

MRWA RESPONSE TO EXTERNAL AUDITOR'S REPORT
WDA/28/21

Recommendation

That Members:

1. Accept the external auditors report and recommendations, and
2. Agree the Authority's response the external auditors report and recommendations

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Report of the Chief Executive

1. Purpose of the Report

- 1.1 Members are asked to accept the external auditors report and recommendations as set out in Appendix 1.
- 1.2 Members are asked to agree the Authority's proposed response to the external auditor's report and recommendations.

2. Background

- 2.1 The Authority is required to prepare a statutory statement of accounts each year and that statement is subject to a statutory external audit.
- 2.2 The Authority has prepared the accounts, but the external audit of those statements has been delayed and the accounts for 2018-19 and subsequent years remain outstanding.
- 2.3 As a consequence of the delays, the external auditor considers that issuing statutory recommendations under section 24 of the Local Audit and Accountability Act will help the Authority in ensuring the accounts audits can be concluded.
- 2.4 The Authority is required to consider the recommendations and to decide whether the recommendations are accepted and what action, if any, to take in response.

3. Matters for the auditor

- 3.1 The external auditor has issued a report, attached at Appendix 1, setting out the issues that he considers have delayed the conclusion of the audits. He has included in that report a number of recommendations made under section 24 that will help to ensure the delays in the conclusion of the audit are resolved in a timely way.
- 3.2 The key issue for the auditor is one of the capacity of the finance team to catch up with the outstanding audit and accounts queries. The team is

considered by the auditor to be very small and with a diverse workload that does not just involve the statement of accounts. Where there are delays in concluding the accounts work then the capacity of the accounts team to catch up with the audit queries is felt to be quite limited. The auditor has recommended that additional capacity be identified to support the catch up and onward preparation of the accounts. In particular, the auditor is concerned to bring in additional CIPFA capacity so that the particular requirements of local government accounting can be supported.

- 3.3 The Authority has reviewed the circumstances and recognises that the capacity in the finance team may be at times under some pressure. This pressure has meant that the capacity for catching up with external audit queries on the statement of accounts can sometimes be limited. The proposal to seek additional CIPFA qualified support is accepted and initial discussions have already been held with colleagues in other partner local authorities to see whether there is any capacity or appetite for additional support to enable the statement of accounts to be brought back on track. Failing that there may be a need to recruit additional resources on a consultancy basis to provide interim support.
- 3.4 Elsewhere the auditor has expressed concerns that the Authority has not completed a cash reconciliation which they see as a key control. The auditor has recommended that a cash reconciliation be completed to support the accounts exercise.
- 3.5 The Authority does not have a bank account and does not manage cash and so the proposal regarding a cash reconciliation was not initially well understood. Further discussions have highlighted that a cash reconciliation between the Financial Ledger and the Statement of Accounts can be carried out and will provide additional assurance about the accounts. The recommendation is accepted and there have already been meetings held with the service provider to ensure that records are shared so that the Authority is able to complete its own independent verification of the cash reconciliation.
- 3.6 The auditor has noted that the systems used by the Authority to support the production of the accounts are at times cumbersome and that this can cause delay and additional effort for both the auditor and the finance team in the preparation and audit of the accounts. The auditor has recommended that the authority works to review the financial coding structures within the systems so that they better support the Authority's requirements for financial reporting.

- 3.7 The auditor's issues over the financial information systems used to support the production of the statement of accounts have been relayed to the Authority's service provider. The provider has confirmed that there is a commitment to reviewing, and in all likelihood replacing, the financial information system. As a part of this the Authority has asked to be a part of a working group to enable it to work with the provider so that the particular requirements of the Authority, which may be different from the service provider's requirements, may be reflected in the revised financial information system. It is likely that the implementation of any changes or a new system will take up to 18 months.
- 3.8 Separately, the Authority has been using a complex and interlinked spreadsheet to produce draft accounts after taking downloads from the financial information system. That spreadsheet has proved to be unwieldy and as a consequence has created additional work for the audit team and the finance team. The spreadsheet has been reviewed and much simplified, so that the production of the accounts and the support for the auditor are made easier to follow.
- 3.9 The auditor has set out that the Authority should be updated at each meeting on the progress being made against each of his recommendations. Members will receive an update on these recommendations as requested, until they are all implemented.

4. Risk Implications

- 4.1 The following risks have been identified in relation to the development and implementation of the Authority's corporate planning processes:

| Identified Risk | Likelihood Rating | Consequence Rating | Risk Value | Mitigation |
|--|-------------------|--------------------|------------|--|
| Failure to respond to statutory recommendations | 1 | 5 | 5 | The Authority will respond positively to the auditor's recommendations |
| Statements of accounts uncorrected errors, risks of balances being misstated | 3 | 4 | 12 | Ensuring that actions arising from the auditor's recommendations will ensure this risk is mitigated. |

5. HR Implications

- 5.1 Directing the work of either seconded or contract staff will need to be managed.

6. Environmental Implications

- 6.1 No new environmental implications.

7. Financial Implications

- 7.1 Members will be informed if there are financial impacts arising from this report when the audits are concluded. It is likely that some additional costs may arise as additional resources are allocated to support the production of the accounts.

8. Legal Implications

- 8.1 The Authority is legally required to consider the external auditor's recommendations, whether they are accepted and what action to take in response.
- 8.2 The Authority's proposed response is set out in this report.

9. Conclusion

- 9.1 Members are asked to accept the Auditor's recommendations and management actions are in place or underway to address them, as set out in this report. Members will receive future progress reports.
- 9.2 Members are asked to agree the Authority's proposed response the external auditors report and recommendations.

The contact officer for this report is: Peter Williams
7th Floor, Number 1 Mann Island, Liverpool, L3 1BP

Email: peter.williams@merseysidewda.gov.uk

Tel: 0151 255 2542

Fax: 0151 227 1848

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