

ITEM 4**PAPER NO. WRWA 893****WESTERN RIVERSIDE WASTE AUTHORITY**

MEETING	25 th November 2019
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 0208 871 2788) 15 th November 2019
SUBJECT	Report of the Treasurer on the status of the Authority's Audit of the Accounts for 2018/19
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STATUS	Open-circulation of this paper is not restricted.
BACKGROUND PAPERS	No background papers were used in the production of this report

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EXECUTIVE SUMMARY AND BACKGROUND

1. As reported to the Authority at its meetings on 16th September and 15th July and at the meeting of the Audit Committee on 31st July, the external auditor (Deloitte) have not been able to conclude the audit of the Authority's accounts by the deadline of 31st July 2019. This report details what has occurred since the meeting on 16th September.

ACCOUNTS AND AUDIT 2018/19

2. As reported on 16th September the Authority's Auditors Deloitte LLP had written to the Treasurer with a number of detailed questions relating to the accounting treatment in respect of the Waste Management Services Agreement (**WMSA**). This was received on 31st July 2019 and responded to on 20th August 2019. At the Authority meeting on 16th September Members instructed the Treasurer to inform Deloitte that they wished to receive a response as quickly as possible. This was done the following day and chased up on four separate occasions. Eventually a conference call was organised for 25th October and a detailed response was received by the Treasurer on the late evening of 24th October for further discussion.
3. The conference call failed to resolve the three main issues which are technical accounting points relating to the accounting treatment of three distinct areas of the WMSA. It is important to note that two of these issues predate the current Audit, were not raised by the Authority's previous auditors and relate to accounting for the future value, if any, of the residual value agreement and the possibility that the Force Majeure clause in the WMSA is, in accounting terms, an Insurance agreement. The other and perhaps more significant issue relates to the facilitation payment that the Authority received in 2018 which, in the view of the Auditors, should be taken not in one lump but as a payment over the remaining life of the WMSA. The Authority has submitted detailed robust responses to the comments made by the Auditors, but has not, as yet, received any real reasoning from Deloitte supporting their propositions. Despite being requested for a timescale to resolve this matter, as it is now impacting budget setting for 2020/21, Deloitte have declined to set a timescale for resolving this issue.
4. The Authority was advised of the appointment of Deloitte in September 2018 (Paper No. WRWA861). This appointment was made by Public Sector Audit Appointments (**PSAA**) as part of the arrangements established by the Local Audit & Accountability Act 2014. The appointment runs from 2018/19 to 2022/23 and was the result of a competitive tendering process. Immediately prior to this exercise it is understood that Deloitte had no Local Authority external Audit contracts. As reported to the Authority meeting in September, this year has seen a significant increase nationally in

the number of audits not being completed by the deadline of 31st July. As at the end of October it is understood that there were still around 100 incomplete audits nationally.

5. The Authority has to submit a Whole of Government Accounts return to HM Treasury detailing its accounts. The first stage of this return was submitted, as required, based upon the unaudited accounts. The second stage (Audited data) was due on 13th September 2019. The Authority is below the threshold for the WGA itself to be audited, but HM Treasury require this second submission to be based upon a set of audit approved accounts. HM Treasury have chased the Authority for the submission, they are unhappy that we cannot provide a timeframe for completion and are themselves going to contact Deloitte.
6. The arrangements with Deloitte are covered by PSAA's Terms of Appointment and Statement of Responsibilities of Auditors and Audited Bodies. The latter document places on the auditors a responsibility to "plan and complete work within agreed deadlines" and "to maintain close liaison with the audited body". They also have a responsibility to "provide appropriate and adequate resources...". The Authority has to "maintain accounting records and "prepare accounting statements that give a true and fair view ...". It is the view of officers that, after the initial audit work during which it was accepted and reported that there were some errors relating to property valuations and the adoption of new accounting standards, the Authority has kept to its responsibilities. However, it is difficult to see how Deloitte have kept to agreed deadlines as they have refused to indicate a new timeframe and they have not maintained close liaison with the Authority.
7. Under the PSAA's terms of appointment Deloitte are paid a day rate for the additional work covered by this extension to the Audit. This rate is significantly below the commercial rate and, as such, Deloitte are not incentivised to complete this work or to provide resources to complete it. There is apparently also no mechanism to force them to complete this in a timely manner. The Authority may therefore need to consider making a formal complaint to try to resolve this matter; any complaint should initially be sent to Deloitte rather than PSAA.
8. When a final definitive response is received from Deloitte by the Authority, it is likely that further discussions and deliberations may be required, but eventually there will be one of three outcomes. These are:
 - 1) That the Authority and the Auditor agree the accounts without any qualifications. This is clearly the preferred outcome;

2) That the accounts are agreed but qualified in one instance. This is not an unusual outcome and, in 2017/18, occurred in 29 cases; or,

3) An adverse opinion is given. This occurred five times in 2017/18. The final auditor's report will need to be reported to the Authority or a committee of the Authority and agreed by them.

9. Once the above matters are resolved, the Authority will need to meet to sign off the accounts. However, as the Authority meets only four times a year, it is possible that there could be an extended period between the Auditor's report being completed and the next Authority meeting. As previously explained the report has to be approved by either the Authority or a committee of the Authority. In the light of this it is recommended that the Authority re-establish the Audit Committee on the same basis as that set up for the July 31st meeting of one member per constituent Council.

RECOMMENDATIONS

- 4 The Authority is recommended to:
- (a) note the report and the current state of the Audit discussions as set out in the report and decide whether it wishes to formally complain to Deloitte about the time taken to complete the audit;
 - (b) agree the establishment of an Audit Committee on the same basis as the Committee on 31st July 2019 to agree the Accounts once a report has been received from the Auditors; and
 - (c) otherwise receive this report for information

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15th November 2019