

Mersey Waste Disposal Authority

Section 24 Statutory recommendations

10 November 2021



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Dear Sirs

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Authority's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act due to inadequate arrangements at the Authority to prepare reliable financial statements and supporting working papers for audit purposes. This is primarily due to a lack of capacity within the Authority's small finance team to prepare accounts that fully meet the requirements of the Code of Audit Practice and respond to audit requests in a timely manner. Further details are set out in the attached report.

What does the Authority need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:

The Authority must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Authority

At that public meeting the Authority must decide

- whether the recommendations are to be accepted, and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies the meeting publication requirements that the Authority must comply with.

Grant Thornton UK LLP

Chartered Accountants

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Background to the recommendations

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate financial reporting arrangements at the Authority, which have contributed to the Authority's 2018/19 and 2019/20 accounts remaining unsigned.

Financial management arrangements at Merseyside Waste Disposal Authority

The Authority has a very small finance team in place. The Authority also has an arrangement in place with a service provider who provide financial system support.

We have been unable to complete our 2018/19 and 2019/20 audits due to material non-compliance with the CIPFA Code requirements. The Authority has not been able to resolve some of the complex financial reporting issues internally without bringing in external financial expertise, which has resulted in significant delays in finalising the audits. The root cause of this is that the recurrent investment in its finance functions is not sufficient. This has led to insufficient capacity within the finance team to properly amend the accounts in addition to other responsibilities such as financial planning and budgetary control. Whilst we acknowledge that availability of audit resourcing has caused some of the delay noted above, we believe there remains an underlying capacity issue within the finance function in fulfilling its financial reporting duties.

Our concerns with regard to the Authority's financial reporting capacity have continued to increase in recent years with the number of amendments required to the financial statements considerable as reported in our draft ISA 260 reports. We have discussed with management the need to strengthen of its arrangements for accounts preparation and review in order to improve the process, however, the preparation of the accounts continues to be a cumbersome and very time intensive exercise due to the accounts documentation in use.

We have previously agreed with management to bring in a consultant to advise and assist with the accounts to resolve the complex technical issues raised during the audits. Whilst the Authority has engaged a consultant, due to the lack of capacity, the amendments made to the accounts have not yet been fully resolved.

There is also a significant financial control weakness due to the absence of the cash reconciliation between the cash figure provided in the financial statements and the cash shown on the Authority's ledger, which was raised as an audit recommendation in our draft Audit Findings Report for 2018/19. The Authority has not implemented this key control on the grounds that it does not hold its own separate bank account. The Authority's cash is held in a bank account belonging to the service provider. In this circumstance, we expect that the Authority reconciles the cash figure in the Authority's accounts to the cash figure provided by the service provider.

The Authority is reliant on the financial system (general ledger) provided by a service provider. We understand that the Authority does not have the access rights to make changes to the ledger coding structure to one that is more reflective of the Authority's activities. As a consequence, a significant number of manual adjustments to the ledger are required during the closedown of the accounts and preparation of the financial statements.

The overall impact of the incorrect accounting treatment could result in the Authority failing to meet its statutory duty to set a balanced budget if its reserves levels have been overstated and the general fund reserve falls into a deficit balance. Failure to produce robust and accurate financial statements in a timely manner is a weakness in the arrangements of the Authority and risks non-compliance with its statutory duties.

Page 4 sets out our statutory recommendations.

Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Financial Reporting capacity and capability	<p>The Authority should put in place arrangements to address the weaknesses identified within the finance team. In our view, the Authority should:</p> <p>1. Increase the budget available to the finance team to enable it to obtain CIPFA qualified technical support to assist in resolution of the prior year account issues and also accounts preparation in future years. This should help to ensure robust processes are brought into place for the Authority's financial reporting responsibilities and reporting requirements. It should also ensure there is sufficient capacity within the finance team to respond to audit information requests and queries in a timely manner. This should include a quality control and oversight function.</p>	<p>Management has responded to the recommendations raised as follows:</p> <p>1. 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.</p> <p>The responsible officer for this work is the Chief Executive.</p> <p>The due date implementation is February 2022, which is when management are able to agree a revised budget approved by the Authority. In the meantime management will be working on that in the background to effect the improvements as soon as possible.</p>

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Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Financial Reporting capacity and capability	2. Implement a cash reconciliation control.	<p>2. 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.</p> <p>The responsible officer for this work is the Director of Finance.</p> <p>The due date implementation is December 2021.</p>

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Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Financial Reporting capacity and capability	3. Evaluate options for creating a ledger coding structure that is more reflective of the activities of the Authority.	<p>3. 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.</p> <p>The responsible officer for this work is the Director of Finance.</p> <p>The due date implementation is April 2023 which is linked to changes by the service provider of their ledger system/and or another system being developed with alternative partners if that is not suitable.</p>
	4. Report progress against the action plan to full Authority at every meeting.	<p>4. Members will receive an update on these recommendations as requested, until they are all implemented.</p> <p>The responsible officer for this work is the Director of Finance.</p> <p>The due date will be ongoing until the recommendations are implemented.</p>



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