

Sefton Metropolitan
Borough Council
DRAFT - Audit results
report
Year ended 31 March 2020



Private and Confidential

12 March 2021

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Sefton Metropolitan Borough Council for 2019/20.

We have substantially completed our audit of Sefton Metropolitan Borough Council for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 4 of this report.

We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 17 March 2021.

Yours faithfully

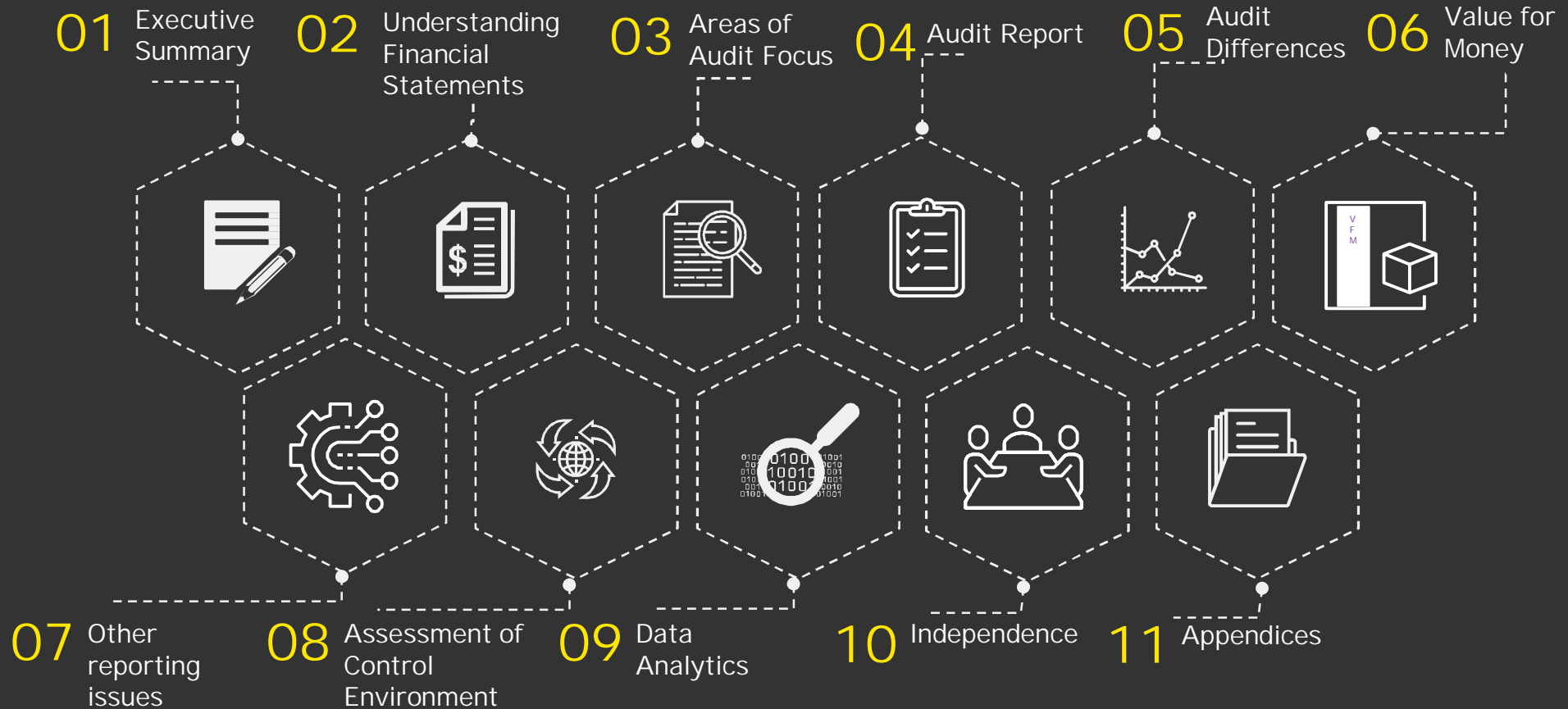
Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report issued 9th March 2020, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality:

We updated our planning materiality assessment using the draft results and also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment for the Council to £11.46m (Audit Planning Report – £11.49m). This results in updated performance materiality, at 75% of overall materiality, of £8.6m, and an updated threshold for reporting misstatements of £0.57m. The basis for setting materiality, at 1.8% of gross expenditure on the provision of services, is consistent with our planning report and the prior year assessment.

Group materiality is unchanged at £11.51m, resulting in performance materiality, at 75% of group materiality, of £8.63m and a reporting threshold for the group of £0.57m.

- Changes to risk factors that caused a corresponding change in our audit strategy,

The current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increased our focus and work in this area and we requested that management undertake a more detailed going concern assessment to support its assertion. Your narrative statement appropriately reflected the increased risks as a result of the pandemic, however we requested that the disclosure in note 63 (a) Basis of Preparation was expanded to set out the basis for preparing the statements on a going concern basis.

The pandemic also impacted the significant risks of Property, Plant and Equipment (PPE) valuations and pensions asset valuations.

This has resulted in additional senior audit time to complete and review these procedures.

Status of the audit

We have substantially completed our audit of Sefton Metropolitan Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- final internal review processes
- review of the final version of the financial statements, including the agreed updated going concern disclosure
- completion of subsequent events review to the date of signing the audit opinion
- receipt of the signed management representation letter
- clearance of final queries in relation to procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

There are no factual unadjusted audit differences arising from our audit.

We have agreed with management an enhanced Going Concern basis of preparation disclosure which is to be included in the notes to the core financial statements.

We identified one amendment over our reporting threshold, note 5 income and expenditure analysed by nature, which management agreed to amend. This resulted in the reclassification of £18.49m between precept and levy expenditure and other service expenditure. The amendment does not have any effect on the total expenditure and or the disclosures made in the Comprehensive Income and Expenditure Statement (CIES).

We identified a small number of other minor disclosure amendments which management agreed to amend these amendments do not have any impact do no impact on the financial results reported for the year.

The auditor of the Pension Fund reported to us that the pension fund financial statements contain an unadjusted error of £16m relating to level 3 assets within the fund. The Council share, at 10.5%, is £1.68m. As the Pension Fund assets have not been amended we consider that the Council disclosures remain materially correct. We raise this issue as it is above our reporting threshold.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Sefton Metropolitan Borough Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. This includes the additional risk identified after the presentation of our audit plan in relation to going concern and liquidity, as discussed with you during the year.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit, we identified no significant deficiencies in internal control to bring to your attention.

We have included three improvement opportunities, and the status of prior year recommendations, in section 8 below.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

- Maintaining Financial Sustainability, in particular the actions to monitor and address the projected shortfalls in the medium term financial plan. As a result of the pandemic, the uncertainty over the ongoing impact on future expenditure and income and the uncertainty of additional future funding, this risk has increased during the audit period.
- Department for Education improvement notice. In June 2019 the Department for Education (DFE) issued an improvement notice in relation to a failure to make sufficient progress against areas of weakness identified in the special educational needs and disability (SEND) provision. We identified risks: of the Council not appropriately responding to the recommendations; or in responding to these priorities the required resources resulted in underperformance against savings requirements which adversely impacted the Council's financial sustainability plans.
- Dedicated Schools Grant (DSG) deficit position. In 2018/19 the Council reported a DSG deficit balance of £0.23m following a net in year overspend of £0.745m. For 2019/20 overspends were projected with a year end deficit of over £2m. Given the increase in actual and projected deficit the we highlighted that the Council need to demonstrate robust plans for recovering the deficit and returning to a sustainable position, while managing the demands on high needs costs.

We have no matters to report in our opinion about your arrangements to secure economy efficiency and effectiveness in your use of resources. We have reported in section 6 our observations in relation to the identified risks and the arrangements to secure financial sustainability.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have yet to complete all of the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, but have no matters to report on the work completed to date.

We have no other matters to report.

Independence

No independence issues have been identified.

Please refer to Section 10 for our update on Independence.

The background of the slide features a close-up, shallow depth-of-field photograph of Euro currency. In the foreground, a 1 Euro coin is in sharp focus, showing the word 'EURO' and the number '1'. Behind it, another coin is slightly out of focus. The background is filled with the intricate patterns and colors of Euro banknotes, including a prominent blue note on the left and a green note at the bottom. A dark grey horizontal bar is overlaid on the lower portion of the image, containing the title and a yellow hexagonal icon.

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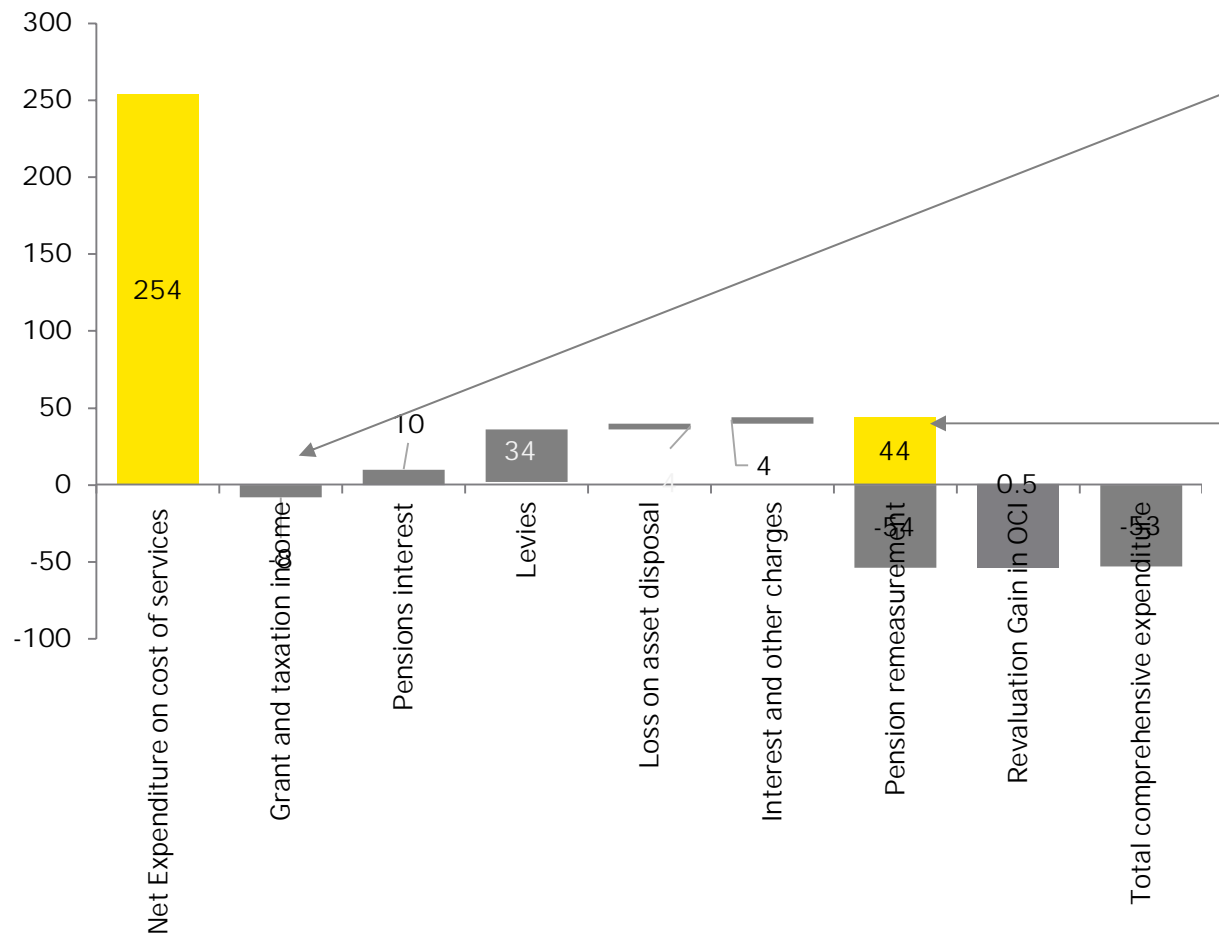
Understanding Financial Statements



Understanding Financial Statements

Key components of net expenditure

Total comprehensive income/expenditure for the year ended 31 March 2019 was net £53m income compared to £124m net expenditure in the prior year. The £177m variance was driven by the accounting transactions for revaluation of Pension Liabilities which resulted in a £98m gain compared to a prior year £49m loss. Net service specific expenditure was £254m, a reduction of £7m from the prior year. The total deficit on provision of services was £44.9m (prior year £69.6m). The following provides an overview of the material items contributing to this change in total comprehensive expenditure reported:



Net cost of services and grant & taxation income: As the first two columns show, the net position from service expenditure and grant income is a net £8m surplus (prior year £12m deficit). The majority of the movement from deficit to surplus is the timing recognition of Government support and the prior year £28m of revaluation loss allocated to services in net cost of services.

Deficit on revaluation of PPE and Pension liabilities: Each year the Authority reports updates to property asset values and pension liability values, in line with accounting standards. In accordance with regulations the impact of these valuations is reflected in total comprehensive income but are reversed out in considering the taxation demand. The pension liability re-measurement is volatile and resulted in a £98m gain in 2019/20, and overall net change of £147m (Prior year net change was a £58m increase in cost), As this chart shows, the underlying net comprehensive expenditure is £44.9m before the recognition of the gain due to the change in pension cost estimate.

Our audit procedures consider the nature of the authority's results including the impact of non-recurring and recurring items where the size is variable although judgmental. Such an assessment provides a useful insight into the underlying net expenditure and outturn



03 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Due to the nature and value of income which comprises of Government Grants, income from Council Tax and Business Rates, it is our view is that the risk is not significant in these areas, but is relevant to other income and operating expenditure.

What judgements are we focused on?

We consider that the risk impacts on the following account balances:

- Year-end trade payables and the calculation of estimates, accruals and provisions which impact on the completeness and valuation assertions.
- Year-end trade receivables and accruals which impacts on the existence and valuation assertions.
- Operating expenditure transactions during the financial year and around the year end which impacts on both the occurrence and completeness assertions.
- Improper capitalisation of revenue expenditure in order to reduce the impact on the general fund

What did we do?

We carried out the following substantive procedures in response to this risk:

- Documented our understanding of the processes and controls in place to mitigate the risks.
- Identified and walked through relevant processes and controls, confirming our understanding.
- Reviewed income and expenditure recognition policies and confirmed consistency of application through performance of testing
- Identified significant accounting estimates for revenue and expenditure, and obtained the basis and methodology on which management made these estimates.
- Tested the significant accounting estimates to confirm appropriateness and consistency with supporting records, and found no evidence of bias
- Sample tested material revenue and expenditure streams with a focus on assets and liabilities at the year-end
- Tested of revenue cut-off at the period end date
- Conducted testing to identify unrecorded liabilities at the year-end
- Tested a sample of Property Plant and Equipment additions to confirm that the expenditure had been appropriately capitalised

Our substantive transaction testing of income and expenditure was supported by our use of data analytics tools to support sample selection and enable our consideration of the full population.

What are our conclusions?

Our testing, subject to the completion of final internal review outlined as to be completed in section one, has not identified any material misstatements from revenue and expenditure recognition.

We identified one material classification error in expenditure disclosed in note 5 to the accounts, income and expenditure by nature. This was amended and had no impact on total expenditure or income disclosed.

Our testing of capital additions did not identify any inappropriate capitalisation of expenditure.

Our testing of accruals and provisions found no inappropriate judgements applied in the recognition and valuation of the liabilities..

Our testing of income recognition found no errors and found no errors in expenditure recognition.

Overall, based on the audit work completed to the date of this report, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement.

We update our assessment throughout the audit. We have not identified any specific fraud risks that resulted in adjustments to our audit strategy.

What judgements are we focused on?

We recognise the risk of misstatements due to fraud or error as potentially occurring in income and expenditure recognition, including related estimates and judgements, or in material and significant accounting estimates relating to pensions, as identified in our significant risks.

What did we do?

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements

We considered the nature and form of fraud risks as part of our audit planning, including direct inquiry of management about the risks of fraud and the controls put in place to address those risks.

We performed substantive testing of a sample of manual journals that met specific risk criteria in order to understand their purpose and appropriateness, and we reviewed and tested significant accounting estimates for evidence of management bias, including those related to pensions, accruals, asset valuation, depreciation, bad debts and provisions.

We considered the existence of significant unusual transactions during the year, identifying no such transactions.

We considered whether the results of testing relating to revenue and expenditure recognition indicated management override of controls, and we tested a sample of Property Plant and Equipment additions to confirm that the expenditure has been appropriately capitalised.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied and our testing of capital additions did not identify any inappropriate capitalisation of expenditure.

Our testing of journals found the items in our risk based sample to be appropriately supported and entered into the general ledger.

Our testing of judgements and estimates did not identify inappropriate judgements or bias in estimates,

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business



Significant risk

Risk of error in valuation of pension fund assets and liabilities in the Local Government Pension Scheme

What is the risk?

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £466 million and at 31 March 2020 totalled £402 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Merseyside Pension Scheme. In 2018/19 the final figures included adjustments for the McCloud and GMP judgements which increased the liabilities recognised.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We consider that this risk is associated to the following specific areas:

- Improper capitalisation or incorrect estimation of liabilities of the fund
- Incorrect estimation of the asset balances of the pension fund allocated to the Council
- Improper application of the pension estimate adjustments to the year end financial statements.

What did we do?

We:

- Liaised with the auditors of the Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assessed the work of the Pension Fund actuary, including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by our EY actuarial team;
- Tested the variation in the pension fund assets used by the actuary in reporting to the Council against the actual year end asset valuation,
- Considered the basis for the actuary valuation of the assets in their report to the Council, and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

Our work on the liabilities recognised, and the assumptions underpinning them, have raised no significant issues.

The key assumptions in relation to the liabilities and our assessments are set out on the following page.

Pension assets: the Fund's valuers have declared a 'material uncertainty' in relation to Direct Property. The Pension Fund assets were not adjusted in relation to this.

Level 3 assets – the pension fund auditor disclosed to us an overstatement of level 3 assets, which was not adjusted on the grounds of materiality. The Council share of the misstatement is not material to the Council financial statements.

Further detail on these issues is given on the following page.

We identified no further issues from the work we carried out.

Therefore we have concluded that the Pension Fund assets are not materially misstated in the Council financial statements.





Areas of Audit Focus

Significant risk



Further details on procedures/work performed

Liability assumptions:

Assumption	Prior year	Current year	Prudent	↔	Central	↔	Optimistic
Discount rate	2.4% p.a.	2.4% p.a.			●		
CPI	2.2%	2.1%			●		
Salary increase	3.7%	3.6%			●		
Mortality rate – current pensioners (m/f)	22.2 / 25.0	20.9 / 24.0		●			
Mortality rate – future pensioners (m/f)	25.2 / 27.9	22.5 / 25.9		●			

Mortality rate: The proposed mortality assumptions use the CMI 2018 model and a long-term improvement parameter of 1.75% p.a. This is at the prudent end of an acceptable range of assumptions. The overall assumptions are acceptable since the base tables are a best estimate from the most recent funding valuations, although they do sit at the prudent end of what we would typically expect to see.

The methodologies and the resulting discount rate, CPI inflation and mortality assumptions are consistent with our experience on other Mercer audit clients in the UK and generally appear acceptable.

Assets:

The Fund's valuers have declared a 'material uncertainty' in relation to their valuation of Direct Property as at 31 March 2020. This is in response to the global impact of Covid-19 generating an unprecedented set of circumstances on which valuations have been based, and as a result they declared that a higher degree of caution should be attached to the valuation than would normally be the case. The Pension Fund holds £472m of direct property assets.

The Pension Fund auditors advised us of an unadjusted error of £16m in level 3 assets. The Council share, at 10.5%, is £1.68m. As the Pension Fund assets have not been amended we consider that the Council disclosures remain materially correct. We raise this issue as it is above our reporting threshold.



Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, including the use of work from valuation experts.

What did we do?

We:

- Considered the work performed by the Council's external and internal valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Performed sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property. We identified no specific changes to assets that have occurred and required communication to the valuer;
- Engaged our own valuation specialists to support our review of a sample of fair value and schools valuations, and
- Tested accounting entries have been correctly processed in the financial statements

As a result of the pandemic, valuers issued uncertainty statements in relation to valuations undertaken, in line with RICS guidance.

We assessed the valuation basis and managements consideration and disclosure of the potential uncertainty. We engaged our own valuation experts to assist us in considering the types of assets for which an uncertainty could be material. We concluded that assets valued at DRC would be unlikely to be materially misstated. We agreed minor wording disclosure amendments with management which are reflected in the final financial statements.

What are our conclusions?

Our testing of the information sent to the valuer and the application of the valuation to the financial statements raised no issues to report.

Our testing of the fair value valuation of The Strand and the valuation of a sample of School assets found the valuations to be within an acceptable range. Further detail is provided on the following page.

We consider the disclosures of the uncertainty to be appropriate.

We have not identified any additional matters to bring to your attention





Areas of Audit Focus



Valuation methods applied

Financial statement area	Key assumptions:	Supportable assumption for 31 March 2020 Valuation?
Valuation of The Strand (fair value / income method)	ERV (£ per sq. ft. p.a.)	Y
	Re-letting voids and rent free assumptions	Y
	Capital expenditure	Y
	Equivalent Yield	Y
	Total reported value	Within the expected range

Financial statement area	Key assumptions:	Supportable assumption for 31 March 2020 Valuation?
Valuation of Schools - Existing Use Value (Depreciated Replacement Cost)	Build Cost (£ per sq m)	Y
	Fees (% of GRC)	Y
	Age and Obsolescence adjustment	Y
	Land Value	Y
	Total reported value	Within the expected range

Inclusion of uncertainty paragraph in valuation reports: The inclusion of this paragraph in the valuation report does not mean that the valuer is unable to reach an opinion of value, rather that their opinion has been reached in conditions where the extent and availability of evidence is less than would normally be the case. Based on the scope of work, from a valuation perspective, the specialist's methodologies used in developing the estimate were consistent with valuation practice given the characteristics of the assets being measured. Our comparative analysis did not identify evidence that contradicts the significant assumptions used in developing the estimate, given the facts and circumstances present as of the valuation date.

The value of the Council's property portfolio should be kept under review regarding the monitoring of value post 31 March 2020. This is particularly the case for the retail centre where the valuation is more susceptible to significant change as a result of: losing tenants, reductions in rental income; and tenants seeking to revisit lease terms and rental arrangements.



Areas of Audit Focus



Other areas of audit focus

Risk / area of focus	Risk identified	Details	Significant findings
<p>Going Concern Compliance with ISA 570</p>	<p>Other financial statement risk</p>	<p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p> <p>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit and Governance Committee.</p>	<p>Support for the going concern assertion.</p> <p>There is presumption that the Council will continue as a going concern, and accounts are prepared on a going concern basis. The Council declares this basis in the notes to the accounts.</p> <p>As discussed with you at the 16th September Audit and Governance Committee, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increased our focus and work in this area and we requested that management undertake a more detailed going concern assessment to support its assertion.</p> <p>Your narrative statement appropriately reflected the impact and increased risks as a result of the pandemic, and therefore we requested that the disclosure in note 63(a), notes to the financial statements, was expanded to set out the basis for preparing the statements on a going concern basis.</p> <p>From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for this set of statements we needed to assess evidence of going concern up to and including March 2022.</p> <p>We have scrutinised the Council's assessment of the impact of Covid-19 on its planned income and expenditure budgets, its revised financial plans and cashflow forecasts. We have challenged known outcomes, sensitivities, mitigating actions and key assumptions. We have also discussed with management the need to make specific disclosures in the statements on going concern. The final version of the statements includes these updated disclosures.</p> <p>In addition to the above, we have consulted internally within EY in respect of the wording of our auditor's report to ensure that it provides the appropriate assurance to the Council and its stakeholders.</p> <p>We are satisfied with management's assessment that the Council remains a going concern, and the disclosures appropriately present that assessment.</p>



Areas of Audit Focus



Other areas of audit focus

Risk / area of focus	Risk identified	Details	Significant findings
Investments and subsidiaries	Other financial statement risk	<p>The Council have a material wholly owned subsidiary and therefore produce group accounts as well as Council entity accounts. Our audit opinion is required to cover the group as well as the entity financial statements and notes.</p> <p>The Council also have other subsidiaries and joint working arrangements that require management judgement.</p> <p>Judgements are required covering:</p> <ul style="list-style-type: none"> • Composition of the group accounts; • disclosure requirements for subsidiaries included and excluded from the group accounts; • Application of group accounting policies to the activity of subsidiaries; and • The application of consolidation and elimination adjustments. 	<p>The audit of the subsidiary was carried out by the firm engaged to audit the subsidiary. We issued group instructions, received confirmation and reviewed the audit deliverables and work over the significant risks.</p> <p>We completed our procedures on the consolidation process and the group eliminations, as well as the presentation of the group accounts.</p> <p>We found no significant items to bring to your attention in regard to the group accounts.</p>
IFRS16 – leases	Other financial statement risk	<p>Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'.</p>	<p>The CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 (Leases) in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022. There is therefore no impact on the 2019-20 audit and we have no issues to raise to you.</p>



04 Audit Report



Audit Report

The following draft audit report sets out our proposed opinion

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEFTON METROPOLITAN BOROUGH COUNCIL

Opinion

We have audited the financial statements of Sefton Metropolitan Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- Related notes 1 to 63 and notes to the Group Accounts notes 1 to 13
- Collection Fund and the related notes 1 to 7

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Sefton Metropolitan Borough Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2019/2020, other than the financial statements and our auditor's report thereon. Other information includes the Narrative Report set out on pages 1 to 22 and section 10 'other information' on pages 133 to 134. The Director of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Sefton Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



Audit Report

Our opinion on the financial statements

Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Statement of the Director of Corporate Resources Responsibilities set out on page 23, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Sefton Metropolitan Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the [name of body] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the [name of body] had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts of Sefton Metropolitan Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Sefton Metropolitan Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
Date

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large digital display wall. The wall is filled with various financial charts, including line graphs and bar charts, and data tables. The background is a dimly lit room with blue ambient lighting.

05 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Based on the audit procedures undertaken to the date of drafting this report, there were no misstatements greater than £0.57m identified during the audit, other than one misclassification adjustment.

The levy relating to the Transport Authority (£18.49m) was disclosed under Other Service Expenses instead of precept and levies within note 5 to the financial statements. This has been corrected and had no overall impact on the expenditure line, or the expenditure classification within the CIES.

We agreed a number of presentational and disclosure amendments with management. These did not impact the total outturn position reported in the SOCI or Balance Sheet.

Summary of unadjusted differences

The auditor of the Pension Fund auditors advised us of an unadjusted error of £16m overstatement in level 3 assets of the pension fund. The Council share, at 10.5%, is £1.68m. As the Pension Fund assets have not been amended, and the Council share of the overstatement is not material, we consider that the Council disclosures remain materially correct. We raise this issue as it is above our reporting threshold and management has decided not to amend the financial statements for this difference.

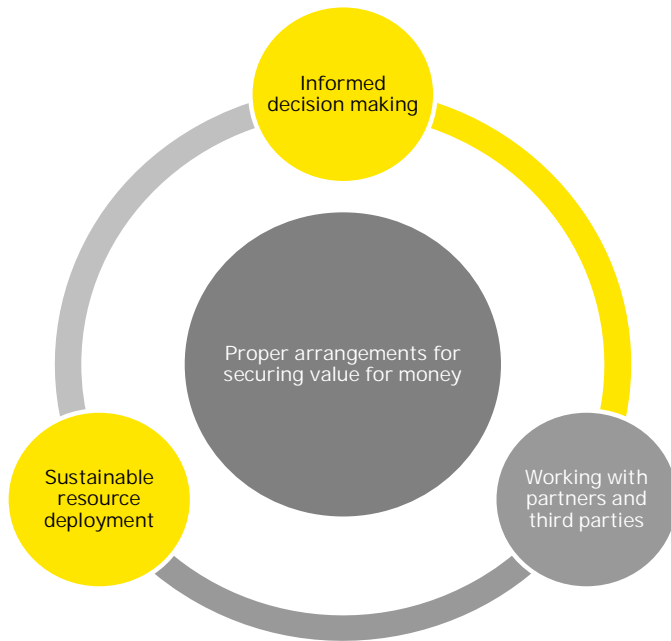


06

Value for Money Risks



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified three significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report, as well as any risks identified since then, and any other significant weaknesses or issues we want to bring to your attention.

We expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources in our audit opinion.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report, as well as any additional risks identified since then.

What is the significant value for money risk?

Department for Education (DFE) Improvement Notice

In June 2019 DFE improvement notice in relation to a failure to make sufficient progress against areas of weakness identified in the special educational needs and disability (SEND) provision.

The risks are that the Council does not appropriately respond to the recommendations, or that in responding to these priorities the required resources result in underperformance against savings requirements impacting the financial sustainability plans the Council have in place.

What arrangements did the risk affect?

Work with partners and other third parties

What are our findings?

We have assessed:

- The arrangements in place to respond to the recommendation in the SEND improvement plan
- The monitoring of the financial impact of responding to the recommendations
- Arrangements to report and monitor outstanding actions.

Whilst there has not been a re-inspection due to take place and therefore no formal update on the Council’s progress in responding to the improvement notice from DFE, we have identified that the Council has in place the arrangements to respond to and monitor the actions being taken against the improvement notice.



Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><u>Dedicated Schools Grant deficit position</u></p> <p>In 2018/19 the closing Dedicated Schools Grant (DSG) balance was a deficit of £230k following net overspend of £745k in the year. Overspends are projected for 2019/20 with projected year end deficit of over £2m. Given the increase in actual and projected deficit the Council need to demonstrate robust plans for recovering the deficit and returning to a sustainable position, while managing the demands on high needs costs.</p>	<p>Take informed decisions & Deploy resources in a sustainable manner</p>	<p>The year end 2019/20 deficit position is a net overspend of £4.1m. Combined with the brought forward deficit position of £0.23m, the resulting carry forward is £4.3m.</p> <p>Our testing covered</p> <ul style="list-style-type: none"> • The arrangements in place to monitor, report and respond to the increasing deficit position • The budget setting and MTFS implications of recovering the deficit <p>The NAO has further clarified the position of the DSG reserve in response to consultation and changes in arrangements for 2020/21.</p> <p>The new regulations mean that when setting budgets for 2020/21 onwards, cumulative DSG deficits no longer have a direct impact on the general fund, as the DSG reserve cannot be funded from it without explicit permission from the Secretary of State.</p> <p>The significantly increased deficit position, and continuing challenges in managing the cost of service provision and need to engage with schools and DFE, mean the management end reduction of the deficit remain significant areas of focus for the Council. This is appropriately disclosed in the narrative statement in the accounts.</p> <p>Our testing has demonstrated that there has been ongoing engagement with the DFE, there is a deficit recovery plan in place and consultation with the schools affected has been ongoing. The deficits are driven by demand, which is being monitored and actioned, and the reporting to the Council has been appropriate. Therefore we have concluded there are proper arrangements in place in respect of our value for money conclusion responsibilities.</p>



Value for Money - Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Maintaining Financial sustainability</p> <p>The Council are operating in a continued environment of financial challenge and savings requirements across the sector, with pressure from demand led services in both adult and children's services resulting in expenditure in excess of budget in 2018/19.</p> <p>The Council set a one year budget for 2019/20 while awaiting the outcome of the central spending review to inform longer term planning and have now set a one year budget for 2020/21. The Council have a revised forward looking MTFS to 2022/23 but acknowledge the uncertainties in the national funding position and the assumptions that have been made to set this strategy.</p> <p>The 2019/20 forecast outturn is a £3m overspend against budget, driven principally by cost of high need in children's social services £1.3m net overspend and a projected underachievement of savings of £1m, to be offset by use of reserves including the £1m budget pressure reserve created to support any shortfall and one off use of retained business rate reserve.</p> <p>Reports to members on the outturn and forecast also recognise the impact of non-recurrent savings supporting the 2019/20 outturn, which result in additional savings to be identified in future years.</p> <p>Additionally, management recognise that the levels of reserves and General Fund Balance are assessed by the CIPFA financial resilience tool as at the higher risk end (lower balance) when compared to similar organisations and plan to increase this resilience over the medium term.</p> <p>As such, the identification and realisation of savings in the Medium Term Financial Plan remain critical to maintaining the level of reserves and financial sustainability.</p>	<p>Take informed decisions & Deploy resources in a sustainable manner</p>	<p>The 2019-20 outturn position (excluding expenditure delegated to schools) resulted in expenditure in excess of budget in 2019/20, The impact is a reduction in general fund from £7.539m to £6.984m as at 31 March 2020.</p> <p>This remains at the lower end of the range set by the Section 151 officer, but we note that the level of general fund in relation to the size of the Council means that there remains a financial resilience risk. The Council have planned to improve the general fund position, and reported both the risk and the plans for management to Cabinet and Council as part of the budget setting process for 2021/2022 in February / March 2021.</p> <p>Our approach focused on the arrangements that the Council has in place to plan for, monitor and report on financial resilience in the medium term and the impact of the 2019/20 outturn position.</p> <p>A balanced budget for 2020/21 was set in February 2020, and the 2021/22 budget and assumptions were presented to Cabinet in February 2021.</p> <p>In assessing the medium term planning and reporting to members, we have:</p> <ul style="list-style-type: none"> • Reviewed the actions which the Council is undertaking to ensure there is a sustainable position as part of setting the Medium Term Financial Strategy (MTFS) • Considered current financial standing and the availability of reserves to fund future expenditure • Considered the appropriateness of assumptions used by the Council in setting the budget and Medium Term Financial Strategy. <p>The MTFS identified potential pressures and savings requirements of £19m to 2022/23 and £24m to 2023/24. This is before any Council Tax and Adult Social Care Precept decisions are made and any additional service delivery options are considered, which could significantly mitigate the identified budget gap</p> <p>The Council have sufficient reserves in the medium term, but recognise that any use of reserves to support the identified deficits will be required to be repaid from future budgets.</p> <p>The Council continue to appropriately plan, monitor and report the financial position and plans and demonstrate appropriate arrangements for the identification and monitoring of savings requirements</p>



07 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2020 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the narrative report of the Statement of Accounts for the year ended 31 March 2020 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit and Governance Committee.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”).

We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]'s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

There are no matters to report to you in respect of the above areas other than as included in the body of the report.



08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We have however identified the following control and process related matters. These matters are limited to those deficiencies identified during the audit and important enough for us to report to you.



Assessment of Control Environment

Financial controls

Issue	Recommendation	Response / Responsibility / Target date
<p>Our testing of disposals recorded for 2019/20 identified a £994k disposal which had taken place in the 2018/19 year (May 2018) but had not been accounted for. The disposal was accounted for in the current year (2019/20). The amount was not material. As we raised a recommendation in relation to disposals in 2018/19, this issue is included in the update on the following page.</p>	<p>We have previously raised a recommendation in relation to demolished assets. Therefore we recommend that the review process for identifying demolished assets is extended to cover all asset disposals.</p>	<p>Following centralisation of capital management within Financial Services, notification of disposals will now be made to one team ensuring the capital accounting system will be updated as and when disposals take place.</p>
<p>Our testing of lease disclosures identified that future commitments are calculated so that any remaining months at the end of a lease are calculated as if a full year remained. This overstates the future commitments, although the impact is not material, in the disclosure note only with no other impact.</p>	<p>We recommend that the future lease liability calculation is amended to calculate remaining months, to enable accurate disclosure of remaining commitment.</p>	<p>Calculation will be amended for the disclosure in the 2020/2021 Statement of Accounts</p>
<p>Journals controls – as identified in prior years the Council does not have a process in place to require authorisation of journals prior to posting. Journals can be prepared and posted by the same member of staff prior to authorisation, which increases the risk of fraudulent activity and material misstatement in the accounts.</p>	<p>We have previously recommended that a segregation of duties between the preparation and authorisation of journals prior to posting to the general ledger is established. Due to the inherent risk in this areas we reiterate our recommendation to you. Management consider that appropriate review and mitigation controls are in place. We found no issues with our testing of journals. However, we have previously recommended that a segregation of duties between the preparation and authorisation of journals prior to posting to the general ledger is established. Due to the inherent risk in this areas we reiterate our recommendation to you.</p>	<p>This has been the subject of review and a materiality level was introduced during 2020 that requires authorisation from a Service Manager within Financial Management for all journals above £10,000. This is now incorporated into the Scheme of Delegation for each service.</p> <p>In addition, the Council has developed a new approach so that there will be a segregation of duties between the preparation and authorisation of journals prior to posting to the general ledger. This approach was due to be implemented during 2020/2021 but this hasn't proved possible due to the impact of COVID-19. It will now be introduced in the early part of 2021/2022.</p>

Assessment of Control Environment – Prior Year Findings

Financial controls

Issue	Recommendation	2019-20 Update
<p>Our testing of disposals identified a disposal of £1m accounted for in 2018/19 which related to an asset demolition in 2015. We recognise the additional work management have completed in response to this issue to assure us that the disposals figure is complete and no other significant items have not been recognised.</p>	<p>We recommend that management review the process for recording disposals in the asset register.</p>	<p>Open: Our testing of disposals recorded for 2019/20 identified a disposal which had taken place in the 2018/19 year (May 2018) but had not been accounted for. The disposal was accounted for in the current year (2019/20). The amount was not material. We note that the disposal was due to the derecognition of a leased asset rather than a demolition. Therefore we recommend that the review process for identifying demolished assets is extended to cover all asset disposals.</p>
<p>Journals controls – as identified in prior years the Council does not have a process in place to require authorisation of journals prior to posting. Journals can be prepared and posted by the same member of staff prior to authorisation, which increases the risk of fraudulent activity and material misstatement in the accounts.</p>	<p>We have previously recommended that a segregation of duties between the preparation and authorisation of journals prior to posting to the general ledger is established. Due to the inherent risk in this areas we reiterate our recommendation to you.</p>	<p>Open: Management consider that appropriate review and mitigation controls are in place. We found no issues with our testing of journals. However, we have previously recommended that a segregation of duties between the preparation and authorisation of journals prior to posting to the general ledger is established. Due to the inherent risk in this areas we reiterate our recommendation to you.</p>
<p>Earmarked reserve for DSG is in deficit position</p>	<p>As reported in section 7, accounting standards require earmarked reserves to be in surplus position. We recommend the Council support an action plan to return the reserve to surplus.</p>	<p>Superseded: As discussed under Value for Money assessment, the earmarked reserve deficit position has increased in year. However, management have demonstrated that actions are being taken and monitored, and this recommendation is superseded by updated DSG guidance for 2020/21.</p>



09

Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



10

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 9 March 2020.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the next Audit and Governance Committee meeting.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on the certification of the Housing Benefit and Teachers Pensions returns. We have adopted the necessary safeguards in our completion of this work.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in relation to the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed below has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted, other than the continuation of the Teachers Pensions return certification and the Housing Benefits certification return.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We confirm that we have undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2019/20	Planned Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	TBC	TBC	97,711	104,211
Non-audit work - Grant claims – Teachers Pension	6,500	6,500	N/A	6,500
Non-audit work - Grant claims – Housing Benefit	11,500	11,500	N/A	11,500
Total non-audit services	18,000	18,000	N/A	18,000

We wrote to management and the Audit and Governance Committee Chair on 10 February 2019 setting out our considerations on the sustainability of UK local public audit. A scale fee of £97,711 has been set by PSAA for the 2019/20. We have been in correspondence with management to outline the impact that the changing risk and regulatory environment is having on our audits and why we do not believe the existing scale fees provide a clear link with either a public sector organisation's risk or its complexity and the work required to deliver a safe audit opinion. We outlined to management that we believe the fee for the Council should be set at £171,765. Management has not agreed to this increase in the scale fee and we have provided the PSAA with our assessment of the fee. Some of the factors relevant to this discussion were set out in our Audit Planning Report.

We also note that there have been changes to our audit scope because of Covid-19 and additional work in response to issues arising during the audit. We will discuss the impact of these on the proposed fee with management before agreeing our final fee. Areas of additional work include:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the Council's valuation report;
- Review of the valuation of the Strand shopping centre;
- Additional procedures to consider the Council's going concern assessment;
- Additional procedures to consider the Council's arrangements for securing Value for Money
- Consultation requirements concerning the impact on the Auditor's report from the land and building valuations material uncertainty clause and going concern assessment;



11 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

We have adopted a fully substantive approach to the audit, in line with the 2018/19 audit.

As described in section 3 of this report, the key audit issues that impact our approach to the balance sheet are the significant risk of misstatements due to fraud or error, fraud in revenue and expenditure recognition (as it relates to debtor and creditor balances recorded on the balance sheet), the Valuation of the assets and liabilities in relation to the Local Government Pension Scheme and the valuation of property, plant and equipment.




The other areas of audit focus result from inherent risks in the Going Concern disclosure, the Council's Group Balance Sheet, and the implementation and disclosure of new accounting standards.

We have substantively tested a sample of manual journals and identified and tested significant unusual transactions. We had no findings to report in respect of these matters. We have tested the debtor and creditor balances substantively, and have completed revenue cut off testing. The final testing for unrecorded liabilities is ongoing at the time of drafting this report and we will update the Audit and Governance committee verbally.

As outlined in section 3, the significant impacts of the Covid-19 pandemic have impacted the significant estimation inherent in valuation of pension assets and liabilities and the valuation of property.

Appendix B

Summary of communications





Date 	Nature 	Summary 
Throughout the year	Meetings, calls and e-mails	The Associate Partner and Senior Manager have been in regular contact with the Director of Corporate Resources and Senior Finance team members in respect of the Council's accounts closedown, audit approach and audit findings up to the date of issue of this report.
February 2020	Meeting	The Associate Partner and Senior Manager met with the Director of Corporate Resources and other senior management to discuss focus areas of the Audit and discuss performance and any significant issues arising during the year.
09 March 2020	Report	The Associate Partner and Senior Manager submitted the audit plan to the Audit and Governance Committee. The subsequent March meeting was attended by the senior manager, but did not formally start due to the availability of Committee members due to the impact of the pandemic.
June to November, Throughout the audit	Meetings, calls and e-mails	The Associate Partner, Senior Manager and the audit team have been in regular contact with the Senior Finance team members in respect of the impact of the pandemic, the revised timetable and the testing.
Throughout the year	Meetings, calls and e-mails	The Associate Partner and Senior Manager have been in regular contact with the Director of Corporate Resources and Senior Finance team members in respect of the Council's accounts closedown, audit approach and audit findings up to the date of issue of this report.
Audit and Governance Committee	Meetings and reports	<p>The Associate Partner and/or Senior Manager have attended all meetings of the Audit and Governance Committee held during the year and through to the date of issue of this report. Due to the pandemic these were initially suspended and subsequently attended remotely.</p> <p>Specific required communications with the Audit and Governance Committee are detailed in Appendix C.</p>

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 09 March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 09 March 2020
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report 11 March 2021





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities [<p>For the audits of financial statements of public interest entities our written communications to the Audit and Governance Committee include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	<p>Audit planning report 09 March 2020 and Audit results report 11 March 2021</p>




Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about [insert client name]'s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report 11 March 2021
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Letter of representation, date TBC
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	Audit results report 11 March 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report 11 March 2021
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report 09 March 2020 and Audit results report 11 March 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations, with the exceptions reported in section one of this report for:</p> <p>Grant Thornton (Pension Fund Auditor) Hazlewoods (subsidiary auditor) Investment confirmations.</p> <p>IN each case we have had contact with the relevant external entity and expect to receive these confirmations before signing our audit opinion.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	<p>Audit results report 11 March 2021</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit results report 11 March 2021 We have reviewed the financial statements and proposed opinion to be given at the AGM of Sefton New Directions Limited. We are awaiting the final information from the component auditor as outlined in section 1. We have not identified any issues to date to raise with you.
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Letter of representation, date TBC
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report 11 March 2021
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report 11 March 2021
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report 09 March 2020 and Audit results report 11 March 2021
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report 2018-19, December 2019 Certification of claims and returns report 2019-20 date TBC

Management representation letter

Management Rep Letter

Ernst & Young
2 St Peters Square,
Manchester
M3 2EY

Dear Sirs

Representation letter – audit of Sefton Metropolitan Borough Council's (the Council) Entity and Group Statement of Accounts for the year ended 31 March 2020

We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Sefton Metropolitan Borough Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error.
5. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties.
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

• Additional information that you have requested from us for the purpose of the audit; and

• Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: 17 March 2021.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter

7. From the date of our last management representation letter, 22 July 2020, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. As described in Note 42 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. The introduction to notes to the financial statements (pages 22 and 23) discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged: Aon to evaluate the fair value of the pension scheme assets and liabilities Wilks Head and Eve to evaluate the Council land and buildings valuation. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

Estimate of LGPS pension liabilities

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making the pension liability estimate appropriately reflect our intent.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, and made in accordance with the applicable financial reporting framework.

Management representation letter

Management Rep Letter

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic..

5. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

(Head of Corporate Resources)

(Chairman of the Audit Committee)

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