

ANNUAL GOVERNANCE REPORT
WDA/35/11

Recommendation

That:

1. The auditor's findings attached at Appendix 1 to the report be noted;
2. Members note the recommendations contained within the auditor's report to further strengthen the Authority's financial and governance arrangements and grant delegated powers to the Chief Executive to finalise the proposed action plan; and
3. The Treasurer of the Authority sign the Letter of Representation attached at appendix 2

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Report of the Treasurer

1. Purpose of the Report

- 1.1 To present Members with the findings, conclusions and recommendations resulting from the Audit Commission's review of the Authority's statutory accounts and of its arrangements to secure value for money, to enable the auditor to comply with the auditing standard ISA 260 (UK&I).

2. Background

- 2.1 The auditing standard, ISA 260 (UK&I), and the statutory audit framework requires the Audit Commission who act as the Authority's external auditor to produce an Annual Governance Report to 'Those Charged with Governance' at the end of the audit (the report is attached at Appendix 1). For Merseyside Waste Disposal Authority the Members of the Authority are 'Those Charged with Governance', although this can be delegated to the members of the Audit Committee as necessary.
- 2.2 The report covers all the external auditor's responsibilities including the audit of the Authority's statutory accounts as prescribed by professional auditing standards and a value for money conclusion. The report is to be considered before the auditor can formally conclude the audit.
- 2.3 Once the report has been considered by the Authority the Treasurer will provide the Auditor with a Letter of Management Representation (Appendix 2). The letter confirms to the auditor there are no matters relating to the audit that the auditor has not been told about.
- 2.4 After the ISA260 report and the Letter of Representation have been provided the auditor will be able to issue the audit opinion and certificate. This will then enable the Authority to meet the statutory timetable for publishing the Statement of Accounts by 30 September.

3. Report to Those Charged with Governance

- 3.1 The Audit Commission's report is attached at Appendix 1 to this report. The report includes the auditor's opinion in relation to:
 - The Authority's financial statements for 2010-11: and
 - A value for money conclusion in relation to 2010-11.
- 3.2 The Auditor is proposing an unqualified opinion and value for money conclusion and will issue the audit conclusion after this report has been considered by the Authority.
- 3.3 The auditor has made some recommendations for improvements to the way the accounts are prepared. Implementing these recommendations will improve the quality of information in the Authority's financial statements.

4. Amendments to the Statement of Accounts 2010-11

- 4.1 During the Audit process the auditor has highlighted a number of amendments that could be made to the Authority's Statement of Accounts for 2010-11. These amendments have been agreed as they improve the quality of the Authority's financial information.
- 4.2 The most significant amendments in the accounts relate to changes in the disclosures relating to the Authority's fixed. A net amount of £1.7M was excluded from the charges for impairment relating to the Authority's assets, due to an omission. This amount was identified by the audit and an amendment was agreed. There was a compensating amendment to unusable capital accounting reserves and so there is no impact on the General Fund. There were also a number of amendments to fixed assets disclosures relating to asset lives, which had an effect on a number of entries through the accounts including the impact of depreciation. Once again these impacts were offset by adjustments to the unusable capital accounting reserves and so there was no impact on the General Fund.
- 4.3 There was a significant and late change in the way cash was accounted for, this change was led by the Authority's service provider and reflects better the reality that MWDA does not have a bank account and is owed the cash as a debtor in the accounts. The lateness of the change meant that not all the impacts were identified before the audit started and so a number of further amendments have been made to reflect that change. In particular the treatment of cash and cash equivalents (a new category) was reviewed. At the date the draft accounts were finalised an amount of

£10M was categorised as a cash equivalent. This treatment was reviewed during the audit and the amount was moved from that category in the Balance Sheet to the category of short term debtors, which is a more accurate reflection of the nature of the asset. There is no impact on the financial position of the authority from this change which means the category of asset in the Balance Sheet is more accurate.

- 4.4 The auditor's review of the Group accounts within the statement showed that there were inconsistencies in the presentation of the prior year comparative figures. These inconsistencies have been addressed and a number of changes have been made.
- 4.5 There are a larger number of presentational, disclosure based and typographical amendments to the statement of accounts than would normally be the case. The increased complexity of the accounts, and additional work required meant that this was a more difficult year than expected. The changes have been agreed and such a scale of changes is unlikely to happen again. The auditor has recommended that as part of the closedown of accounts next year, more time and resource is allocated to reviewing the quality of the accounts. This recommendation will be implemented in full.
- 4.6 The financial impact of the changes is not significant as most of the amendments, even the larger ones are presentational or offset by equal and opposite amendments. The overall effect is that the financial position has improved by some £240k.

5. Risk Implications

- 5.1 The Authority has a statutory duty to publish audited accounts each year and failure to do so would lead to a qualified opinion by the Authority's external auditor.

6. HR Implications

- 6.1 There are no HR implications associated with this report

7. Environmental Implications

- 7.1 There are no environmental implications associated with this report.

8. Financial Implications

- 8.1 There are no new financial implications associated with this report.

9. Conclusion

- 9.1 Members are asked to note the recommendations contained within the auditor's report to strengthen the Authority's financial and governance arrangements and grant delegated powers to the Chief Executive to finalise the proposed action plan attached to the auditor's report.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.