Sefton Metropolitan Borough Council

Annual Audit Letter for the year ended 31 March 2020

May 2021

Contents

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.psaa.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 Annual Audit Letter 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Sefton Metropolitan Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. . We worked with the Council to plan for this deadline, but were unable to complete certain procedures. We signed our opinion in March 2021.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's valuers. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans needed revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources We reported in our final Audit Results Report the findings in relation to the significant risks identified, being securing financial resilience, Dedicated Schools Grant deficit position and Department for Education (DFE) Improvement Notice. The Value for Money requirements for 2020/21 have been amended. We are presenting the Audit and Governance Committee with a separate paper on these changes and impact.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We completed the required work and had no matters to report.

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 31 March 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 March 2021.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Hassan Rohimun
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 17 March 2021 Audit and Governance Committee, representing those charged with governance, and circulated a final Audit Results Report in March 2021 . We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 06 March 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 March 2021.

Our detailed findings were reported to the 17 March 2021 Audit and Governance Committee, and we circulated a final Audit Results Report in March 2021.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to 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. 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.	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. 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

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition 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. 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	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. Our testing, 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 income recognition found one judgemental issue. We have reported one unadjusted misstatement with maximum value £4.68m in relation to grant recognition, and raised a control recommendation in section 8 in relation to this. We found no errors in expenditure recognition. 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.. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of error in valuation of pension fund assets and liabilities in the Local Government Pension Scheme 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.	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. 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 in more detail in our Audit Results Report. 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.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of error in valuation of land and buildings 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.	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. 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 on the estimates is provided in our Audit Results Report. We consider the disclosures of the uncertainty to be appropriate. We have not identified any additional matters to bring to your attention

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings and Inherent Risks	Conclusion
Going Concern basis of preparation 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. 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. As discussed 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.	**Support for the going concern assertion.** 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. 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. 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. 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. 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. We are satisfied with management's assessment that the Council remains a going concern, and the disclosures appropriately present that assessment.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings and Inherent Risks	Conclusion
Investments and subsidiaries 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. The Council also have other subsidiaries and joint working arrangements that require management judgement. Judgements are required covering: • 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. .	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. We completed our procedures on the consolidation process and the group eliminations, as well as the presentation of the group accounts. We found no significant items to bring to your attention in regard to the group accounts.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £11.49m (2019 £11.49m), which is 1.8% of gross expenditure on the provision of services reported in the prior year 2019/20 accounts. We updated our planning materiality assessment using the draft 2019/20 results and also reconsidered our risk assessment. We updated our overall materiality assessment for the Council to £11.46m. Group materiality was set at £11.51m, We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in relation to the Council as an entity and for the group in excess of £0.57m (2019: £0.57m)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits:
- We set a materiality of £1k for audit fee, remuneration disclosures, exit package and members allowances disclosures, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

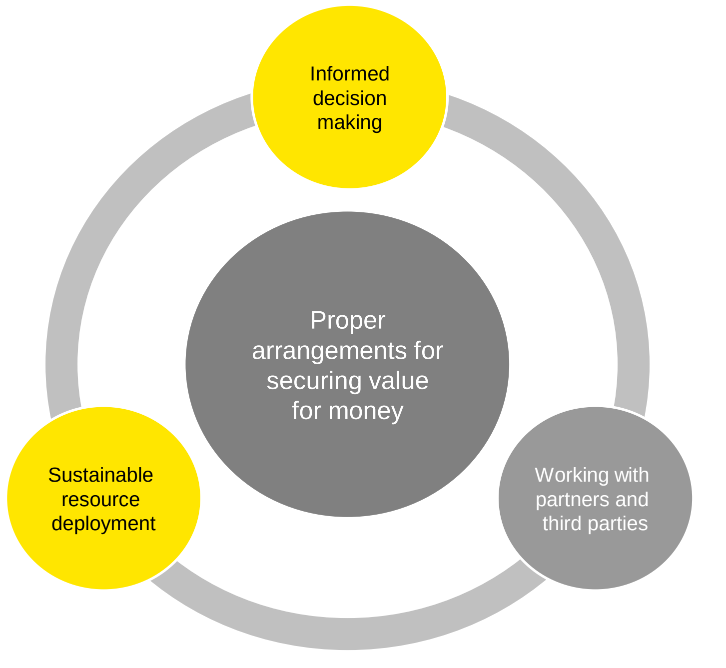
Value for Money

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

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.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.



We identified 3 significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 March 2021.

Value for Money (cont'd)

Significant Risk	Conclusion
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	We 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.
Dedicated Schools Grant deficit position 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.	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. Our testing covered • The arrangements in place to monitor, report and respond to the increasing deficit position • The budget setting and MTFS implications of recovering the deficit The NAO has further clarified the position of the DSG reserve in response to consultation and changes in arrangements for 2020/21. 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. 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. 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.

Value for Money (cont'd)

Significant Risk	Conclusion
Maintaining Financial sustainability 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. 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. 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. 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. 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. 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.	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. 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. 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. 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. In assessing the medium term planning and reporting to members, we have: ‣ 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. 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 . 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. 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

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report]

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Planning Report and Audit Results Report to the Audit and Governance Committee. 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 regulatory and professional requirements.

Other Reporting Issues (cont'd)

Control Themes and Observations

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

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

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 raised six improvement opportunities in respect of control environment, which management have responded to.

Other Reporting Issues (cont'd)

Issue	Recommendation	Response / Responsibility / Target date
Section 106 grant recognition - Grant receipts have been accounted for as receipts in advance and reported as liabilities on the balance sheet. Where conditions are fulfilled, or on balance are likely to be fulfilled, these should be credited to the income statement and transferred to the unapplied grants balance.	We recommend that the process for recognition of the Section 106 grants assesses conditions, and whether these are met, on an individual basis. This would result in the correct timing of release of the grants through the income statement.	The Council will undertake a full review of all unutilised S106 grants received to assess if conditions have been fulfilled, or on balance are likely to be fulfilled, and account for these through the Income and Expenditure Statement. These unutilised grants will then be shown on the Balance Sheet as Earmarked Reserves or Capital Grants and Contributions Unapplied depending on their intended use. Paul Reilly / May 2021
PFI Liability fair value – Management have disclosed in the notes to the accounts that the carrying value and the fair value of the PFI liability are the same. While this is a disclosure note only and does not affect the carrying value of the liability in the balance sheet, there is currently insufficient support for this disclosure.	We recommend that as part of the PFI asset valuation process, management also formally obtain a valuation of the fair value of the liability.	**The Council will obtain a valuation of the fair value of the PFI asset and liability for disclosure in the Notes to the Financial Statements.** **Thomas Walmsley / April 2021**
Historic cost basis reported from asset register system – The supporting PPE note on timeliness of rolling valuations relies upon a system report of the relevant assets. The system divides assets between components and incorrectly understates the value of revaluations for each year and overstates the value of assets held at historic cost / not revalued. Our work concluded that the total value of assets reported in the balance sheet and the system reflect the revaluations, but that the report on the timing of the valuation is incorrectly reporting elements assets as not revalued.	We recommend that the total value of assets reported as not revalued is assessed to assign the elements to the correct valuation period. We recommend that the basis for the report is updated for completion of the note in future years.	**The Note has been updated to reflect the timing of the valuation of the full asset for Other Land and Buildings and Surplus Assets. The report will be updated to ensure that the analysis is available to also complete the Note correctly in future years.** **Thomas Walmsley / June 2021**

Other Reporting Issues (cont'd)

Issue	Recommendation	Response / Responsibility / Target date
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.	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.	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.
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.	We recommend that the future lease liability calculation is amended to calculate remaining months, to enable accurate disclosure of remaining commitment.	**Calculation will be amended for the disclosure in the 2020/2021 Statement of Accounts**
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.	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.	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. 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.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Section 8

Audit Fees

Audit Fees

Our fee for 2019/20 is reported in our Annual Results Report. We confirm we have undertaken non-audit work in relation to Housing Benefit and Teachers Pensions certification returns. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017

	Fee 2019/20	Final Fee 2018/19
	£	£
Audit fee – scale fee	97,711	97,711
Proposed adjustment to scale fee*	74,054*	-
Total	**171,765**	**97,711**
Additional fee to address risks**	33,200**	6,500
Total audit fee – code work	**204,965**	**104,211**
Non-audit work - Grant claims – Teachers Pension	6,500	6,500
Non-audit work - Grant claims – Housing Benefit	11,500	11,500
Total non-audit services	**18,000**	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.

** There have been changes to our audit scope because of Covid-19 and additional work in response to issues arising during the audit. The total cost of these changes in risk and requirements is estimated at £33,200 and subject to discussion with PSAA. 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
- Additional procedures to consider the estimation risk in the valuation of Pension Fund assets disclosed in the Council financial statements
- Additional procedures relating to assess the work of the component auditor for the group financial statements
- Consultation requirements concerning the impact on the Auditor's report from the land and building valuations material uncertainty clause and going concern assessment;

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ED None

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