NORTH LONDON WASTE AUTHORITY
REPORT TITLE: FINANCE UPDATE
REPORT OF: THE FINANCIAL ADVISER
FOR SUBMISSION TO: AUTHORITY MEETING
DATE: 9 OCTOBER 2025
SUMMARY OF REPORT: This report provides an update on the Authority's financial position for 2025/26 and an initial indicative budget and levy forecast for 2026/27.
RECOMMENDATIONS: The Authority is recommended to: A. Note this review of the 2025/26 financial position and the early forecast of the budget assessment for 2026/27; and B. Note that a further update of the 2025/26 financial position will be reported to the Authority meeting in December together with an updated assessment of the budget and resource requirements for 2026/27 C. Note the Forvis Mazars Audit Strategy Memorandum in Appendix C
SIGNED: Daniel Omisore, Financial Adviser **DATE:** 29 September 2025

1. EXECUTIVE SUMMARY

Overview

1.1. At its meeting on 19 June 2025, the Authority was provided with an up-to-date assessment of its financial position. This included a draft outturn for 2024/25 and the additional balances that were available to help reduce the levy in 2026/27.

1.2. This report provides an early update on the likely 2025/26 forecast outturn, the emerging position for the 2026/27 budget and levy, and progress on the audit of the 2024/25 statutory accounts.

2025/26 Forecast

1.3. The Authority's net expenditure for 2025/26 is currently forecast at £98.121 million, representing a projected underspend of £0.391 million against the original budget. The main driver is a £1.5 million reduction in residual waste disposal costs, achieved through a combination of lower waste volumes and efficiencies from a new contract that enables direct deliveries from boroughs.

1.4. Waste tonnage forecasts have been reviewed with borough officers and are expected to be slightly lower than budgeted:

1.4.1. Residual waste is forecast to fall by 6,810 tonnes (1.2%) to 549,712 tonnes. The largest percentage reduction is from Waltham Forest, reflecting changes to their waste collection strategy.

1.4.2. Dry mixed recycling is forecast at 125,732 tonnes, a marginal decrease of 121 tonnes (0.1%).

1.4.3. Organic waste is forecast at 57,256 tonnes, 2,425 tonnes (4.0%) below budget. This is largely due to an 8.6% reduction in garden waste following a warm, dry summer. Food waste is forecast to be 1.4% above budget.

1.5. The revenue balance at the end of the financial year is forecast to be £3.396m. Subject to final outturn, this surplus may be used to support the 2026/27 levy.

2026/27 Forecast Budget and Levy

1.6. The current forecast for net expenditure in 2026/27 is £102.206 million, a 3.7% increase on the 2025/26 budget. This includes updated capital financing costs (including Minimum Revenue Provision and borrowing assumptions), inflationary adjustments, and operational costs for new facilities such as the Resource Recovery Facility, Reuse and Recycling Centre, EcoPark House, and associated staffing.

1.7. The levy is forecast to increase by 5.2% compared to 2025/26. This is primarily due to a lower level of balances available to offset costs. Officers will continue to work to minimise year-on-year fluctuations in the levy.

	Forecast Levy before balances			Balances available			Forecast Levy after balances		
	2025/26 £000s	2026/27 £000s	Increase/ Decrease	2025/26 £000s	2026/27 £000s	Increase/ Decrease	2025/26 £000s	2026/27 £000s	Increase/ Decrease
Barnet	17,996	18,574	3.2%	(1,135)	(626)	-44.9%	16,861	17,948	6.4%
Camden	9,085	9,465	4.2%	(500)	(467)	-6.5%	8,585	8,998	4.8%
Enfield	13,845	14,390	3.9%	(914)	(564)	-38.3%	12,931	13,826	6.9%
Hackney	10,960	11,443	4.4%	(503)	(444)	-11.7%	10,457	10,998	5.2%
Haringey	11,954	12,487	4.5%	(679)	(241)	-64.5%	11,275	12,246	8.6%
Islington	9,628	9,948	3.3%	(188)	(457)	143.0%	9,440	9,491	0.5%
Waltham Forest	12,084	12,441	3.0%	(522)	(597)	14.5%	11,562	11,843	2.4%
	85,552	88,748	3.7%	(4,440)	(3,396)	-23.5%	81,112	85,350	5.2%

1.8. Before applying balances, the levy increase is 3.7%. However, the balances currently identified to reduce the levy are 23.5% lower than in previous years. As a result, the net levy is forecast at £85.350 million, 5.2% higher than in 2024/25.

1.9. A further update, including a draft budget and refreshed medium-term forecast, will be presented to the Authority in December 2025. The final budget and levy for 2026/27 will be agreed at the February 2026 meeting, in line with the Inter Authority Agreement agreed in 2016.

Medium term financial strategy

1.10. The risks and opportunities previously identified in the medium-term forecast shared with Directors of Finance and Environment, as well as Member Finance Working Group over the summer have been reviewed. Section 5 of this report provides further detail on how these have been addressed in the latest financial planning assumptions.

2024/25 Final Accounts and Audit

1.11. The unaudited accounts for the year ending 31 March 2025 were signed by the Financial Adviser on 27 June and published on the Authority's website. The audit is currently underway and must be completed by the statutory backstop date of 27 February 2026. The 2023/24 accounts received a disclaimed opinion due to insufficient time to complete the audit before the deadline. As a result, additional work is being undertaken to rebuild assurance in the Authority's financial reporting.

1.12. The Authority's external auditor, Forvis Mazars, has issued its Audit Strategy Memorandum (ASM), which is included at Appendix C. The ASM outlines the audit approach, key risks, areas of judgement, and the steps being taken to restore confidence in the financial statements.

2. 2025/26 FORECAST

2.1. At the meeting on 13 February 2025, the Authority approved a budget for 2025/26 of £98.512m. The current forecast net expenditure for 2025/26 is £98.121m, a reduction in cost of £0.391m.

2.2. The paragraphs below go into more detail on the key variances. A detailed breakdown of the tonnage by type of waste for each borough can be found in tables A2-6 in Appendix A.

2.3. As part of this forecast, Officers have consulted with counterparts in the boroughs and updated tonnage forecasts. Residual waste forecasts have decreased compared to the budget and also compared to the previous financial year, 2024/25.

2.4. The key variances to the budget are shown below:

2.4.1. **Main Waste Disposal Contract (excluding RRC Waste): (-£1.494m)** Total residual waste is forecast to fall by 6,810 tonnes (1.2%) from the budgeted figure. This reduction is reflected in a tonnage saving of £0.748m. In addition, LondonEnergy have entered into new contracts for third party waste with lower gate fees, and this has resulted in estimated savings of £0.746m in the year.

2.4.2. Authority officers will work with borough officers to continuously review the tonnage figures for the rest of the year.

2.4.3. **Transfer Stations and Other Sites: (-£0.375m)** The accounting treatment for leases has changed and the cost of the lease is now capitalised. To align these costs with other capital assets, the budgeted rent for the lease of the Wembley transfer station capitalised have now been transferred to Revenue funding of the capital programme. This is partly offset by the first year preparatory costs for the replacement transfer station at Geron Way. Authority officers will continue to review costs for preparing, running and maintaining the three different facilities.

2.4.4. **Revenue Funding – Capital Programme: (+£0.548m)** This increase reflects the transfer of costs for the Wembley Transfer station mentioned in section 2.4.3 above. This transfer is to reflect a change to the accounting rules, requiring leases to be recognised as capital assets. This is an adjustment and there is no increase in expenditure.

2.4.5. **Corporate and Other Support Services costs (+£0.555m)** This is primarily driven by a combination of strategic staffing decisions and project-related pressures below:

2.4.5.1. The integration of the NLHPP team in-house was undertaken to improve project control and delivery. However, a portion of the associated staff costs no longer qualifies for capitalisation, resulting in increased revenue expenditure.

2.4.5.2. Additional staffing costs have been incurred to provide maternity cover and to recruit new technical staff supporting the Geron Way development.

2.4.5.3. Allocation of the resources for public engagement work aimed at understanding and influencing governmental policies.

2.4.5.4. Funding has been allocated to support new circular economy initiatives. These projects are being funded from reserves, ensuring no impact on the levy. A detailed breakdown of the projects and associated costs will be presented in the December Authority report.

2.4.6. **North London Heat & Power Project (+0.461m)** Officers continue to work toward agreeing the final account for the EcoPark South construction contract. As these costs are being incurred after the facility has been brought into use they will not be capitalised.

2.4.7. **RRC Residual Waste Disposal: (+£0.118m)** Residual tonnage is slightly up against budget contributing higher costs than budgeted for landfill tax, shredding and transport.

2.4.8. **RRC Operating Costs: (-£0.090m).** The site running and recycling cost are forecasted to decrease by £66k, the shop is forecast to return a profit of £24k. The budget assumed break-even position.

2.4.9. **Composting Waste Services: (-£0.147m)** Tonnage is forecast to be 2,425 tonnes lower than budget, largely due a fall in the amount of garden waste delivered to the Authority reflecting the warm and dry summer. This is expected to generate a saving.

2.4.10. **Sale of Recyclates: (+£0.320m)** income from sale of recyclates is forecast to fall below budget due to lower than budgeted market prices in Q2 (Q1 was favourable). The forecast market prices for the third and fourth quarters will be reviewed in advance of the December Authority meeting.

2.4.11. **MRF Services: (+£0.117m)** Additional costs are driven by the larger than budgeted inflationary increase in the price per tonne compared to the budget.

2.4.12. **Charges for Household & Non-Household Waste: (£0.123m)** Updated forecasts of tonnages from boroughs for chargeable household wastes (from healthcare and schools, for example) and non-household wastes (commercial) indicate that overall, a modest increase in waste will be collected across the financial year. Tables A6 and A7 in Appendix A reflect the forecast expectation for non-household and chargeable waste for each borough.

3. BOROUGH BALANCES AT 31 MARCH 2026

3.1. The menu price-based levy requires the Authority to apportion all its costs to the boroughs based on the types of waste and the tonnage delivered by each borough and to hold borough specific balances. A positive balance for a borough can be used to support a future year's levy but if negative, will be recovered through an additional share in the following year's levy, equal to the borough's balance.

3.2. Tables A8 and A9 in Appendix A show how in-year levy balances might be apportioned (based on the current forecast) between the boroughs and used to reduce the levy when the Authority determines its 2026/27 levy in February.

3.3. A table detailing the forecast outturn and how it has changed compared to the budget is included in Appendix A as table A1.

2025/26 Summary

3.4. Allowing for the factors outlined above, the total net expenditure in 2025/26 for the Authority is estimated to be £98.121m. This represents a decrease of £0.391m compared with the budget. After taking balances carried forward from last financial year that were reported in June into account, the net revenue surplus on 31 March 2026 is forecast to be £3.396m.

4. 2026/27 BUDGET FORECAST

4.1. The following paragraphs set out the underlying assumptions and discuss significant issues and variances for the coming year. Forecasts will be refined significantly over the coming months as more information is available about waste volumes and costs in the current year. The early emerging forecast 2026/27 levy for each borough is included in section 1.7 in the introduction to the report.

4.2. The budget forecast is based on data early in the current financial year and fuller data will be used to present a further review to the December 2025 Authority meeting. At the Authority meeting in February 2026, the Authority must agree its budget and set the levy for 2026/27, in line with the Inter Authority Agreement agreed in 2016.

Opening position

4.3. The revenue balance at 31 March 2026 and the variations reported in this review indicate that the Authority will have balances available to reduce the levy in 2026/27 of £3.396m.

4.4. The Authority's net expenditure is forecast to be £102.206m. This is 3.7% higher than the budget for 2025/26. The following paragraphs set out the underlying assumptions and discuss significant issues and variances. The budget for 2026/27 compared with 2025/26 is laid out in table B1 in the appendix.

Inflation

4.5. Most of the prices in the Authority's contract with LEL are reviewed annually in line with the December Retail Price Index (RPI). For financial planning purposes the Authority has used the HM Treasury's digest of forecasts published by banks and other institutions and has assumed an increase in December 2026 RPI at 3.3% and the Consumer Price Index of 2.3%. Inflation assumptions will be reviewed and updated for the December and February budget and levy meetings.

Transport and Disposal

4.6. The 2026/27 transport and disposal budget is broadly in line with the latest forecast for 2025/26. These tonnages have been discussed with borough officers and the impacts are therefore tailored to each borough's circumstances. These will be reviewed again in advance of the December meeting to ensure that changes that might reflect proposals for Simpler Recycling, are reflected in the budget forecast.

LEL Support

4.7. The Authority will continue to provide support to LEL to ensure that they can continue to maintain the Energy from Waste facility, which is now over 50 years old, until the new Energy Recovery Facility is brought into use. The Authority plans to provide £7m of funding in 2026/27.

Landfill Tax

4.8. The rate of landfill tax for 2025/26 is £126.15 per tonne. The rate for 2026/27 has not yet been announced, however the Government have announced a consultation to change landfill tax so that the lower rate (which none of the Authority's waste is subject to), will be equalised to the main rate by 2030. This change will not have an effect on the Authority's cost base.

Organic Waste and Materials Recovery Facility Services

4.9. The budget forecast for 2026/27 reflects the latest estimates received from the boroughs for organic waste. These will be reviewed again in forthcoming forecasts.

Reuse and Recycling Centres

4.10. The costs of running the Reuse and Recycling Centres have been updated to reflect any known costs and estimated income from recyclates. The operating costs for the Edmonton RRC are captured under the Transfer Stations & Other sites. It is assumed that the increases and decreases in the cost of operating the RRCs reported in 2.4.7 and 2.4.8 will continue and tonnages used to inform the forecast for 2026/27 are similar to 2025/26.

Transfer stations

4.11. The budget includes the estimated cost of running the new assets created by the EcoPark South project for the entire year. Actual costs incurred to date will be reviewed with officers at LEL in the coming months to establish a fixed costs for operating the facilities over coming years and the outcome will be reported to a future meeting.

4.12. In addition, funding has been included to support the development of the Geron Way transfer station.

Carbon Capture and Storage

4.13. The budget and medium plan includes the approved cost of preparing the outline business case for a carbon capture and storage solution at the new energy recovery facility.

Revenue Cost of Capital Programme

4.14. The cost of funding the capital programme includes both the interest on loans taken to fund the purchase and construction of assets that have been brought into use. In addition, it includes the charge made for the Minimum Revenue Provision, an amount set aside each year to ensure the repayment of debt when it falls due. This is in line with the Minimum Revenue Provision policy approved by the Authority in February 2025.

Sale of Recyclates

4.15. The average basket price used to derive the rebate on the sale of recyclates for 2025/26 is lower than previously forecast. The rate used for 2026/27 assumes that this continues. We will monitor these rates, and ensure the latest picture is included in all forthcoming forecasts.

Extended Producer Responsibility

4.16. For 2025/26, the Government guaranteed the level of Extended Producer Responsibility payments that would be made to the Authority. No such guarantee exists for 2026/27 and the level of funding is yet to be announced. The Authority has assumed that this will fall to £11m in 2026/27 and future years.

Non-Household Waste Charges

4.17. The Authority anticipates that boroughs will deliver 76,621 tonnes of residual waste and 16,389 tonnes of recyclable and organic waste to the Authority in 2026/27.

Chargeable Household Waste

4.18. The Authority forecasts that it expects to receive 13,670 tonnes of residual waste and 2,479 tonnes of organic waste and dry mixed recycling in 2026/27.

Contingency

4.19. The budget forecast in this report reflects the approach taken in recent budgets, i.e. £1m plus 2% of the operational base provision.

Levy

4.20. The table in paragraph 1.7 sets out the current estimate of the potential 2026/27 levy for each borough. It reflects the forecast balances at 31 March 2026 and the Authority's expenditure and income expectations. Residual waste and recycling tonnage forecasts will be reviewed in conjunction with borough counterparts to inform the December update.

Conclusion

4.21. Subject to future Member decisions and the variations included in this review, the Authority's balances at the end of March 2026 are forecast to be £3.396m. This is slightly higher that the balances available at this stage in 2024 which were £2.625m. A further review of the Authority's financial performance in 2025/26 and forecast for 2026/27 will be presented to the December meeting.

5. MEDIUM TERM FORECAST

5.1. As reported to the Authority in June 2025, there are a number of uncertainties in the wider operating outlook including inflation, legislative reform, ensuring business continuity, particularly with the age of the existing Energy from Waste plant operated by LEL, operating costs and the future revenue impact of the current capital investment.

Inflation

5.1.1. The forecast includes assumptions for inflation however the further into the future, the more uncertain these forecasts become. Therefore, after December 2026, it is assumed that inflation lies within the government targets (2.5% for the RPI and 2.0% for the Consumer Price Index. For every 1% difference from this the equivalent cost would be movement of £1m to the Authority.

Legislative reform

5.1.2. Since the June meeting, there has been no significant announcements from the Government and uncertainties surrounding potential new central government waste reforms remain. Initiatives such as the Deposit Return Schemes, , Emissions Trading Scheme (ETS), and Simpler Recycling are expected to introduce further cost and financial burden onto the authority with ETS likely to have the most impact.

5.1.3. Authority officers continue to work in collaboration with external stakeholders to lobby on the side of affordability and practicality on these changes. However, at this stage, the uncertainty means that nothing has been included in the forecast for these items.

Business Continuity

5.1.4. The medium term forecast includes a provision of £7m per annum to support LEL in the period until the new Energy Recovery Facility is operational and a new operating contract is in place. This will support the Authority's objectives.

Operating Costs

5.1.5. As reported previously to the Authority, insurance costs in the waste sector have increased significantly and officers are working with LEL counterparts to explore strategies for future insurance of facilities.

Revenue Impact of Capital Investment

5.1.6. The current forecast includes an estimate of the interest cost and Minimum Revenue Provision (MRP) for EcoPark South facilities. These estimates may change slightly until the final costs are agreed.

Approach

5.2. The MTFS not only provides a roadmap for maintaining financial stability and delivering value for money but also reinforces NLWA's role as a leader in sustainable waste management. Through prudent budgeting, risk mitigation, and strategic investment—particularly in the North London Heat and Power Project (NLHPP) and other critical infrastructure—the Authority is well-positioned to meet the evolving needs of its constituent boroughs and communities.

5.3. As financial forecasts are developed and refined, officers propose to share a series of updates throughout the year. Consistent with the approach to date, this will be in an open and transparent manner and scrutiny and challenge will be invited in the spirit of partnership working. The following dates set out key milestones for the year with engagement planned around these:

5.3.1. Assurance/challenge session with borough directors and members in November 2025

5.3.2. Agree LEL 2026 budget and provide an updated MTFS and draft budget and levy for 2026/27: December 2025 Authority Meeting

5.3.3. Agree NLWA 2026/27 budget: February 2026 Authority Meeting

5.4. A detailed draft budget for 2026/27 is included in appendix B and as reported in July, the net expenditure for future years have been updated and are currently anticipated to be as follows:

	2026/27	2027/28	2028/29
Current Medium-Term Forecast (net expenditure)	£102m	£108m	£110m

5.5. Officers will review tonnages for these years with borough officers in advance of the next Authority meeting in December to refine these forecasts and provide indicative levies and charges by borough for these years. These will be shared with the Members Finance Working Group and borough Directors in advance of this meeting.

6. 2024/25 FINAL ACCOUNTS AND AUDIT

6.1. The draft financial statements were approved by the Financial Adviser on 27 June. The Public inspection period has now concluded and the audit is already under way.

6.2. As mentioned in paragraph 1.13, the Government has introduced a series of 'backstop' dates to clear the backlog of outstanding audits in Local Government. The proposed dates for completion of outstanding and future financial statements are:

2024/25 financial statements : 27 February 2026
2025/26 financial statements : 31 January 2027
2026/27 financial statements : 30 November 2027
2027/28 financial statements : 30 November 2028

Audit Strategy Memorandum

7. Forvis Mazars have issued their Audit Strategy Memorandum (ASM) for the audit of the accounts and this is included at Appendix C. The ASM summarises their audit approach, including the significant audit risks, areas of key judgement we have identified and an outline of the approach to be taken to rebuild assurance in the statements.

8. CONCLUSION

8.1. Allowing for the improvement in the revenue balances at 31 March 2025 and the 2025/26 variations, this review indicates that the Authority's balances at 31 March 2026 will have increased and it is anticipated that there might be £3.396m available to be offset against the 2026/27 levy.

9. EQUALITIES IMPLICATIONS

9.1. Budgets and forecasts are considered an allocation of resources. Approval to spend is sought separately by Officers. The equalities implications are considered as part of the spending approval.

10. COMMENTS OF THE LEGAL ADVISER

10.1. The Legal Adviser has been consulted in the preparation of this report and comments have been incorporated.

List of documents used:
Report to the Authority 13 February 2025 – Budget and Levy 2025/26
2025/26 budgetary control working papers

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APPENDIX A: FY25/26 FORECAST VS BUDGET

Table A1 2025/26 Forecast Outturn

	2025/26 Budget	2025/26 Q2 Forecast	Variance to Budget
	£'000	£'000	£'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	48,888	47,395	(1,493)
Composting Waste Services	1,696	1,549	(147)
MRF Services	14,185	14,302	117
Transfer Station and Other Sites	10,959	10,584	(375)
Corporate and Other Support Service Costs	6,041	6,595	555
Waste Prevention and Communications Programme	723	723	(1)
Recycling Initiatives	211	211	(0)
Carbon Capture	491	491	(0)
North London Heat and Power Project	92	553	461
Revenue Funding – Capital Programme	16,323	16,871	548
	99,609	99,274	(335)
Additional LEL Support			
LEL Support	7,000	7,000	(0)
Release of Maintenance Provision	(5,000)	(5,000)	(0)
	2,000	2,000	(0)
Reuse and Recycling Centres Expenditure			
Residual Waste Disposal	1,363	1,481	118
Operating Costs	5,015	4,925	(90)
	6,378	6,406	28
Income			
Rents	(161)	(161)	0
Sale of Recyclates	(5,667)	(5,347)	320
Interest on Balances	(289)	(654)	(365)
Miscellaneous Income	0	(39)	(39)
Extended Producer Responsibility	(6,270)	(6,270)	0
	(12,386)	(12,470)	(84)
Net Expenditure	95,600	95,209	(391)
Contingency	2,912	2,912	0
Total Net Expenditure	98,512	98,121	(391)
Financed By			
Use of Balances	(4,440)	(7,323)	(2,882)
Release from Reserves	0	0	0
Charges to Boroughs (Non-household waste)	(11,067)	(11,177)	(110)
Charges to Boroughs (Chargeable Household Waste)	(1,892)	(1,905)	(13)
2024/25 Levy - Base Element	(74,483)	(74,483)	0
- RRC Element	(6,629)	(6,629)	0
Total Levy	(81,112)	(81,112)	0
Total Resources Available	(98,512)	(101,517)	(3,005)
Estimated Additional Revenue Balances at 31 March	(0)	(3,396)	(3,396)

Table A2 – 2025/26 residual waste tonnage forecast

	2024/25 Actual Tonnes	2025/26 Budget Tonnes	2025/26 Forecast Tonnes	Change Tonnes	Change %
Barnet	105,195	108,438	106,860	(1,578)	(1.5%)
Camden	69,377	69,650	69,728	78	0.1%
Enfield	87,850	88,925	87,784	(1,142)	(1.3%)
Hackney	103,461	87,653	87,035	(617)	(0.7%)
Haringey	69,274	70,012	70,017	5	0.0%
Islington	68,640	70,080	69,267	(813)	(1.2%)
Waltham Forest	64,921	61,764	59,021	(2,743)	(4.4%)
	568,719	556,522	549,712	(6,810)	(1.2%)

Table A3 – 2025/26 Food waste tonnage forecast

	2024/25 Actual Tonnes	2025/26 Budget Tonnes	2025/26 Forecast Tonnes	Change Tonnes	Change %
Barnet	0	0	0	0	N/A
Camden	2,703	2,840	2,882	42	1.5%
Enfield	6,691	6,628	6,585	(43)	(0.6%)
Hackney	4,503	4,576	4,458	(118)	(2.6%)
Haringey	3,602	3,672	3,848	175	4.8%
Islington	2,599	2,421	2,544	122	N/A
Waltham Forest	2,802	6,996	7,194	198	2.8%
	22,900	27,134	27,510	375	1.4%

Table A4 – 2025/26 Garden waste tonnage forecast

	2024/25 Actual Tonnes	2025/26 Budget Tonnes	2025/26 Forecast Tonnes	Change Tonnes	Change %
Barnet	10,621	11,057	9,600	(1,457)	(13.2%)
Camden	1,751	1,920	1,626	(294)	(15.3%)
Enfield	6,566	6,527	5,890	(637)	(9.8%)
Hackney	1,677	1,506	1,423	(83)	(5.5%)
Haringey	2,660	2,682	2,586	(97)	(3.6%)
Islington	1,356	1,461	1,394	(67)	(4.6%)
Waltham Forest	1,351	7,392	7,226	(166)	(2.2%)
	25,983	32,546	29,746	(2,800)	(8.6%)

Table A5 – 2025/26 MDR tonnage forecast

	2024/25 Actual Tonnes	2025/26 Budget Tonnes	2025/26 Forecast Tonnes	Change Tonnes	Change %
Barnet	25,002	25,695	25,365	(329)	(1.3%)
Camden	15,843	17,145	16,126	(1,018)	(5.9%)
Enfield	17,346	17,507	17,895	388	2.2%
Hackney	16,680	16,855	16,887	31	0.2%
Haringey	16,357	16,485	16,391	(94)	(0.6%)
Islington	14,448	14,456	14,246	(210)	(1.4%)
Waltham Forest	17,344	17,711	18,821	1,110	6.3%
	123,021	125,853	125,732	(121)	(0.1%)

Table A6 – Non-household waste charges by borough

	2025/26 Budget Estimate £'000	**2025/26 Current Forecast £'000**	**Repayment due (to) / from borough £'000**
Barnet	1,454	1,460	6
Camden*	3,051	3,092	41
Enfield	1,006	1,010	3
Hackney*	2,665	2,685	19
Haringey *	411	415	4
Islington *	2,299	2,322	23
Waltham Forest	181	196	14
Total	**11,067**	**11,177**	**110**

* Including income from non-household recyclable wastes.

Table A7 – Chargeable household waste charges by borough

	2025/26 Budget Estimate £'000	2025/26 Current Forecast £'000	Repayment due (to) / from borough £'000
Barnet	289	290	1
Camden*	119	121	1
Enfield	186	187	1
Hackney*	681	684	2
Haringey *	337	341	4
Islington *	279	283	4
Waltham Forest	0	0	0
Total	**1,892**	**1,905**	**13**

* Including income from non-household recyclable wastes.

Table A8 - RRC Balances available at year end

Balances with brackets at 31 March 2026 indicate an estimate of balances owed to the borough by the Authority and balances without brackets are a balance owed by the borough to the Authority.

	Revised RRC Balances at 1 April 2025 1 £'000	Total Operating Costs – 2025/26 Original Budget 2 £'000	Total Operating Costs - 2025/26 Current Forecast 3 £'000	Change in 2025/26 Total Operating Costs 4 £'000	Estimated RRC Balances at 31 March 2026 (Column 1 plus 4) £'000
Barnet	(4)	1,582	1,606	**24**	**20**
Camden	36	822	816	**(6)**	**31**
Enfield*	28	308	356	**48**	**76**
Hackney	(8)	307	310	**3**	**(5)**
Haringey	(24)	1,256	1,209	**(46)**	**(70)**
Islington	(23)	1,020	1,004	**(15)**	**(39)**
Waltham Forest	(33)	1,334	1,380	**45**	**12**
Total	**(28)**	**6,629**	**6,681**	**53**	**25**

Table A9 - Base levy balances by borough

Balances with brackets at 31 March 2026 indicate an estimate of balances owed to the borough by the Authority.

	Revised balance at 1 April 2025	2025/26 Budget Levy Costs	2025/26 Levy Costs - Current Forecast	Forecast Change in 2025/26 Levy Costs	Estimated Balance at 31 March 2026 (Column 1 plus 4)
	1	2	3	4	
	£'000	£'000	£'000	£'000	£'000
Barnet	(436)	15,278	15,070	(208)	(644)
Camden	(452)	7,764	7,718	(46)	(498)
Enfield	(547)	12,624	12,524	(100)	(647)
Hackney	(415)	10,151	10,128	(23)	(438)
Haringey	(253)	10,019	10,102	83	(170)
Islington	(341)	8,420	8,345	(76)	(417)
Waltham Forest	(411)	10,227	10,029	(198)	(609)
Total	**(2,855)**	**74,483**	**73,915**	**(568)**	**(3,423)**

APPENDIX B: TABLE B1 – 2025/26 & 2026/27 COMPARISON

	2025/26 Budget	2026/27 Forecast	Variance
	£'000	£'000	£'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	48,888	48,911	23
Composting Waste Services	1,696	1,599	(97)
MRF Services	14,185	14,760	575
Transfer Station and Other Sites	10,959	10,908	(51)
Corporate and Other Support Service Costs	6,041	6,550	510
Waste Prevention and Communications Programme	723	743	19
Recycling Initiatives	211	218	7
Carbon Capture	491	677	186
North London Heat and Power Project	92	128	37
Revenue Funding – Capital Programme	16,323	16,949	626
	99,609	101,445	1,836
Additional LEL Support			
LEL Support	7,000	7,000	(0)
Release of Maintenance Provision	(5,000)	0	5,000
	2,000	7,000	5,000
Reuse and Recycling Centres Expenditure			
Residual Waste Disposal	1,363	1,525	163
Operating Costs	5,015	5,089	74
	6,378	6,614	237
Income			
Rents	(161)	(166)	(5)
Sale of Recyclates	(5,667)	(5,518)	148
Interest on Balances	(289)	(675)	(386)
Extended Producer Responsibility	(6,270)	(9,479)	(3,209)
Miscellaneous Income	0	0	0
	(12,386)	(15,838)	(3,451)
Net Expenditure	95,600	99,221	3,621
Contingency	2,912	2,984	72
Total Net Expenditure	98,512	102,206	3,694
Financed By			
Use of Balances	(4,440)	(3,396)	1,044
Release from Reserves	0	0	0
Charges to Boroughs (Non-household waste)	(11,067)	(11,499)	(432)
Charges to Boroughs (Chargeable Household Waste)	(1,892)	(1,960)	(68)
2024/25 Levy - Base Element	(74,483)	(78,711)	(4,228)
- RRC Element	(6,629)	(6,639)	(11)
Total Levy	(81,112)	(85,350)	(4,238)
Total Resources Available	(98,512)	(102,206)	(3,694)
Estimated Additional Revenue Balances at 31 March	(0)	(0)	(0)

Report Ends

Audit Strategy Memorandum

North London Waste Authority – Year ending 31 March 2025

For the 9 October 2025 meeting of the Audit Committee

forvis mazars

North London Waste Authority - Audit Committee
Unit 1B, Berol House
25 Ashley Road
London
N17 9LJ

26 September 2025

Forvis Mazars

30 Old Bailey
London
EC4M 7AU

Dear Committee Members,

Audit Strategy Memorandum – Year ending 31 March 2025

We are pleased to present our Audit Strategy Memorandum for North London Waste Authority for the year ending 31 March 2025.

This report summarises our audit approach, including the significant audit risks and areas of key judgement we have identified, and provides details of our audit team. Section 3 provides an update of the audit position and our plan to commence the rebuilding assurance work.

In addition, as it is a fundamental requirement that an auditor is, and is seen to be, independent of an audited entity, the section of the report titled *'Confirmation of our independence'* summarises our considerations and conclusions on our independence as auditors.

Two-way communication with you is key to a successful audit and is important in:

- Reaching a mutual understanding of the scope of the audit and our respective responsibilities;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising during the audit process; and
- Ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance, and other risks facing North London Waste Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, this report, which has been prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach or role as auditor.

This report also contains appendices that outline our key communications with you during the audit, and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 07977 261873.

This report was prepared solely for the use and benefit of Audit Committee and to the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Yours faithfully

S Patel

Suresh Patel

Forvis Mazars

Contents

01

Engagement and responsibilities summary

Engagement and responsibilities summary

We are appointed to perform the external audit of North London Waste Authority (the Authority) for the year to 31 March 2025. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [Statement of responsibilities of auditors and audited bodies from 2023/24]. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting.

Our audit does not relieve management or Audit Committee, as those charged with governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of North London Waste Authority's ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists, and
b) the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

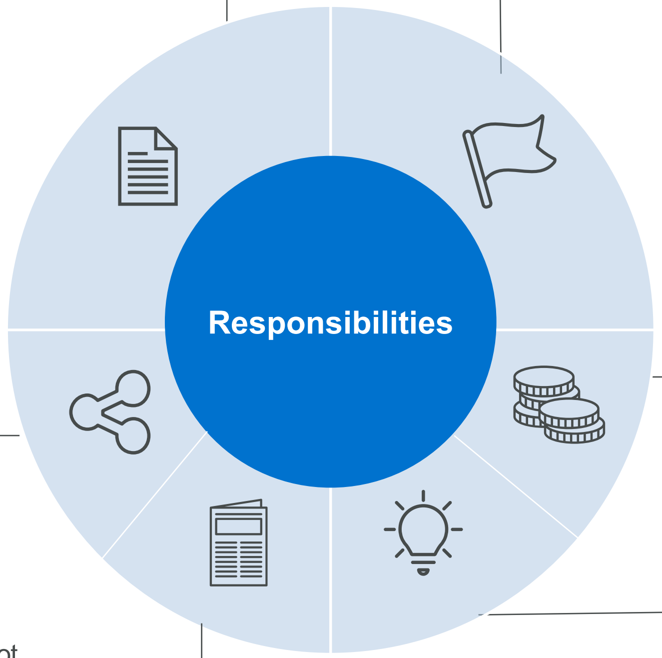
Internal control

Management is responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of North London Waste Authority's internal control.

Whole of Government Accounts

We report to the NAO on the consistency of the Authority's financial statements with its Whole of Government Accounts (WGA) submission.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of you and key management personnel about their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Value for money

We are also responsible for forming a view on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in the '*Value for Money'* section of this report.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Authority and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

02

Your audit team

Your audit team

Suresh Patel

Engagement Partner

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Rajesh Arora

Engagement Manager

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Team Lead

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Suresh will continue to lead the audit for the 4th year. For 2024/25 he will be joined by Rajesh is the new Engagement Manager with James the new Engagement Assistant Manager. Rajesh has a good understanding of the Authority from his role as the Engagement Manager for Camden Council for the last 4 years. James brings experience of auditing London councils.

03

Audit scope, approach, and timeline

Audit scope, approach, and timeline

Risk-based Approach

Audit scope, approach, and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with Code of Audit Practice. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud), we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned and will be performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *'Materiality and misstatements'* section of this report.

The diagram on the next page outlines the procedures we perform at the different stages of our audit.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The Authority has made use of the London Borough of Camden for the following:

- Financial systems used for producing the statement of accounts; and
- Financial instrument valuations.

Audit scope, approach, and timeline

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham (London Pension Fund Authority - LPFA)	We will make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries.
Property, plant and equipment valuation	Savills	We will review the analysis of property valuation movements available from third parties and consider the outcome of the Authority's valuations in comparison with these, challenging conclusions as appropriate.
Financial systems used for the production of the statement of accounts.	London Borough of Camden	We will obtain assurance by understanding the process and controls that the Authority has in place to assure itself that transactions are processed materially correctly.
Financial instrument valuations	London Borough of Camden	We will obtain confirmations of the nature and value of the sums invested by LB Camden on behalf of the Authority directly from LB Camden's auditors (Forvis Mazars LLP). We will also test that the disclosures relating to the nature and fair value of the investments are appropriately disclosed in the Authority's financial statements.

Audit scope, approach, and timeline

Planning and risk assessment
April & July 2025

- Planning our visit and developing our understanding of the Authority
- Documenting systems and control and performing walkthroughs
- Risk identification and assessment
- Initial opinion and value for money risk assessments
- Considering proposed accounting policies and accounting treatments
- Developing our audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review
- Determination of materiality

Fieldwork
Sep – Dec 2025

- Executing our strategy, starting with significant risks and other higher-risk areas
- Detailed work to examine and assess arrangements in relation to any significant risks relating to the value for money conclusion
- Receiving and reviewing the draft financial statements
- Communicating progress and any issues arising
- Clearance meeting(s)

Completion
Jan – Feb 2026

- Final review of financial statements, and disclosure checklist
- Final partner review
- Agreeing the content of the letter of representation
- Preparing our auditor’s report
- Reporting to Audit Committee
- Subsequent events procedures
- Signing our auditor’s report

Audit scope, approach, and timeline

Group audit approach

The preliminary scope of our group audit is based on our analysis of the risks we have identified at group level. When scoping our audit, we have considered quantitative criteria (the contribution of each of the group's consolidated components to the group financial statements); qualitative criteria (the risks of material misstatement of the group financial statements that consolidated components may present individually at component level); and we have assessed the risk of material misstatement across the group's consolidated components in aggregate.

The nature and extent of audit work we plan to perform on the consolidated components is set out below.

Component name	% of Gross Revenue Expenditure	Auditor	Scope
North London Waste Authority	37%	Forvis Mazars	**Full audit** Performance of an audit of the component's financial information prepared for group reporting purposes using single entity materiality
LondonEnergy Limited (LEL)	62%	BDO	**Full audit** Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality

BDO LLP serves as the auditor for LondonEnergy Limited (LEL) and will issue group audit instructions, as LEL is a material component.

ISA (UK) 600 outlines special considerations for audits of group financial statements, particularly when component auditors are involved. The standard has been revised, with key changes detailed in Appendix B of this report.

Audit scope, approach, and timeline

2024/25 audit update

The Authority published its 2024–25 Statement of Accounts on 30 June 2025, in accordance with the statutory deadline. The newly developed Resource Recovery Facility (RRF) was reported in the Statement of Accounts at construction cost rather than current value, contrary to the requirements of the CIPFA Code. The Statement of Accounts noted that the valuation of the RRF was under review by the Authority’s appointed valuer.

Following discussions with management, we understand that the valuation has now been finalised. However, the revised figure is not materially different from the amount disclosed in the Statement of Accounts, and the Authority does not intend to publish amended accounts.

Management has indicated that the revised Statement of Accounts, incorporating the updated valuation, is expected to be available by the end of September 2025. Consequently, we have deferred commencing audit fieldwork by two weeks. In addition, further time will be required to carry out rebuilding assurance procedures due to the disclaimed audit opinion on the 2023/24 accounts. We now anticipate completing audit fieldwork and rebuilding assurance procedures in February to enable the Authority to publish audited accounts by the 26 February 2026. Our audit opinion is likely to be qualified in line with the expectations of the National Audit Office's guidance on rebuilding assurance.

Rebuilding assurance update

As a result of the statutory backstop requirements, we issued a disclaimed audit opinion on the Authority's 2023/24 Statement of Accounts. In July 2025, the National Audit Office (NAO) issued guidance that outlines the approach auditors are required to take for rebuilding assurance where previous opinions have been disclaimed. The approach taken to rebuilding assurance is heavily reliant on auditors completing detailed risk assessments. The outcome of this risk assessment, which looks at identifying areas of the previously disclaimed accounts with a higher degree of either susceptibility or incentive for misstatement, then determines what the most suitable approach to rebuilding assurance will be. At a high level, this ranges from a proof in total approach, to a full audit of historic balances approach. We are currently conducting our initial risk assessment but need the revised financial statements of 2024-25 to complete.

If we are able to rebuild assurance during the 2024/25 audit, we expect to issue a qualified audit opinion in line with the NAO guidance. This then means that we would expect to issue an unqualified audit opinion on the 2025/26 accounts, assuming no material issues arise.

The NAO's published guidance means auditors must focus their resources on completing work that efficiently and effectively supports a rebuild of work across the sector. Where the time input required to audit balances does not result in a proportional level of assurance being generated, it may be more efficient for auditors to disclaim their opinion and focus their efforts where audit work results in a transition to unqualified opinions.

04

Materiality and misstatements

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to Audit Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Materiality and misstatements

Materiality (continued)

For the group financial statements, we consider that gross expenditure at surplus/deficit level is the key focus of users of the financial statements. We have therefore determined our initial materiality levels using gross revenue expenditure at surplus/deficit level as the benchmark.

For the single entity financial statements, we consider that gross revenue expenditure at surplus/deficit level is the key focus of users of the financial statements. We have therefore determined our initial materiality levels using gross revenue expenditure at surplus/deficit level as the benchmark.

We expect to set a materiality of 2% of gross revenue expenditure at surplus/deficit level for the group financial statements, and a materiality of 2% of gross revenue expenditure at surplus/deficit level for the single entity.

As set out in the tables alongside, based on the prior year audited financial statements, we anticipate group overall materiality for the year ended 31 March 2025 to be in the region of £3.041m (£2.951m in 2023/24), and performance materiality to be in the region of £ 2.411m (£2.361m in 2023/24).

For the single entity financial statements, we anticipate overall materiality for the year ended 31 March 2025 to be in the region of £1.778m (£ 1.715m in 2023/24), and performance materiality to be in the region of £1.422m (£1.372m in 2023/24).

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

Group financial statements

	2024-25 £'000s	2023-24 £'000s
Overall materiality	£3,041	£2,951
Performance materiality	£2,411	£2,361
Clearly trivial	£91	£89

Authority's single entity financial statements

	2024-25 £'000s	2023-24 £'000s
Overall materiality	£1,778	£1,715
Performance materiality	£1,422	£1,372
Clearly trivial	£53	£51

Materiality and misstatements

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to Audit Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £51k, based on 3% of overall materiality. If you have any queries about this, please raise these with Suresh Patel.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement Audit Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on the financial statements and on our audit opinion.

Misstatements also cover qualitative misstatements and include quantitative and qualitative misstatements and omissions relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to Audit Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

05

Significant risks and other key judgement areas

Significant risks and other key judgement areas

Following the risk assessment approach set out in the *'Audit scope, approach, and timeline'* section, we have identified the risks of material misstatement in the financial statements. These risks are categorised as significant, enhanced, or standard. The definitions of these risk ratings are set out below.

Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. As required by auditing standards, a fraud risk is always assessed as a significant risk.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

Significant risks and other key judgement areas

Audit risks and planned responses

In this section, we have set out the risks that we deem to be significant and enhanced, and our planned response. An audit is a dynamic process, and should we change our view of risk and/ or our approach to address those risks during our audit, we will report this to Audit Committee.

Significant risks

	Risk name	NLWA	Group	Fraud	Error	Judgement	Risk description	Planned response
1	Management override of controls (a mandatory significant risk for all entities).	✓	✓	●	○	●	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process.	We will address the risk through performing audit procedures, covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • testing a sample of journals that meet our risk criteria and other adjustments recorded in the general ledger in preparing the financial statements.; and • significant transactions outside the normal course of business or otherwise unusual.

Significant risks and other key judgement areas

Significant risks

	Risk name	NLWA	Group	Fraud	Error	Judgement	Risk description	Planned response
2	Valuation of property, plant and equipment 2023-24: £181.4m	✓	✗	○	●	●	The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle. The 2023/24 financial statements showed Land and Buildings with a value of £181.4m and assets under construction at £464.4m. Land and buildings primarily being made up of the Edmonton EcoPark and Pinkham Way and Hornsey Street sites (valued on DRC basis), and Assets Under Construction relating almost entirely to the North London Heat and Power Project. These were revalued by external valuation expert Savills. Due to the high degree of estimation uncertainty associated with valuations, we determined this area to be a significant risk.	We will address this risk by reviewing the approach adopted by the Authority to assess the risk that assets not subject to valuation at year end are not materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicated that fair values have moved materially. In addition, for any assets which are revalued during the year we will: • assess the valuer's qualifications; • assess the valuer's objectivity and independence; • review the methodology used; and • for a sample of assets, perform testing of the associated underlying data and assumptions. • ensure the accounting treatment of the valuation and associated movements is compliant with relevant accounting framework.

Significant risks and other key judgement areas

Other area of focus

IFRS 16 implementation:

IFRS 16 has been applicable from 1 April 2024 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Authority is now required to reclassify operating and finance leases, pass related adjustments and make disclosures in its 2024/25 accounts as required by IFRS 16.

As of 31 March 2024, the Authority did not have any material operating or finance lease liabilities; therefore, we have not identified this as a significant audit risk. Since 2024-25 is the first year of implementation, there is a possibility of errors, as not all required leases may have been identified. We will continue to treat this as an area of focus during our audit.

As part of our review, we will test a sample of leases reported under IFRS 16 to verify their accounting treatment and disclosure in the 2024/25 financial statements.

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance,* we would like to seek your views/ knowledge of the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between North London Waste Authority and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to Audit Committee which we will obtain prior to completing our audit

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 Communication with Those Charged with Governance, we are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

Internal audit function

We will liaise with internal audit throughout the audit and obtain a copy of their reports relating to the financial period under audit to determine whether any findings will have an impact on our risk assessment and planned audit procedures. We do not plan to rely on the work of internal audit.

06

Value for Money

Value for money

The framework for value for money work

We are required to form a view as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

This will be the first audit year where we are undertaking our value for money (VFM) work under the full 2024 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Authority has proper arrangements in place, and to report in the auditor's report where we are not satisfied that arrangements are in place. Where we have issued a recommendation in relation to a significant weaknesses this indicates we are not satisfied that arrangements are in place. Separately we provide a commentary on the Authority's arrangements in the Auditor's Annual Report.

A key change in the 2024 Code of Audit Practice is the requirement for us to issue our Auditor's Annual Report for the year ending 31st March 2025 to you in draft by the 30th November 2025. This is required whether our audit is complete or not. Should our work not be complete, we will report the status of our work and any findings to up to that point (and since the issue of our previous Auditor's Annual Report). Further information will be provided in Appendix A.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks; and
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified, we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle, and we are not expected to wait until issuing our overall commentary to do so.

Planning	Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements which forms part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement; and • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

Value for money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Authority's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, the table below outlines the risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	**North London Heat and Power Plant (NLHPP) – delays to delivery of the ERF facility by the contractor** As reported by the Authority, Acciona, the contractor responsible for the mechanical and electrical sections of the ERF build, has faced delays in securing and mobilizing sub-contractors which has impacted the project schedule. Acciona have reported issues in their delivery of the next stages of the design, procurement and construction of the ERF facility. The Authority has reported challenges in obtaining a realistic timetable and delivery plan for the delayed work. The above poses a risk around the Authority's arrangements in place for securing economy, efficiency and effectiveness in its use of resources specifically related to managing significant outsourced contracts/services.	○	○	●	To assess and conclude on this risk of significant weakness, our audit fieldwork will: • Review the minutes of the Authority's Programme Committee for NLHPP to examine discussions on the causes of delay and the decisions made by the Committee. • Understand and document the Authority's arrangements for contact management, including the mechanisms for tracking progress against agreed milestones and metrics. • Understand and document whether the Authority's assessment of the impact on the NHLPP budget.

07

Audit fees and other services

Audit fees and other services

Fees for work as the Authority's appointed auditor

Our fees (exclusive of VAT and disbursements) as the Authority's appointed for the year ended 31 March 2025 are outlined below.

Our fees are designed to reflect the time, professional experience, and expertise required to perform our audit. The main aspects impacting upon the fee this year when compared to the prior year are higher scale fees set by PSAA and additional work to address risks. PSAA is currently considering the final fees for the 2023/24 audit.

At this stage of the audit, we are not planning any divergence from the scale fees set by PSAA as communicated in our fee.

Area of work	2024-25 Proposed Fee	2023-24 Actual Fee
Code Audit Work (scale fee)	£100,869	£89,712
Additional work:		
- Value for money	TBC	-
- Additional work required to comply with ISA 600 (revised) Group accounts	TBC	-
Total fees	**115,869**	89,712

Fees for non-PSAA work

We have not been engaged by the Authority to deliver any non-PSSA work.

08

Confirmation of our independence

Confirmation of our independence

Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Revised Ethical Standard.

Compliance

We are not aware of any relationship between Forvis Mazars and North London Waste Authority that, in our professional judgement, may reasonably be thought to impair our independence.

We are independent of North London Waste Authority and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.

Non-audit and Audit fees

We have set out a summary of the non-audit services provided by Forvis Mazars (with related fees) to North London Waste Authority, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Revised Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with me in the first instance.

Prior to the provision of any non-audit services, I will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and and the associated safeguards we have identified and/or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 1 July 2021 - PSAA]. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

Appendix A: Key communication points

We value communication with Audit Committee, as a two-way feedback process is at the heart of our client service commitment. The Code of Audit Practice as well as ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of matters with you. We meet these requirements, principally, through presenting the following documents to you:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Our Auditor's Annual Report.

These documents will be discussed with management prior to being presented to you and their comments will be incorporated as appropriate.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Changes introduced by the 2024 Code of Audit Practice

The 2024 Code now requires the auditor to issue the draft Auditor's Annual Report by 30th November following each year end. For the 2024/25 audit, this means that we must issue our draft Auditor's Annual Report by 30 November 2025, whether our audit is complete or not.

In instances where our audit work is not complete by 30 November for any given year, the 2024 Code requires us to provide a summary of the status of the audit at the time of issuance and should reflect the work completed to date since we issued our previous Auditor's Annual Report. In such instances, we will issue an Interim Auditor's Annual Report to meet the 30 November deadline. On completion of any outstanding financial statement audit work or Value for Money arrangements work, we will re-issue the Auditor's Annual Report which will include an updated commentary on Value for Money arrangements.

Appendix A: Key communication points

ISA (UK) 260 *Communication with Those Charged with Governance*, ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Inquiries with Audit Committee to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at Audit Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s)

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Authority or Audit Committee in the context of fulfilling your responsibilities.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off)} and inquiry of Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that Audit Committee may be aware of.	Audit Completion Report and Audit Committee meeting(s)
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm's System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review, and update quality risks each quarter, taking into consideration the number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm's root cause analysis and remediation functions, etc.) • Identify, design, and implement responses as part of the process to strengthen our firm's internal control environment and overall quality • Evaluate responses and remediate control gaps or deficiencies We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here. The details of our evaluation of our system of quality management as of 31 August 2024, and our conclusion, set out in our 2023/24 Transparency Report, which is available on our website here.	Audit Strategy Memorandum

Appendix A: Key communication points

Required communication	Where addressed
An overview of the work to be performed at the components of the group and the nature of our involvement in the work to be performed by component auditors.	Audit Strategy Memorandum and Audit Completion Report
Instances where our review of the work of the component auditor gave rise to a concern about the quality of the component auditor's work, and how we addressed that concern.	Audit Completion Report
Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.	Audit Strategy Memorandum and Audit Completion Report, as necessary
Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.	Audit Completion Report and discussion at Audit Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s)

Appendix B: Current year updates, forthcoming accounting & other issues

Current and forthcoming accounting issues

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2019

IFRS 16 Leases (Issued January 2016)

- IFRS 16 Leases (IFRS 16) will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise right of use assets and associated lease liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. Subsequent to initial recognition, a service concession arrangement liability will subsequently measured following the principles set out in IFRS 16. The introduction of this standard is likely to lead to significant work being required in order to identify all leases and service concession arrangements to which the Authority are party to. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed. IFRS 16 was adopted by the Code of Practice on Local Authority Accounting in 2024/25.

Effective for accounting periods beginning on or after 1 January 2023

IFRS 18 *Presentation and Disclosure in Financial Statements* (Issued April 2024)

- IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements. As IFRS 18 was only issued in April 2024 it has yet to be adopted by the Code of Practice on Local Authority Accounting in 2024/25 therefore the applicability to local government is to be determined.

International Standard on Auditing (UK) 600 Revised - Special considerations - Audits of group financial statements (Including the work of component auditors)

ISA (UK) 600 deals with the special considerations that apply to audits of group financial statements, including those circumstances when component auditors are involved. The auditing standard has been revised. The revised standard is effective for audits of group financial statements for periods beginning on or after 15 December 2023. The revisions made to ISA (UK) 600 impact how we perform audits of group financial statements, and how we communicate our audit strategy and audit findings arising from audits of group financial statements, going forward. This page sets out the key changes made to ISA (UK) 600 and how Forvis Mazars will apply the requirements of the revised standard in practice.

Key changes

The previous ISA (UK) 600 included prescriptive requirements in respect of the audit procedures required over ‘significant components’ of a group, i.e., a ‘full scope’ audit of a significant component’s financial information relevant to the group financial statements was required. Forvis Mazars defined a ‘significant component’ as one that contributed to the group financial statements more than 15% of the materiality benchmark selected to determine group materiality, e.g., if we had determined materiality using a profit before tax benchmark, any component that contributed more than 15% of the group’s reported profit before tax would be classified as a significant component and a ‘full scope’ audit would be performed over that component’s financial information.

ISA (UK) 600 Revised eliminates the 'significant component' concept, opting instead for consideration of risks of material misstatement at the assertion level of the group financial statements that are associated with components. This results in a group audit that is better focused on the risks of material misstatement of the group financial statements and affords greater flexibility in how we classify components and how we may design the nature and extent of audit procedures to be performed over a component’s financial information, i.e., we can determine the nature and extent of the audit procedures to be performed over a component’s financial information based on the specific risks relevant to the group financial statements.

ISA (UK) 600 also, however, removed the option to limit the procedures performed over a ‘non-significant’ component’s financial information to desktop analytical procedures. We are now required to perform substantive audit procedures (or a combination of substantive audit procedures and tests of controls) over the group financial statements, including the financial information relating to components in the group, until the residual, untested balances, classes of transaction and disclosures in the group financial statements are below our group materiality. This is to ensure that aggregation risk (the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole) is addressed appropriately.

In combination, these changes may result in a change to the nature and extent of the audit procedures we perform over the financial information of components on a group audit compared to previous years and may result in components that were not previously in scope of our group audit being brought into scope going forward to ensure that we address aggregation risk appropriately.

To ensure consistency of approach, Forvis Mazars will apply the definitions set out below when performing audits of group financial statements going forward:

Key component	Material component	Non-material component
Any component: i. Which is greater or equal to 15% of the benchmark chosen for calculating group materiality (key by size); or ii. Where the specific nature or circumstance of its financial information make it likely to include significant risks of misstatement of the group financial statements (key by risk).	Any component, other than a key component, that contributes to one or more group financial statement areas an amount that is above group financial statement materiality.	A component, that is not a key component or a material component, that is scoped into a group audit to reduce the risk of material misstatement of the group financial statements to an acceptably low level (based on size or risk) in situations when, after assessing which components are key components and material components, the aggregate amount of a financial statement area related to un-scoped components is still above group financial statement materiality.

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International Standard on Auditing (UK) 600 Revised - Special considerations - Audits of group financial statements (including the work of component auditors)

Key changes (continued)

Definition of 'component' - The definition of 'component' has been revised to "an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for the purposes of planning and performing audit procedures in a group audit".

This provides clarity on how components may be identified in a group audit and may result in a change to how we identify components on a group audit compared to previous years. For example, we may group separate legal entities (e.g., subsidiaries) in a group based on common characteristics (such as common management, common information systems, and common geographical locations) and treat those components as a single component, when appropriate to do so.

Common controls - The definition of 'group-wide' controls has been removed and we are instead required to consider 'common controls', being controls that operate in a common manner for multiple entities or business units.

This may assist us in grouping separate legal entities, business units, functions, or business activities in a group into a single component for the purposes of a group audit; or it may result in us grouping specific account balances or classes of transaction recorded by individual legal entities, business units, functions, or business activities into a single population for the purposes of our audit procedures.

For audits where we are adopting a controls-based audit strategy, this may result in efficiencies, as we can rely on a single control for the purposes of the audits of more than one component where that control is common to those components.

Definition of 'engagement team' - The definition of 'engagement team' has been revised to include component auditors. While this change may seem inconsequential, it forms part of the overall changes intended by ISA (UK) 600 Revised to enhance two-way communication between the group auditor and component auditors during a group audit. This will result in enhanced direction and supervision of component auditors by the group auditor during a group audit.

Calculation of component materiality - The requirement to set overall materiality for a component has been removed. We are now only required to determine component performance materiality.

Other changes - ISA (UK) 600 Revised includes new and revised requirements and application material that better aligns the standard with recently revised standards such as ISQM (UK) 1, ISA (UK) 220, and ISA (UK) 315. The new and revised requirements also strengthen our responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and audit documentation. These changes are to encourage proactive management of quality at the group engagement level and the component level; reinforce the need for robust communication and interactions during a group audit; and foster an appropriately independent and challenging sceptical mindset.

Scope of audit work to be performed over a component's financial information - Forvis Mazars will, going forward, determine the scope of work to be performed over a component's financial information on a group audit using the definitions set out below:

Full scope	Specific scope	Group Engagement Team Instructed Procedures
Designing and performing audit procedures on the entire financial information of a component.	Designing and performing audit procedures on one or more specified account balances, classes of transaction, and/ or disclosures of a component.	Performing specified audit procedures, as designed and instructed by the group engagement team.

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