

Audit Plan

June 2008



**APPENDIX A**

# **Audit Plan**

**Merseyside Waste Disposal Authority**

**Audit 2008/09**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited;
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **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.

### **Copies of this report**

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## Introduction

- 1 This plan sets out the audit work your audit team proposes to undertake in relation to the 2008/09 accounts. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 3 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.
- 4 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.
- 5 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the annual governance statement); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Fees

- 7 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 8 The total indicative fee for the audit work for 2008/09 is £67,037. This compares to the revised planned fee of £66,762 for 2007/08.
- 9 An analysis of the fee is shown in the table below. The fee is determined based on audit risks identified, mandated work and basic assumptions (these are outlined in Appendix 3).

**Table 1      Audit fee**

<b>Audit area</b>	<b>Planned fee 2008/09</b>	<b>Revised planned fee 2007/08*</b>	<b>Page</b>
Financial statements*	47,139*	46,655	8
Use of resources (including data quality)	18,125	18,114	8
Whole of government accounts	1,773	1,993	10
<b>Total audit fee</b>	<b>67,037</b>	<b>66,762</b>	

\*This includes fee for specific work relating to our ongoing review of procurement arrangements (£15,230 in 2008/09 and £15,125 in 2007/08).

\*\*The basis for the revised 2007/08 fee is set out in a supplementary fees letter to the Treasurer in June 2008.

- 10 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
  - internal audit undertakes appropriate work on all systems; and
  - good quality working papers and records will be provided to support the financial statements by 30 June 2009.
- 11 This year the Audit Commission has not set a scale fee for waste disposal authorities for us to compare against.

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

- 12 The Audit Commission requires its auditors to inform an audited body of specific actions it could take to reduce its audit fees. We have identified the following actions for Merseyside Waste Disposal Authority:
- ensure all external audit recommendations in 2006/07 have been addressed for 2007/08 and future years;
  - improve quality assurance arrangements in the accounts closedown process - this is particularly important given the significant change agenda as well as changes to the Local Government SORP. We understand that quality assurance arrangements have already been strengthened for 2007/08; and
  - build on progress made in 2006/07 to maximise the potential for us to rely on Internal Audit work. For example, In 2008/09 there may be scope for Internal Audit to document and test changes to financial systems resulting from the transition to new contracting arrangements.

## Process for agreeing any changes in audit fees

- 13 As set out in paragraph 2, we expect that the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Treasurer to the Authority. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

## Auditor's report on the financial statements

- 14 We are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the audited body as at 31 March 2009; and
  - conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Financial statements

- 15 We have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks which may become apparent after we have completed our 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued in December 2008.
- 16 At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- Identifying and accounting for changes as the Authority moves to new contracting arrangements, including:
    - identifying and disclosing relevant assets and liabilities; and
    - accounting for the group position and the impact of the move from contracts with Mersey Waste Holdings Ltd.
  - The transition to new contracting arrangements will require new financial systems, which we will need to document and test in accordance with the International Standards of Auditing (ISAs) to support our opinion on your accounts. This may be more of an issue for next year's audit based on the current timetable for the contracting process.
- 17 Details of the risk assessment process are outlined in Appendix 3.

### Value for money conclusion

- 18 In reaching our conclusion we will review evidence that is relevant to the audited body's performance management and financial management arrangements.
- 19 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

**Table 2 Key risks identified**

<b>Key risks identified</b>	<b>Planned work to address the risk</b>
Maintaining strong governance arrangements and demonstrating value for money in the procurement of waste disposal facilities.	We will continue to review your governance arrangements for identifying and managing the risks relating to the procurement exercise.
Managing the transition from old to new contracts and the changes to working arrangements with Mersey Waste Holdings Ltd to minimise the risk on operational delivery and the risk of financial loss.	As part of our work on procurement we will seek to understand how the transition is to be managed effectively.

## Mandated work

20 As part of the audit, the mandated work programme comprises :

- Whole of government accounts; and
- National Fraud Initiative.

Appendix 1 highlights the work to be undertaken.

## Advice and assistance

- 21 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 22 If you wish the Commission to provide additional services under these powers, please contact Mike Thomas.

## The audit team

- 23 The key members of the audit team for the 2008/09 audit are shown in the table below.

**Table 3      Audit team**

Name	Contact details	Responsibilities
Mike Thomas District Auditor	<a href="mailto:m-thomas@audit-commission.gov.uk">m-thomas@audit-commission.gov.uk</a>  0844 7983 7043	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Director of Waste, Clerk and the Audit and Governance committee.
Kay Greenhalgh Audit Manager	<a href="mailto:k-greenhalgh@audit-commission.gov.uk">k-greenhalgh@audit-commission.gov.uk</a>  0844 7983 4824	Manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer.

## Quality of service

- 24 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 Terry Carter (Head of Operations for the North West).
- 25 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

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

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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	December 2008
Interim audit memorandum	May/June 2009
Annual governance report	By 30 September 2009
Auditor's report giving an opinion on the financial statements	By 30 September 2009
Whole of government accounts report	October 2009
Final accounts memorandum	October 2009
Annual audit letter	TBC

## Appendix 1 – Work under the Code of Audit Practice

### Financial statements

- 1 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the audited body as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the authority.

### Value for money conclusion

- 4 The Code requires me to issue a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 5 In meeting this responsibility, we will review evidence that is relevant to the audited body's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

## **Certification of grant claims and returns**

- 7 We will continue to certify the audited body's claims and returns on the following basis.
- claims below £100,000 will not be subject to certification;
  - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
  - claims over £500,000 will be subject to a certification 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 certification approach for these claims.

## **Whole of government accounts**

- 8 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

## **National Fraud Initiative**

- 9 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

## Appendix 2 – 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 our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the audited body with reference to:
  - our cumulative knowledge of the audited body;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with audited body's officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.

## Assumptions

- 3 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
  - 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 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 30 June 2009;
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
  - new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators;  
or
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

## Appendix 3 – Initial risk assessment – Use of resources and value for money conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Procurement of waste disposal facilities presents significant risks. Key to success will be maintaining good governance arrangements and demonstrating value for money.	The Authority has good management arrangements in place but the project will continue to present significant new challenges and risks.	Yes	We will continue to work alongside the Authority to understand its governance arrangements for securing value for money from the procurement. This is likely to continue into next year's audit based on the current contract timetable.	VFM conclusion and accounts opinion.
Management of the transition from old contracts managed by Mersey Waste Holdings Ltd to contracts with new suppliers presents significant risks for financial planning and reporting.	The Authority's arrangements for financial planning and budget monitoring are established and effective. However, the significant change agenda will present new challenges and demand even more robust financial management.	Yes	As part of our work on the procurement we will seek to understand how the transition is to be managed effectively.  We will also review the robustness of financial planning and accounting for the changes in the contracting arrangements.	VFM conclusion and accounts opinion

## Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 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 my 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).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 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.
- 6 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 [audit committee]. The auditor reserves the right, however, to communicate directly with the audited body on matters which are considered to be of sufficient importance.
- 7 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.
- 8 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 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.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 5 – 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 We have a history of good informal liaison with senior officers. The meetings will be organised by the Audit Commission broadly in line with the table below:

**Table 5 Proposed meetings with officers**

<b>Audited body's officers</b>	<b>Audit Commission staff</b>	<b>Timing</b>	<b>Purpose</b>
Clerk to the Authority	District Auditor (DA), Audit Manager (AM)	Quarterly: April, August, November, February*	General update plus: <ul style="list-style-type: none"> <li>• April - audit plan</li> <li>• June - accounts progress and VFM</li> </ul>
Director of Waste	AM and performance specialist.	Quarterly	As above plus general update re procurement.
Treasurer	AM and Team Leader (TL)	Quarterly*	Update on audit and opinion issues
Chief Internal Auditor	AM and TL	Quarterly*	Update on audit progress and issues
Merseyside Waste Disposal Authority	DA and AM, with TL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan</li> <li>• Annual governance report</li> <li>• Annual audit letter</li> <li>• Other issues as appropriate</li> </ul>

\*To coincide with meetings at St Helens MBC.

## 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.