



**Sefton Metropolitan  
Borough Council**  
Audit results report

Year ended 31 March 2021  
December 2021

9 December 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 current audit status and our preliminary audit conclusion in relation to the audit of Sefton Metropolitan Borough Council (the Authority) for 2020/21.

Subject to concluding the outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the financial statements in the form at Section 03 of this report. However, until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge. At the Audit and Governance Committee meeting, we will provide an update on the current status of our audit, outstanding matters and agree with management and this committee the governance procedures required to consider our final audit results report, proposed audit opinion, schedule of adjustments and unadjusted items, management representations and the authorisation of the 2020/21 audited financial statements for publication.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Council, 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 15 December 2021.

A handwritten signature in blue ink, appearing to read 'Hassan Rohimun'. The signature is written in a cursive, flowing style.

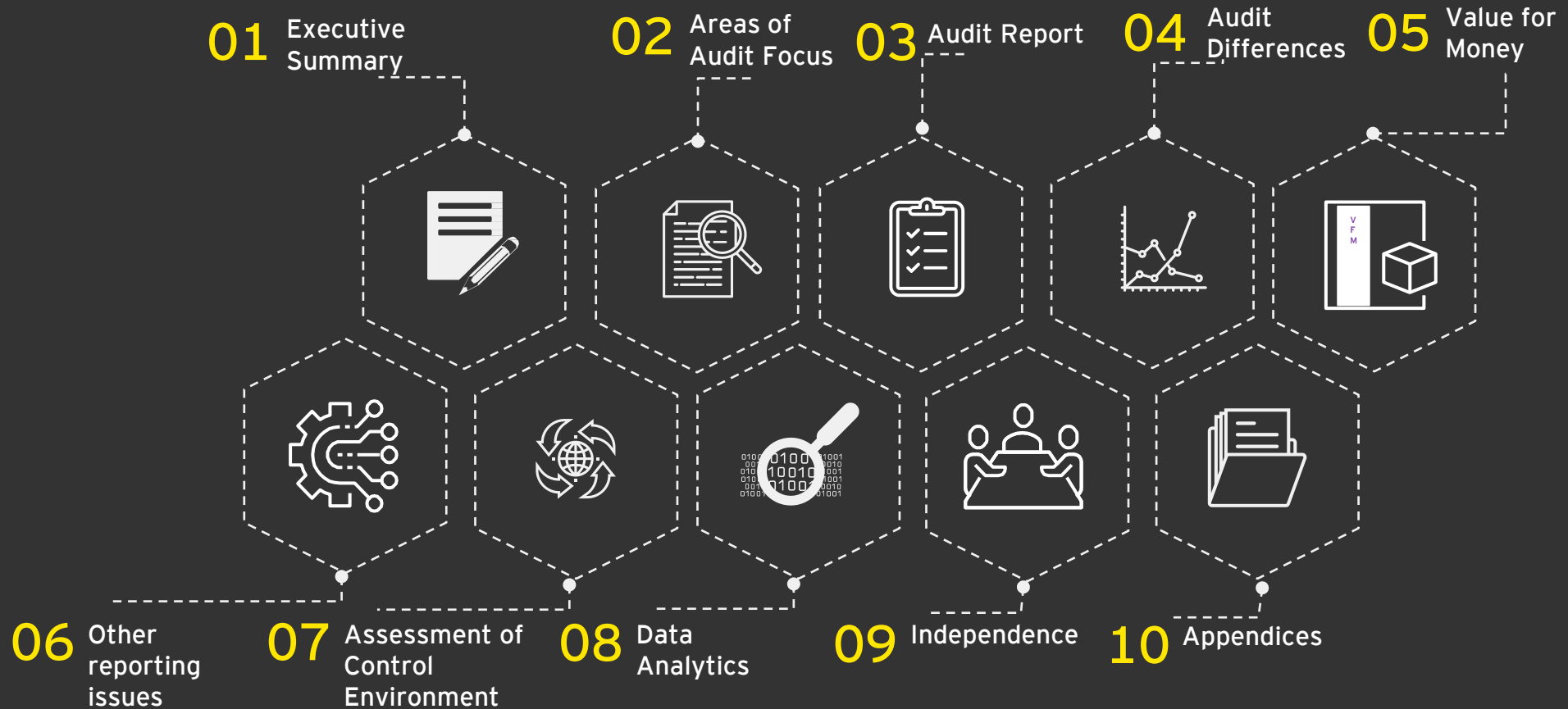
Yours faithfully

Hassan Rohimun

For and on behalf of Ernst & Young LLP

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# 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.psa.co.uk](http://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 / Terms and Conditions of Engagement. 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.





# 01 Executive Summary



# Executive Summary

## Status update - Overview of progress as at 9<sup>th</sup> December 2021

We have substantially completed our audit of Sefton Metropolitan Borough Council's financial statements for the year ended 31 March 2021 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:

We would like to thank the finance team at the Council for the cooperation and assistance we have received during the course of the audit. However, we will not be in a position of completing our external audit by the time of the Audit and Governance Committee meeting on the 15<sup>th</sup> December 2021. This report summarises why this is the case, which impacts specifically with our work on property valuations.

The key areas (not already referred to elsewhere in this report) of the audit that are not yet complete are:

- ▶ Valuation of land and buildings;
- ▶ completion of our internal consultation process on our audit assessment and review of the Council's proposed going concern disclosures;
- ▶ final quality review procedures by the engagement partner and quality reviewer;
- ▶ review of the final version of the financial statements;
- ▶ completion of subsequent events review;
- ▶ receipt of the signed management representation letter and accounts.

## Scope update

In our Audit Planning Report, 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, subject to the modifications noted below.

### Changes in materiality:

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £11.7m, with performance materiality, at 75% of overall materiality, of £8.8m, and a threshold for reporting misstatements of £0.59m. We updated our planning materiality assessment using the draft accounts and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have noted no change in overall materiality assessment. The basis of our assessment is 1.8% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) is £0.59m.



# Executive Summary

## Audit differences

Subject to the conclusion of outstanding procedures there are no factual unadjusted audit differences arising from our audit.

We identified a small number of adjusted audit differences and other minor disclosure amendments which management agreed to amend. We have reported an adjusted audit differences above £8.8m in section 4.

## 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.

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.

## Control observations

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

## Value for money

We have considered your arrangements related to financial sustainability, governance, and improving economy, efficiency and effectiveness. In our Audit Planning Report we identified two significant risks related to Maintaining Financial sustainability and Follow-up on DFE Improvement. We have no matters to report in our opinion about your arrangements to secure economy efficiency and effectiveness in your use of resources. We include the details of that consideration in Section 5.

A new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily. The report will be issued after the audit has been concluded and we anticipate that we will issue that report after the opinion.



# Executive Summary

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## Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors.

## Independence

Please refer to Section 9 for our update on Independence.



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## Areas of Audit Focus

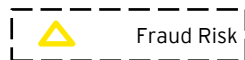




## Areas of Audit Focus

### 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 and Ireland) 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 identify and respond to this fraud risk on every audit engagement.

#### What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

#### What did we do?

- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessed accounting estimates for evidence of management bias, and
- ▶ Evaluated the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

#### 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.

Our mandatory procedures did not identify any instances of management override.

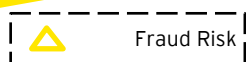
We identified the capitalisation of revenue expenditure as the key area at risk of manipulation. The results of our work on this specific risk area is set out on the following page.



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error - 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 this area, but is relevant to other income and operating expenditure that is subject to manipulation at year end.

#### What judgements are we focused on?

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

- Calculation of estimates (being pensions estimates, accruals and provisions) which impact on the completeness and valuation assertions.
- Manual income accruals which impacts on the existence and valuation assertions.
- Operating expenditure transactions 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; and
- 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.



## Areas of Audit Focus

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### Significant risk

#### 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.

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

### Valuation of pension liabilities

#### 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 2021 this totalled £471m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Merseyside Pension Scheme.

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:

- ▶ 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?

- ▶ 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?

ISA540 (revised) requires us to evidence that the pension model works correctly, and their data has been entered correctly. To address the requirements of revised ISA 540, we have performed additional procedures by engaging EY Pensions to review the reasonableness of the year-end liabilities recognised on the Authority's balance sheet as at 31 March 2021.

The pension fund auditor disclosed to us an overstatement of level 3 assets. Subsequent to pension fund audit, the Council obtained revised IAS19 report from the actuary in October 2021. This resulted in increase in overall liability by £16.459m and adjusted in statement of accounts.

We identified no further issues from the work we carried out. Therefore we have concluded that the pension liabilities are not materially misstated in the Council financial statements.





## Areas of Audit Focus

### Significant risk

#### Valuation of land and buildings

##### What is the risk?

The fair value of land & building 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 judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the Council's valuers in undertaking their valuations in 2020/21 and of the key assumptions input into these valuations. We have also considered those assets that were not valued in 2020/21 and the potential for material misstatement in the valuation of those assets.

##### What did we do?

We took a substantive approach to respond to this risk. We disaggregated the Council's property portfolio to determine those asset classes where more judgement was required in the valuation of assets, and:

- ▶ Tested that assets have been classified and valued on an appropriate basis;
- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested and challenged the key asset information and assumptions used by the valuers in performing their valuation; for example floor plans based on price per square metre.
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- ▶ Considered any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements

##### What are our conclusions?

Strand shopping centre - We have engaged our valuation specialist to assist us with the review. We have concluded £14.2m is considered to be supportable and is within our valuer's expected range. For the £9m land classified as an investment property, we have also concluded that the value is within our valuer's expected range.

Other land and building - This work is complete with no issues identified, subject to final review. We are reviewing the disclosures to conclude.

Investment properties - At the time of writing this report, our work on investment property valuation is in progress. We have noted that the investment properties are not revalued on annual basis. We have challenged management and requested further evidence to conclude that there is no material movement.

Our work on valuation is in progress at the time of writing this report. We will provide further update in our final results report.



## Areas of Audit Focus

### Significant risk

#### New central government grants and other Covid-19 funding streams

##### What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. In 2020/21, this consists of non-ringfenced and ring fenced Covid-19 response grants.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

##### What judgements are we focused on?

We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.

##### What did we do?

We have obtained and assessed the appropriateness of the Council's accounting judgement on material grants received in relation to whether it is acting as:

- ▶ An Agent, where it has determined that it is acting as an intermediary; or
- ▶ A Principal, where the Council has determined that it is acting on its own behalf.

##### What are our conclusions?

We have concluded accounting for covid-19 grants are appropriate. We have no further matters to report.



# Areas of Audit Focus



## Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.



## 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.

### Findings and conclusions

We have identified Sefton New Directions Limited (subsidiary) as material to the group based on the risk profile. The audit of the subsidiary was carried out by the firm engaged to audit the subsidiary (Hazlewoods LLP). We issued group instructions, received confirmation, discuss 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.



# Areas of Audit Focus



## Going concern disclosure

We have received management's assessment and we will consider the adequacy and its disclosure in the accounts by:

- ▶ Challenging management's identification of events or conditions impacting going concern.
- ▶ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- ▶ Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- ▶ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- ▶ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.
- ▶ Ensuring assessment is covered for at least 12 months from the date of audit report.

### Findings and conclusions

At the time of writing this report, our work on going concern is still in progress.

We will scrutinise the Council's assessment of the impact of Covid-19 on its planned income and expenditure budgets, its financial plans and cashflow forecasts for next 12 months from the date of expected audit report. We will review known outcomes, sensitivities, mitigating actions and key assumptions. We will also discuss with management the need to make specific disclosures in the statements on going concern.





# 03 Audit Report



# Audit Report

## Draft audit report

### 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 2021 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
- the related notes 1 to [x].
- Collection Fund and the related notes 1 to [x]

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 2020/21.

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 2021 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 2020/21.

##### 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

In auditing the financial statements, we have concluded that the Head of Corporate Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of [x] months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Corporate Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Head of Corporate Resources is responsible for the other information contained within the Statement of Accounts.

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.

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 course of 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 themselves. 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.

##### 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects



# Audit Report

## Our opinion on the financial statements

### Responsibility of the Head of Corporate Resources

As explained more fully in the Statement of the Statement of the Head of Corporate Resources Responsibilities set out on pages [...], the Head of Corporate 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Corporate 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.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:
  - o Local Government Act 1972,
  - o School Standards and Framework Act 1998
  - o Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),

- o Education Act 2002 and school Standards and Framework Act 1998 (England)
- o Local Government Act 2003,
- o The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- o National Health Service Act 2008,
- o Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- o Business Rate Supplements Act 2009,
- o The Local Government Finance Act 2012,
- o Local Government Pension Scheme Regulations 2013,
- o The Local Audit and Accountability Act 2014, and
- o The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

- We understood how Sefton Metropolitan Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance and the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the council's committee minutes, through enquiry of employees to confirm council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified, inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.
- To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we obtained the council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.
- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at



# Audit Report

## Our opinion on the financial statements

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Sefton Metropolitan Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Sefton Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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 Sefton Metropolitan Borough Council 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.

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.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

We will report the outcome of our work on the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts 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*  
*XX December 2021*





# 04 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 audit differences

We highlight the following misstatements greater than £8.8m which have been corrected by management that were identified during the course of our audit:

1. The Merseyside Pension Fund auditors have reported a difference between the asset values used in the IAS19 report and asset values confirmed in the Pension Fund audit. The authority obtained revised IAS 19 report from the actuary which resulted in difference of £16.2m.

There are no un-corrected misstatements at the time of writing this report. However, our work on valuations is still in progress which includes significant judgements.



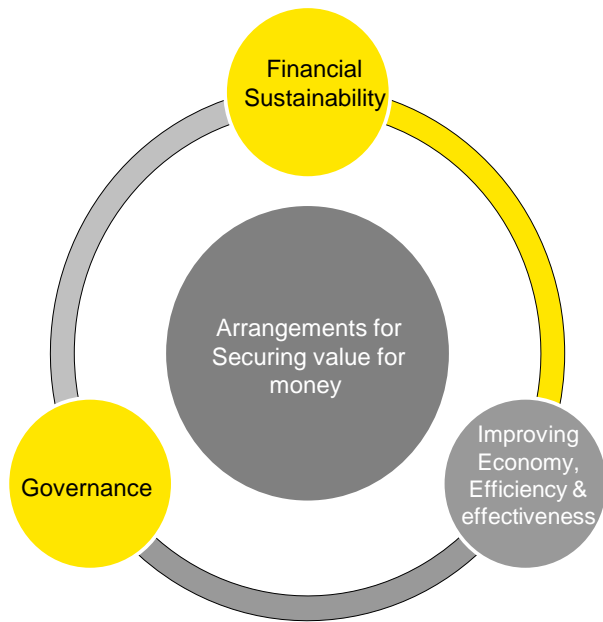
05

## Value for Money





# Value for Money



## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer an overall evaluation criterion upon which we need to conclude. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Overall conclusion

We have considered your arrangements related to financial sustainability, governance, and improving economy, efficiency and effectiveness. In our Audit Planning Report we identified two significant risks related to Maintaining Financial sustainability and Follow-up on DFE Improvement.

We don't have any matters to report within our audit report. We anticipate reporting our commentary on the arrangements in place after the 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?

### What arrangements did the risk affect?

#### Maintaining Financial sustainability

Financial Sustainability

The Council are operating in a continued environment of financial challenge and savings requirements across the sector, with pressure from Children’s Social Care, Children with Disabilities, Home to School Transport and Locality Services.

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 Council did identify underspending in other areas as well as implementing various mitigating actions during the year to ensure there would be no overspend, particularly in light of the financial pressures due to COVID19. These measures enabled the outturn position to be a net underspend of £2.794m.

### What are our findings?

The Medium Term Financial Plan (MTFP) is produced and reported to Cabinet by the Executive Director of Corporate Resources and Customer Services. The 2021 to 2023 plan was presented to Cabinet on 7/11/2019 this included the key assumptions underpinning budgetary developments. The Council approved the 2020/21 budget in February 2020. In response to challenges arising as a result of the Covid-19 pandemic a budget update for the period 2020/21 was proposed and approved in July 2020 this reflected the position regarding key income streams for the Council.

The MTFP highlighted an estimated funding shortfall between 2020/21 and 2022/23 of £23.31m, before any Council Tax decisions had been made and service delivery options were considered. With a budget gap remaining and further pressure from the need to manage the impact of Covid-19 on the Council’s financial sustainability, the Council is working on a strategy to bridge the funding gaps.

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.

## Value for Money Risks

| What is the significant value for money risk?   | What arrangements did the risk affect?                                     | What are our findings?  |
|---|--|---|
| <p><b>Follow-up on DFE Improvement</b></p> <p>An Improvement Notice was issued to Sefton Council on 14 June 2019 following an assessment that the local area had failed to make sufficient progress against five areas of weakness in its SEND service provision. This was detailed in an Ofsted and Care Quality Commission (CQC) SEND Revisit report. In our prior year (PY) VFM review, it was identified that the Council had established a plan to tackle the required areas for improvement, with quarterly monitoring and tracking of the areas of weakness.</p> <p>With regards to Children’s Mental Health (MH), in September 2019, Ofsted, CQC, Her Majesty’s Inspectorate of Constabulary &amp; Fire &amp; Rescue Services, (HMICFRS) and Probation (HMIP) carried out a joint inspection of the multi-agency response to abuse and neglect in Sefton. This inspection included a ‘deep dive’ on the response to children’s MH. In the PY, the Council produced a written Statement of Action which it submitted to OFSTED and the relevant parties, and in April 2020 this action plan was reviewed and approved by Ofsted and the others, noting it demonstrated an accurate understanding of the areas of priority action and findings of the joint inspection team.</p> <p>Furthermore, during VFM planning, it was identified that two reviews had been performed by Ofsted during 2020-21, looking at both Adult &amp; Community Learning, and Children’s Services at the Council.</p> | <p>Improving Economy, Efficiency &amp; Effectiveness</p> <p>Governance</p> | <p>Our review identifies that the Council has focused on improving Children’s Services throughout the year. The two main areas of development have been in respect of SEND and the Joint Target Inspection Plan which focused on Mental Health. We identified evidence of scrutiny and review being in place with reporting of key issues to relevant committees during the year. The Overview &amp; Scrutiny Committee has also assessed both areas of concern during the year providing appropriate challenge and oversight.</p> <p>The Council has established strategies (e.g. The Health &amp; Wellbeing Strategy 2020 - 2025 &amp; Children and Young Peoples Commission Strategy) to provide effective structure and guidance for improving Children’s Services.</p> <p>The most recent Ofsted review highlighted that the Council was performing well in several areas and that partnerships had improved during the pandemic, which has helped with supporting vulnerable children during this period. However Ofsted also highlighted:</p> <ul style="list-style-type: none"> <li>• that staff shortage is an underlying issue of concern; and</li> <li>• Improvements were required to the quality assurance framework.</li> </ul> |





## 06 Other reporting issues

## 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 2020/21 with the audited financial statements. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Executive Director of Corporate Resources and Customer Services is responsible for the other information contained within the Statement of Accounts. 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.

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 Statement of Accounts 2020/21 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 have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report we have not yet received the Group Audit instructions from the NAO. We will complete this work in line with the instructions issued by the NAO when it is appropriate to do so.

### 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 reporting issues

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# Other reporting 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 audit

Aside from the matters raised elsewhere in this report, we have no other matters to report.





07

## 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.

| Issue   | Recommendation  | Response / Responsibility / Target date   |
|---|---|---|
| Investment properties are not re-valued on annual basis. High level review is performed without sufficient evidence to support the judgement. This is non-compliance with the accounting standards and accounting policies. | Although no significant issues noted during the year, we recommend that full investment property valuation to be performed on annual basis to comply the standards and accounting policies. | The Council will undertake a full annual valuation of investment properties to comply with the standards and policies.<br><br>Paul Reilly/ Thomas Walmsley / May 2022 |





# 08 Data Analytics





## Analytics Driven Audit

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 2020/21, 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.



09

Independence

# Independence

## Confirmation of independence and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated May 2021.

We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you and your Audit and Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so.

We confirm we have not undertaken any non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd.

## 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, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2020 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

As part of our reporting on our independence, we set out on the next slide a summary of the fees you have paid us in the year ended 31 March 2021.

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..

## Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2021. The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

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.

|   | Planned fee<br>2020/21 (£) | Final fee<br>2019/20 (£) (2) |
|---|----------------------------|------------------------------|
| Scale Fee (1)                                       | 97,711                     | 97,711                       |
| Additional fee to address risks (3)                 | 29,400                     | 33,200                       |
| <b>Total audit</b>                                  | <b>127,111</b>             | <b>130,911</b>               |
| Non-audit work - Grant claims - Teachers Pension    | 7,000                      | 6,500                        |
| Non-audit work - Grant claims - Housing Benefit (4) | 14,500                     | 11,500                       |
| <b>Total other non-audit services</b>               | <b>21,500</b>              | <b>18,000</b>                |
| <b>Total fees</b>                                   | <b>148,611</b>             | <b>148,911</b>               |

*All fees exclude VAT*

### Notes:

(1) We are currently in discussion with PSAA nationally about an increase to the scale fee. For Sefton Council we proposed a revised scale fee of £171,765. This is yet to be determined by PSAA.

(2) 2019/20 additional fees as set out in our Annual Audit Letter and Audit Results Report remains subject to approval by PSAA.

(3) There have been changes to our audit scope because of new VFM arrangements requirements, revised estimates standard and additional work in response to issues arising during the audit related to valuations. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval. The total cost of these changes in risk and requirements is estimated at £29,400 at the time of completing this report.

(4) Our actual fees may exceed this estimate based on the volume of CAKE testing required in response to the previous year's report, and the amount of extended testing required from the findings of the initial testing.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: [EY UK 2021 Transparency Report | EY UK](#)



A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 10 Appendices



## Appendix A

# 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

| Balance sheet category        | Audit Approach in current year | Audit Approach in prior year |
|-------------------------------|--------------------------------|------------------------------|
| Trade receivables             | Fully substantive approach     | Fully substantive approach   |
| Property, plant and equipment | Fully substantive approach     | Fully substantive approach   |
| Trade payables                | Fully substantive approach     | Fully substantive approach   |
| Investments                   | Fully substantive approach     | Fully substantive approach   |
| Borrowing                     | Fully substantive approach     | Fully substantive approach   |
| Cash and cash equivalents     | Fully substantive approach     | Fully substantive approach   |
| Provisions                    | Fully substantive approach     | Fully substantive approach   |
| Other long term liabilities   | Fully substantive approach     | Fully substantive approach   |
| Grants received in advance    | Fully substantive approach     | Fully substantive approach   |
| Reserves                      | Fully substantive approach     | Fully substantive approach   |

## 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 |
| Audit and Governance Committee   | Audit and Governance Committee   | The Associate Partner have attended all meetings of the Audit and Governance Committee held during the year and through to the date of issue of this report   |

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




## Appendix C

# Required communications with the Audit and Governance Committee




There are certain communications that we must provide to the Audit and Governance 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 Plan   |
| Planning and audit approach  | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.   | Audit Plan   |
| Significant findings from the audit  | <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Audit results report, December 2021  |




## Appendix C

|                                |   |  Our Reporting to you  |
|--------------------------------|---|---|
| <b>Required communications</b> |  <b>What is reported?</b>  |  <b>When and where</b> |
| 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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>   | Audit results report, December 2021   |
| Misstatements                  | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>   | Audit results report, December 2021   |
| Subsequent events              | <ul style="list-style-type: none"> <li>▶ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>   | Audit results report, December 2021   |
| Fraud                          | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ 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"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.</li> </ul> | Audit results report, December 2021   |

## Appendix C




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

## Appendix C

|   |   |  Our Reporting to you |
|---|---|--|
| Required communications   |  What is reported?   |  When and where       |
| External confirmations  | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>   | Audit results report, December 2021  |
| Consideration of laws and regulations                                     | <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Audit and Governance 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 and Governance Committee may be aware of</li> </ul> | Audit results report, December 2021  |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>  | Audit results report, December 2021  |



## Appendix C

|  |  | Our Reporting to you   |
|--|--|--|
| Required communications  |  What is reported?  |   When and where |
| Written representations we are requesting from management and/or those charged with governance                           | <ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>   | Audit results report, December 2021  |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>   | Audit results report, December 2021  |
| Auditors report  | Audit results report   | Audit results report, December 2021  |
| Value for money commentary   | A commentary on the arrangements in place during 2020/21 to achieve value for money, and any recommendations we may make to improve those arrangements.  | Auditor's Annual Report, January 2022  |
| Fee Reporting  | <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul> | Audit results report, December 2021  |



# Appendix D

## Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Sefton Metropolitan Borough Council ("the Group and Council") for the year ended 31 March 2021. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of Sefton Metropolitan Borough Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 2020/21.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2020/21 that are free from material misstatement, whether due to fraud or error. 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.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 consolidated and Council 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 Group or 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 consolidated or 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 Group or 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

# Management representation letter

## Management Rep Letter

- 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 consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group, and committees [add the full title of the relevant committees] (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date] and of the [Council], and committees [add the full title of the relevant committees] (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework]
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter 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 consolidated and [council] 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 Note [X] to the consolidated and council financial statements all guarantees that we have given to third parties.

### E. Going Concern

1. Note [X] to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and 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.

### F. Subsequent Events

1. Other than ..... described in Note [X] to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst [council], subsidiary undertakings and associated undertakings.

### H. Other information

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



## Appendix D

# Management representation letter

### Management Rep Letter

#### I. Ownership of Assets

1. Except for assets recognised in accordance with IAS 17 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note [X] to the financial statements. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the consolidated and council financial statements, we have no other line of credit arrangements.

#### J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

#### K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

#### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment valuations, Investment Property valuations, and Pensions IAS19 liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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.

#### M. Estimates (Property, Plant and Equipment, Investment Property, Provisions, NDR appeals and Pension Liabilities)

1. We confirm that the significant judgments made in making the accounting estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate.
3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimate.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

#### N. Retirement benefits

1. 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,*

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(Chief Financial Officer)

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(Chair of the Audit Committee)



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