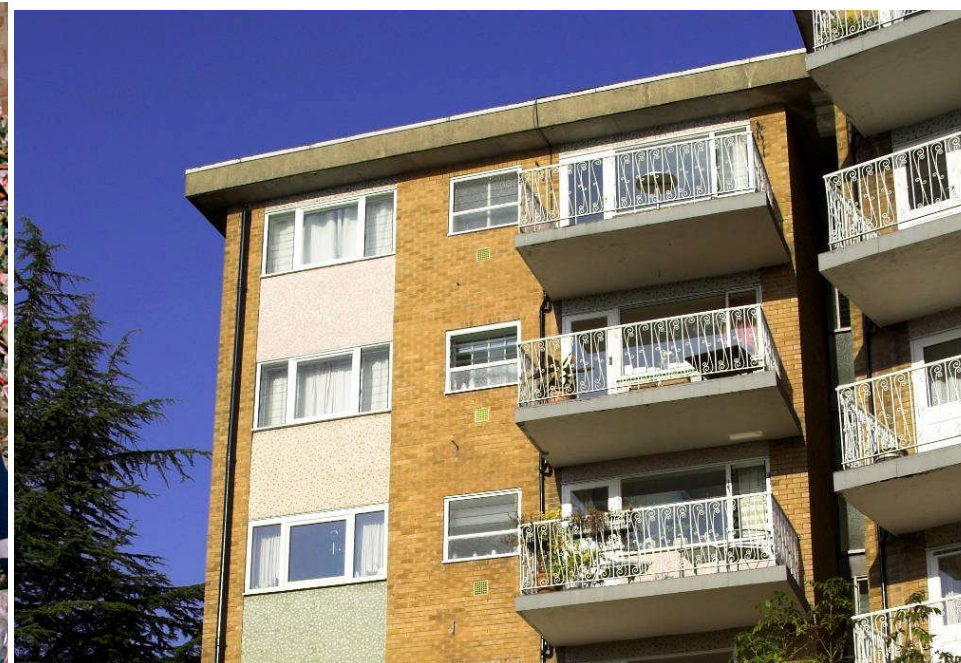


# East London Waste Authority 2008/09 Audit Plan - DRAFT



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May 2008

Ladies and Gentlemen,

We are pleased to present to you our Audit Plan for 2008/09, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting East London Waste Authority.

We would like to thank members and officers of the Authority for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Mike Robinson or Chris Hughes.

Yours faithfully,

PricewaterhouseCoopers LLP

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*In April 2008 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.*

*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

# Introduction

## The purpose of this Plan

Our Audit Plan has been prepared to inform the officers and Members of the East London Waste Authority (the Authority) about our responsibilities as your external auditors and how we plan to discharge them.

The responsibility for the stewardship of public funds is placed upon the Members and officers of the Authority. Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Authority and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank Members and officers of the Authority for their help in putting together this Plan.

## Period covered by this plan

We provide you with details of our plans for the audit at the beginning of the financial year. This Plan outlines our audit approach for 2008/09, including the 2008/09 final accounts audit which we will undertake in Summer 2009.

## Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was issued in March 2005. This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement) issued in April 2008 and both are available from the Chief Executive.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports follow the Statement and are in line with the Code. Although reports may be addressed to officers or members of the Authority, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

# Risk assessment

## Planning of our audit

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business risks and audit risks.

We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements or on your arrangements for the use of resources. 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 Interim Audit later this year. If appropriate, we will issue a separate opinion audit plan for our audit of the financial statements in January 2009.

At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:

- as the Authority has employed 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; and
- the Authority will need to comply with changes to the SORP introduced in 2007.

We have considered our understanding of how your control procedures mitigate business risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant business risks relevant to our audit responsibilities and our response to those risks. Significant audit risks are those risks requiring special audit attention in accordance with auditing standards.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

**Risk assessment results**

The following table summarise the results of our risk assessment and our planned response.

Significant Business Risk	Mitigating actions by audited body	Our approach
<p><b>Relationship with Shanks Waste Management Ltd</b>                      It is crucial that the Authority continues to maintain a good working relationship with Shanks to ensure that the objectives of the Integrated Waste Management Service Contract are met. The primary targets concern meeting the National and Municipal Waste Strategy targets for recovery and recycling.</p>	<p>Management has a number of controls in place, including partnership interfaces at all levels, contract monitoring procedures, governance arrangements and dispute resolution procedures.</p>	<p>We will discuss the Authority's governance arrangements regarding Shanks with the Chief Executive and Finance Director. Our work in this area is likely to increase given the transition from CPA to CAA (see page 9 below).</p>

# 2008/09 Audit Fee

## Fees

We have proposed an audit fee of £36,200, which is broken down as follows:

	2008/09	2007/08
Accounts	19,000	19,000
Use of Resources and data quality	17,200	17,200
<b>Total</b>	<b>36,200</b>	<b>36,200</b>

Our fee for accounts work includes the following:

- Audit of the financial statements for 2008/09
- Work on whole of government accounts for 2008/09

Our fee for use of resources and data quality work includes the following:

- Use of Resources assessment; and
- Review of data quality and specified performance indicators.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2009;
- You providing a fully supported and robust self assessment against the use of resources criteria; and
- Our use of resources conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

# Our approach to the audit

## Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

## Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Authority. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key business processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

We aim to rely on the work done by internal audit wherever possible. We will ensure that a dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned approach

## Whole of government accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit. From 2008/09 these will be based on International Financial Reporting Standards (IFRS).

## Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.



This conclusion is based on 12 Code criteria, which the Audit Commission have published separately and which cover key areas of corporate performance management and financial management arrangements.

When forming our use of resources conclusion we will seek to rely on:

- Your self assessment against the criteria;
- Your Internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Authority.

As noted above, our conclusion will be issued as part of the audit report on your 2008/09 financial statements.

### **Mandatory work for 2008/09**

#### **Use of Resources**

We will be required to carry out work at the Authority for the 2008/09 Comprehensive Performance Assessment (CPA) in respect of the use of resources.

The use of resources assessment is a key part of CPA and will be conducted in all Authorities. It involves judgments on financial planning and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Authority. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.

The Audit Commission defines the scope and methodology for the work required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The audit and inspection year 2008/09 marks the year of transition from Comprehensive Performance Assessment (CPA) to Comprehensive Area Assessment (CAA).

This will be the last year in which the Audit Commission will carry out corporate assessments and programme service inspections on the current basis as part of the CPA framework. From April 2009, they will be implementing Comprehensive Area Assessment (CAA), jointly with the other public service inspectorates.

As part of the transition to CAA the scope of the use of resources assessment will broaden to reflect 'new' areas such as commissioning. It will also encompass a wider definition of resources, covering natural resources, people and information technology.

Our use of resources judgements will therefore serve two purposes: as a basis for value for money conclusions and as an input into the first results of CAA which will be reported in autumn 2009.

#### **Local Government Data Quality Reviews**

We will be required to review data quality and performance indicators specified by the Audit Commission.

Our approach will comprise of three stages:

- Review of the overall management arrangements to secure data quality
- Completeness checks of reported performance information
- Data quality spot checks

# Our team and independence

Audit Team	Responsibilities
<p><b>Engagement Director</b>  <i>Mike Robinson – 1<sup>st</sup> year on the audit</i>                      Tel: 020 7804 3687                      E-mail: <a href="mailto:mike.s.robinson@uk.pwc.com">mike.s.robinson@uk.pwc.com</a></p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p><b>Engagement Manger</b>  <i>Chris Hughes – 1<sup>st</sup> year on the audit</i>                      Tel: 020 7804 3392                      E-mail: <a href="mailto:chris.hughes@uk.pwc.com">chris.hughes@uk.pwc.com</a></p>	<p>Engagement Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Report on the Accounts Audit and Annual Audit Letter.</p>

### **Our team members**

It is our intention that staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

### **Independence and objectivity**

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

### **Relationships and Investments**

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who as a director for another audit or advisory client of the firm should notify us, so that we can appropriate conflict management arrangements in place.

### **Independence conclusion**

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Communicating with you

## Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Members of the Authority. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Authority with the outputs of our audit.

Stage of the audit	Output	Timing
<b>Audit planning</b>	<b>Audit Plan</b>	<b>June 2008</b>
<b>Audit Reports</b>	<b>Report on accounts audit incorporating specific reporting requirements under Auditing Standard (ISA (UK&amp;I) 260), including:</b> <ul style="list-style-type: none"> <li>• Any expected modifications to the audit report</li> <li>• Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust</li> <li>• Material weaknesses in the accounting and internal control systems identified as part of the audit</li> <li>• Our views about the qualitative aspects of your accounting practices and financial reporting</li> <li>• Any other relevant matters of governance interest and</li> <li>• Summary of findings from our use of resources audit work to support our value for money conclusion.</li> </ul>	<b>September 2009</b>
	<b>Opinion on the Financial Statements and conclusion on the Authority's arrangements for its Use of Resources</b>	<b>September 2009</b>
	<b>Whole of Government Accounts Audit Report</b>	<b>October 2009</b>
	<b>Annual Audit Letter</b>	<b>November 2009</b>
	<b>Other Audit Reports</b> We will report as appropriate on the results of any targeted audit work we carry out	<b>To be agreed in Terms of Reference</b>

# Appendix A: Other engagement information

The Audit Commission appoint us as auditors to East London Waste Authority and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

## Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

## Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

### Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

### Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

### Freedom of Information Act

In the event that, pursuant to a request which the audited body has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

## Agenda Item 3 - Appendix A

*In the event that, pursuant to a request which East London Waste Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. East London Waste Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and East London Waste Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, East London Waste Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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