

MRWA UPDATE ON AUDIT RECOMMENDATIONS
WDA/02/22

Recommendation

That Members:

1. Note the Authority's progress in response to audit recommendations

THIS PAGE INTENTIONALLY BLANK

MRWA UPDATE ON AUDIT RECOMMENDATIONS

WDA/02/22

Report of the Chief Executive

1. Purpose of the Report

- 1.1 Members are reminded that the external auditor's report in November 2021 included statutory recommendations for the Authority to respond to.
- 1.2 One of the recommendations was that Members receive a report on progress against the other recommendations until agreed actions were implemented, this report responds to that recommendation.

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 considered that issuing statutory recommendations under section 24 of the Local Audit and Accountability Act would help the Authority in ensuring the accounts audits can be concluded.
- 2.4 As required the Authority considered the recommendations and agreed actions that should be taken in response.

3. Matters for the auditor

- 3.1 The external auditor has issued a report which included a number of recommendations made under section 24 that should contribute to ensuring the delays in the conclusion of the audit are resolved in a timely way.
- 3.2 The key issue for the auditor was one of the capacity of the finance team to catch up with the outstanding audit and accounts queries. The team was 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.

- 3.3 The auditor 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.
- 3.4 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 was accepted and, as suggested by the external auditor, 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.
- 3.5 Those initial discussions have not yet been fruitful as our colleagues in other local authorities have their own pressures.
- 3.6 The budget which appears elsewhere on the agenda, and if approved, includes provision for the Authority to take some additional measures to employ support. There will be a further procurement exercise to identify suitable additional resources to support the Finance function.
- 3.7 Discussions over financial support outside the local authority route are proving more positive and the scope and scale of the support role will be set out over the next period. In addition the Authority has recognised that there are resources within the Authority that may be re-directed to provide additional support in the longer term.
- 3.8 The process mapping of the tasks required to support the production of the statement of accounts is a task that will be carried out before the next statement is prepared. This process mapping will be used to identify discrete tasks that can be completed as part of the accounts closedown and audit processes. This will enable the scope of any proposed support to be more clearly defined.
- 3.9 Elsewhere one of the Authority's staff has been given the opportunity for professional development and is currently in an early stage of training with CIPFA with a view to completing their accountancy training as a fully qualified CIPFA accountant. It is expected that the combination of the

additional targeted support and the additional CIPFA qualified member of staff will contribute towards providing the additional resilience that the Authority needs to be better placed to support the production of the Financial Statements.

- 3.10 Separately the auditor expressed concerns that the Authority had not completed a cash reconciliation which they see as a key control. The auditor recommended that a cash reconciliation be completed to support the accounts exercise.
- 3.11 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, as all references were to a bank reconciliation.
- 3.12 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 was accepted.
- 3.13 The reference to the bank reconciliation and the identification of an error in transposing a figure from a working paper meant that the cash reconciliation was a cause of dispute for some time. The error was identified by the Authority in July 2019, and recently the auditor has confirmed that their concern is over the cash reconciliation rather than a bank reconciliation.
- 3.14 Working with the service provider, we are satisfied that the cash reconciliation provided to MRWA and reviewed by MRWA and the auditor is sufficient to satisfy the requirement for the bank reconciliation to be reviewed. The auditor will review the bank reconciliations provided and will provide their view in due course.
- 3.15 The auditor noted that the systems used by the Authority to support the production of the accounts were at times cumbersome and that this could cause delay and additional effort for both the auditor and the finance team in the preparation and audit of the accounts. The auditor recommended that the authority review the financial coding structures within the systems so that they better support the Authority's requirements for financial reporting.
- 3.16 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.

3.17 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.

3.18 The auditor has set out that the Authority should be updated at each meeting on the progress being made against each of his recommendations. This report forms the first of those updates; Members will continue to 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 may 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 note the Authority's progress against the agreed 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.