in the Audit Commission within the Merseyside area.
- 23 The Audit Commission's Ethics and Independence manual sets out in broad terms the arrangements I need to put in place to ensure that our independence is maintained. I wrote to the Director on 13 November 2009 explaining the arrangements in place to secure this. Further details of these are given in Appendix 2.

Meetings

- 24 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

The audit team

Quality of service

- 25 We are committed to providing 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 in the first instance. Alternatively, you may wish to contact the North West Region Head of Operations.
- 26 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 27 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements and the value for money conclusion	September 2010
Final accounts memorandum	November 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon 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 process starts with the identification of the significant financial and operational risks applying to the Authority with reference to:
 - our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Authority officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by the end of June 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

General Arrangements

- 1 Auditors appointed by the Audit Commission are required to 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 are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that 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 that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 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 appropriate addressee of communications from the auditor to those charged with governance is the Authority members. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into 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.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. 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, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and 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 District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of 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 District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Specific Arrangements following the appointment of Mr Williams to the Authority

- 8 During 2009 the Authority appointed Mr Williams, an ex-Audit Commission employee, to a senior post. Mr Williams' wife still works as an audit manager in the Audit Commission within the Merseyside area.
- 9 The Audit Commission’s Ethics and Independence manual sets out in broad terms the arrangements. This manual is underpinned by the requirements of the Auditing Practices Board (APB), in this instance Ethical Standard1. In general terms the Audit Commission’s Ethical Standards Manual ensures that officers of the Commission comply with the APB requirements in that we are required to provide an annual declaration of independence, complete an annual ‘fit and proper’ statement, sign an annual statement regarding acceptance of the Commission’s Code of Conduct and agree to statements on confidentiality. These requirements have been met by all staff in the Merseyside area team.
- 10 In addition to these general requirements we have also put in place more local arrangements to ensure our independence is maintained including changing the audit manager for your audit. We have asked all staff within the Merseyside audit team to review their own independence declarations and to highlight any issues or concerns that may impact on their ability to undertake work at the Authority. As a result we have identified a number of members of staff that have either worked with, or for, Mr Williams in the last three years and have therefore planned for these staff not to work on the audit for a period of at least three years.

Appendix 2 – Independence and objectivity

- 11 Our performance staff have also been included in this process and this identified a number of staff whom we have agreed should not work on the MWDA audit for at least three years, or indeed at all given the closeness of some of the personal relationships.
- 12 Mr Williams' wife currently audits Halton Borough Council and Halton and St Helens Primary Care Trust. We have agreed to review the content of any meetings that discuss waste matters and to include her, or indeed exclude her, on the basis of any potential conflicts or independence issues that may arise because of the nature or matters discussed at those meetings.

Appendix 3 – Working together

Meetings

- 1 The audit team will maintain 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	District Auditors and Audit Manager and other team members as appropriate	Quarterly	General update plus audit plan, accounts progress and annual governance report. Also specific updates on the progress of the procurement of waste PFI scheme
Assistant Director (Finance)	Audit Manager and Team Leader	At least quarterly	Update on audit issues
Authority	District Auditor and Audit Manager, with other team members as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan; • Annual governance report; and • Other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

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, covering the £180 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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For further information on the work of the Commission please contact:

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

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk
