

Audit Plan

May 2007

# Audit Plan

**East London Waste Authority**

**Audit 2007/2008**

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 and 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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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 work your audit team proposes to undertake in relation to East London Waste Authority's (the Authority) 2007/08 accounts and value for money conclusion. 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 2006/07, the audit planning process for 2007/08, 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 Authority. 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 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 (the Code).
- 6 The Code defines auditors' responsibilities in relation to:
  - the financial statements (including the Statement on Internal Control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Work under the Code of Audit Practice

### Financial statements

- 7 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).
- 8 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 (SORP) on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year.
- 9 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Authority.

### Use of resources - Value for money conclusion

- 10 The Code requires us to issue a conclusion on whether the Authority 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 auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 11 In meeting this responsibility, we will review evidence that is relevant to the Authority'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.
- 12 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

### Best value performance plan

- 13 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

## Assessing risks

- 14 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 co-ordinated with the work of other regulators, and that our work helps you to improve.
- 15 Our risk assessment process starts with the identification of the significant financial and operational risks applying at 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;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 16 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
  - the Authority will employ its own staff from 1 April 2007, the Accounts will need to recognise the pension liability in respect of these staff and comply with Financial Reporting Standard (FRS) 17 retirement benefits;
  - there will be changes to the SORP 2007 with which the Authority must comply; and
  - the payroll service is likely to be outsourced to an external provider.
- 17 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan our work accordingly.
- 18 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

## Work specified by the Audit Commission

### Whole of government accounts (WGA)

- 19 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.

### Data quality

- 20 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
  - stage 2 - completeness check; and
  - stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 21 The work at stage 1 will link to our review of the Authority's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3.

## Voluntary improvement work

- 22 We are not proposing to undertake any voluntary improvement work at the Authority during 2007/08.



## Certification of claims and returns

**23** Should the Authority prepare any grant claims or returns that require the certificate of an auditor appointed by the Audit Commission, we will certify them 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.

## The audit fee

- 24 The details of the structure of scale fees are set out in the Audit Commission's *Work Programme and Fee Scales 2007/08*. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 25 The total indicative fee for the audit work included in this audit plan for 2007/08 is £36,200 which compares with the planned fee of £34,650 for 2006/07.
- 26 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions the Authority could take to reduce its audit fees; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 27 As indicated in paragraphs 2 and 18, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 25 above. Any changes to the fee will be agreed with you.

## Other information

### The audit team

- 28 The key members of the audit team for the 2007/08 audit are shown in the table below.

**Table 1**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	<a href="mailto:j-hayes@audit-commission.gov.uk">j-hayes@audit-commission.gov.uk</a> 020 7166 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Executive Director and Authority.
Sharon Martin Audit Manager	<a href="mailto:s-martin@audit-commission.gov.uk">s-martin@audit-commission.gov.uk</a> 07812 344672	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Finance Director.

### Independence and objectivity

- 29 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.
- 30 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

### Quality of service

- 31 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 the District Auditor in the first instance. Alternatively you may wish to contact the London Region Head of Operations, Les Kidner.

- 32 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

- 33 Our reports will be discussed and agreed with the appropriate officers before being issued to the Authority.

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**Table 2**

<b>Planned output</b>	<b>Indicative date</b>
Audit Plan 2007/08	April 2007
BVPP Report	December 2007
Opinion Audit Plan	November 2007
Annual Governance Report	September 2008
Opinion On The Financial Statements and Value For Money Conclusion	September 2008
WGA Audit Report	October 2008
Annual Audit Letter	November 2008

## Appendix 1 – Initial risk assessment – use of resources

**Table 3**

<b>Audit risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditors responsibilities</b>
As an employing organisation, the Authority will be required to publish a number of best value performance indicators (BVPIs) that were not previously applicable.	The small number of staff employed should facilitate the compilation and verification of these BVPIs.	Not all required BVPIs are produced and they have not been compiled in accordance with the definitions.	We will review the Authority's arrangements for preparing the BVPIs.	VFM conclusion criterion 4 – the body has put in place arrangements to monitor the quality of its published performance information. Data quality mandated work.
The Authority needs to comply with the Gender Equality Duty and the Disability Equality Duty.	Legal advice is provided by London Borough of Barking and Dagenham.	The Authority has not taken steps to comply with these duties.	We will review how the Authority has ensured it complies with these duties.	VFM conclusion criterion 5 - the body has put in place arrangements to maintain a sound system of internal control.
The Authority will need to adopt its own governance procedures for directly employed staff.	Good practice arrangements at the constituent councils can be adapted for and applied to the Authority.	The arrangements are not implemented.	We will consider the Authority's governance arrangements for directly employed staff.	VFM conclusion criterion 12 - the body has appropriate arrangements to ensure probity and propriety.

## Appendix 2 – Audit fee

- 1 Table 4 provides details of the planned audit fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 4**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Planned fee 2006/07 £</b>
Financial Statements	19,000	16,700
Use of Resources (including BVPP)	15,700	16,200
Whole of government accounts	1,500	1,750
<b>Total audit fee</b>	36,200	34,650
Certification of grant claims and returns	0	0

- 2 The Audit Commission scale fee for the Authority is £32,315. The fee proposed for 2007/08 is +11 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the authority. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The Audit Commission inflationary fee increase for 2007/08 is 2.75 per cent. The fee for the financial statements has also increased as further audit work is required to review compliance with the changes to the SORP and to verify compliance with FRS 17 Retirement Benefits. There is a reduction in the use of resources fee as we plan to build on the knowledge base gained in the previous two years to support our value for money conclusion.

- 6 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

## Specific audit risk factors

- 7 In setting the audit fee we have taken into account the following specific risk factor:
  - there are a number of implications relevant to our audit responsibilities as a result the Authority employing staff directly.

## Assumptions

- 8 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is higher than that identified for 2006/07 due to the requirement to comply with FRS17, retirement benefits, and the likely outsourcing of payroll;
  - 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 the date agreed locally;
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 9 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.
- 10 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; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions the Authority could take to reduce its audit fees**

- 11 The Audit Commission requires its auditors to inform an authority of specific actions it could take to reduce its audit fees. We have identified the following actions the Authority could take:
- provide prompt and complete responses to audit queries on the financial statements; and
  - ensure key developments relating to the Authority directly employing staff are communicated to us as they occur.

## **Process for agreeing any changes in audit fees**

- 12 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Finance Director. We will then report to the Authority the revised fee and the reasons for the change.



## Appendix 3 – Independence and objectivity

- 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 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).
- 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. The auditor reserves the right to communicate directly with the Authority 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 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; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.