

**AUDITOR'S REPORT TO MEMBERS****WDA/29/14****Recommendation**

That:

1. The Auditor's findings attached at Appendix 1 be noted; and
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 Treasurer to finalise the proposed action plan.

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**AUDITOR'S REPORT TO MEMBERS****WDA/29/14****Report of the Treasurer****1. Purpose of the Report**

- 1.1 To present Members with the findings, conclusions and recommendations resulting from Grant Thornton'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 Grant Thornton, who are appointed by the Audit Commission as the Authority's external auditor, to produce an Annual 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 and Governance 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 After the ISA260 report has been considered and the Authority's Letter of Management Representation has been provided (should Members approve the proposed letter in this meeting) the auditor will be able to issue the audit opinion and certificate. This will enable the Authority to meet the statutory timetable for publishing the Statement of Accounts by 30 September.

**Merseyside Waste Disposal Authority****26<sup>th</sup> September 2014**

### **3. Report to Those Charged with Governance**

- 3.1 Grant Thornton'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 2013-14: and
  - A value for money conclusion in relation to 2013-14.
- 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 2013-14**

- 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 2013-14. These amendments have been agreed as they improve the quality of the Authority's financial information.
- 4.2 The auditor identified a number of adjustments and amendments to the accounts which have been agreed to ensure the accounts reflect the requirements of the Code of Practice more accurately. A small number of the adjustments had a positive effect on the Authority's financial position and the General Fund Balance which has improved by over £2M. Other adjustments are technical accounting matters and have had no impact on the Authority's financial position or the Levy on the District Councils. The adjustments include:
- Over a number of years the external auditors from the Audit Commission and subsequently Grant Thornton raised an accounting issue regarding the treatment of Closed Landfill Sites managed by the Authority. Their view was that the Authority should make a Provision in the accounts to provide for the future costs of managing the sites. The view taken by the Treasurer was that because the Authority spends a significant sum annually on maintaining the sites and carries appropriate insurance cover this was not necessary. The Auditors have accepted the Authority's position over the last couple of years. However, the external auditors have completed a further technical review of the position, and in their view a provision is required in the

Authority's accounts going forward. Without such a provision being provided the auditors would have to consider making a qualification to the Authority's accounts.

- To avoid the qualification it has been agreed to make entries in the accounts that reflect the auditors view and as a consequence a £11.3M provision has been made in the accounts. The amount will be written down each year to reflect the actual costs of maintaining the landfill sites. This very large provision has no impact on the Authority's financial performance and usable balances as it is offset by an equal and opposite entry in the Authority's technical accounting entries as a part of the Capital Adjustment Account (CAA). The subsequent annual entries to write down the provision are also reflected in equal and opposite entries writing down the CAA. The overall effect is to increase the provisions held on the balance sheet, matched off by an increase in the technical CAA, both sides of which are written down slowly as the landfill sites are managed over time. There is no direct impact on the Authority's financial performance or the balances available for use.
- The Authority's accounting treatment for the Materials Recycling Facility at Gilmoor was reviewed. The treatment was regarded as being too prudent and charges had been made to the General Fund rather than solely against the balance sheet. This treatment continued over a three year period and correcting the entries has allowed the General Fund to be increased by over £2.3M.
- A compilation error led to £380k of expenditure being double counted as it was included twice in the Comprehensive Income and Expenditure Statement (CIES), when corrected this has also improved the General Fund position.
- The auditor identified a number of adjustments and amendments to disclosures in the accounts which have been agreed to ensure the accounts reflect the requirements of the Code of Practice more accurately. These adjustments and amendments are largely technical disclosures and do not have any direct impact on the Authority's overall financial position.
- The most significant amendment is in a disclosure about financial instruments, which give the reader of the accounts information on the extent of the authority's long and short term financial liabilities and assets and the risks attached to each. A part of this involved reviewing

the commitments entered into by the Authority in terms of long term contracts. The original treatment of the disclosure by the Authority reflected the full cost to the Authority of the long term contract with Veolia, as a long term commitment. This was regarded as an over cautious approach, and an amendment to the disclosure was made such that instead of the whole cost of the contract being included, only the potential costs of assets acquired under the contract was required to be included. This led to a very large amendment to the disclosure of £351M, making a significant difference to the financial instruments note. The full cost of the Veolia contract is included elsewhere in the accounts. This makes no difference to the financial position of the Authority.

- Elsewhere in the financial instruments note an adjustment of £2.7M was made in respect of the difference between the book value and the fair value of the service concession liability.
- In the note accompanying the property plant and equipment disclosures the value of vehicles, plant and equipment, and the accompanying depreciation were both overstated by £10M. The balances in the balance sheet were correct, but in the note an equal and opposite adjustment had been left in. A further adjustment to the disclosure was made in respect of depreciation correctly charged to the CIES and Movement in Reserves Statement (MIRS) but not shown properly in the note.
- Elsewhere there were a number of disclosure adjustments to help improve the quality of the accounts.

4.3 The Auditor has made a number of recommendations within their report; these have been agreed by officers.

## **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 The Authority's financial position is improved by some £2M as a result of the amendment of previous prudent accounting treatments.

## **9. Legal Implications**

9.1 In agreeing a statement of accounts and receiving an audit opinion the Authority is able to meet its statutory duty to publish the statement by the 30<sup>th</sup> September 2014.

## **10. Conclusion**

10.1 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 Treasurer 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.