



# Sefton Metropolitan Borough Council

## Audit planning report

Year ended 31 March 2022

December 2022



Private and Confidential

Audit and Governance Committee  
Sefton Metropolitan Borough Council  
Magdalen House  
30 Trinity Road  
Bootle  
L20 3NJ

6 December 2022

Dear Audit and Governance Committee Members

We are pleased to attach our audit planning report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Sefton Metropolitan Borough Council, and outlines our planned audit strategy in response to those risks. Our detailed audit planning remains underway. If there are any amendments following the completion of these procedures we will highlight these to the Committee separately.

This report is intended solely for the information and use of the Audit and Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14 December 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*H. Clark*

Hayley Clark

For and on behalf of Ernst & Young LLP

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# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). The 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 and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

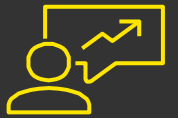
This report is made solely to the Audit and Governance Committee and management of Sefton Metropolitan Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of Sefton Metropolitan Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Sefton Metropolitan Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





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# Overview of our 2021/22 audit strategy





# Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Risk of fraud in revenue recognition: overstatement of fees, charges and other service income	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement. Specifically, our risk is focused on the occurrence assertion of fees, charges and other service income. We have rebutted the risk of revenue recognition in relation to grant and taxation receipts where the risk is considered to be low based on the inherent nature of the items.
Risk of fraud in expenditure recognition: understatement of other service expenses	Fraud risk	No change in risk or focus	As set out above, 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. We consider the risk to be relevant to other service expenses, where management is able to apply more judgement. Specifically, our risk is focused on the completeness assertion, where expenditure is understated to manage the financial position year on year.
Infrastructure assets	Significant risk	New risk	Due to the ongoing consultation of the CIPFA on the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken as well as issues for the reporting of gross historical cost and accumulated depreciation. There is a risk that policies adopted by the local authorities do not fairly represent the rate in which these assets are consumed or replaced. If records held by the Council do not allow for sufficient appropriate evidence to be obtained to gain assurance over the gross and net positions in respect of these assets, it increases the risk that material assurance cannot be provided within our opinion.
Valuation of property, plant and equipment (PPE) under FV and EUV	Significant risk	No change in risk or focus	The Council's PPE account for the biggest proportion of the Council's assets. The assets valued using an Existing Use Valuation (EUV) and/or Fair Value (FV) methodology are subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.

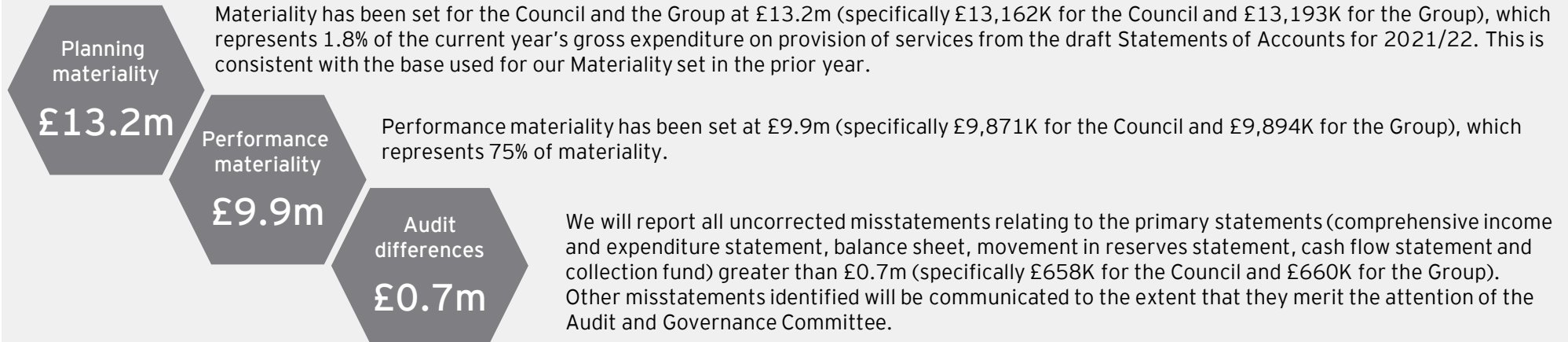
# Overview of our 2021/22 audit strategy

## Audit risks and areas of focus (continued)

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of investment properties	Significant risk	No change in risk or focus	The Council's investment properties account for a significant proportion of the Council's assets. These assets are valued using the Fair Value (FV) methodology which is subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.
New HR/Payroll system	Significant risk	New risk	A new payroll system was used by the Council during the 2021/22 from using "Resourcelink" to "Midland iTrent". With the migration to a new payroll/HR system, there is a significant risk in relation to completeness of data transferred, implementation of controls and accessibility of historical data.
Valuation of property, plant and equipment (PPE) under DRC	Other financial statement risk (Higher inherent risk)	Decrease in risk or focus	Given their more formulaic nature and less reliance on market value, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC). However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements.
Valuation of assets and liabilities in the Local Government Pension Scheme (LGPS)	Other financial statement risk (Higher inherent risk)	Decrease in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet.
Incorrect recognition of COVID-19 related grants	Other financial statement risk (Higher inherent risk)	Decrease in risk or focus	The risk includes the incorrect assessment of the Council as either principal or agent, affecting the income recognition. Additionally, this includes a focus on grants already received in prior year but income recognition was deferred. There is a risk that the subsequent recognition to income will not appropriately reflect the underlying terms and conditions of the grant agreement.

# Overview of our 2021/22 audit strategy

## Materiality



For details, refer to Section 4.

## Audit team changes

Key changes to our team.



### Partner - Hayley Clark

Hayley will be charged with the responsibility of signing the audit opinion of the Council and the group and sets the overall strategy and risk assessment for delivering the audit. Hayley replaces Hassan Rohimun as signing Partner in 2021/22 audit.



### Senior Manager - Sanchita Rai

Sanchita has taken up the role of Audit Manager for the 2021/22 audit. Sanchita will be charged with the responsibility of managing the audit team to fulfil their responsibilities.

## Timeline

The Ministry of Housing, Communities and Local Government (MHCLG) established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council, with the aim to deliver the audit ready for the March 2023 meeting of the Audit and Governance Committee. In Section 7 we include a provisional timeline for the audit.

# Overview of our 2021/22 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Sefton Metropolitan Borough Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Sefton Metropolitan Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

### Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.



# Overview of our 2021/22 audit strategy

## Audit scope - for group audit

We have specifically considered the scope of our audit of the Group financial statements and set out our planned approach in Section 5 of this report.

For those components that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those components.

We intend to take a full substantive audit approach at Group level. This is consistent with the audit approach in the prior year.

Changes to the scope of our audit, in the work to be performed at group components and a summary of our planned involvement in the work of component auditor is as follows:

- ▶ Sefton New Directions Limited was full scope in the prior year. It has been assessed as specific scope in the current year due to the component being significant based on risk because of the risks associated with specific accounts or disclosures where balances are material to the group financial statements.
- ▶ Sandway Homes Limited availed the exemption to obtain an audit in accordance with Section 476 of the Companies Act 2006, thus there will be no component auditor to undertake the other procedures and therefore, we will undertake these directly. This will include obtaining the bank confirmation, testing the bank reconciliation and performing high level analytical review.
- ▶ Sefton Hospitality Operations Limited is newly incorporated and is not consolidated in the group accounts on the grounds of materiality.

## Value for money conclusion

We include details in Section 3 but in summary:

- ▶ We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- ▶ Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- ▶ We will provide a commentary on the Council's arrangements against three reporting criteria:
  - ▶ 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 commentary on VFM arrangements will be included in the Auditor's Annual Report.



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## Audit risks





# Audit risks

## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Misstatements due to fraud or error\* (Fraud risk)

#### Financial statement impact

Misstatements that occur in relation to the risk of fraud or error could affect both the Comprehensive income and expenditure statement and the balance sheet.

#### What is the risk?

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

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

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Making inquiries of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address those identified risks of fraud; and
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements:
  - ▶ Reviewing and testing any changes to the methodologies of existing and new accounting estimates, for evidence of bias.
  - ▶ Undertaking risk based testing of journals from the accounting period that are identified from the application of specified audit risk criteria.
  - ▶ Considering and evaluating the existence and nature and business rationale of significant unusual transactions.

# Audit risks

## Our response to significant risks (continued)

**Risk of fraud in revenue recognition: overstatement of fees, charges and other service income\***

**(Fraud risk)**

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income accounts associated with fees, charges and other service income. These accounts had the following balances in the draft financial statements:

- Fees, charges and other service income in the draft Statement of Accounts 21/22 - £64.2m

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.

We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement.

Specifically, our risk is focused on the occurrence assertion of fees, charges and other service income, where management may have recorded and disclosed transactions which did not actually happen in the current financial year and did not relate to the Council resulting to an overstatement.

We have rebutted the risk of revenue recognition in relation to grant and taxation receipts where the risk is considered to be low based on the inherent nature of the items.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move income between financial years;
- Undertaking a monthly trend analysis in 2021/22 using our data analytics tools to identify any unusual movements in balances during the year for further analysis and testing;
- Selecting a sample of income transactions posted in the period post year-end to confirm if this has been recorded in the correct period; and
- Selecting a sample of receivables posted just prior to year-end to confirm if this has been recorded in the correct period.



# Audit risks

## Our response to significant risks (continued)

### **Risk of fraud in expenditure recognition: understatement of other service expenses\***

**(Fraud risk)**

#### **Financial statement impact**

Misstatements that occur in relation to the risk of fraud in expenditure recognition could affect the other service expenditure accounts which total £397.9m in the draft Statement of Accounts 21/22.

#### **What is the risk?**

As set out above, 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.

We consider the risk to be relevant to other service expenses, where management is able to apply more judgement. Specifically, our risk is focused on the completeness assertion, where expenditure is understated to manage the financial position year on year.

#### **What will we do?**

In order to address this risk we will carry out a range of procedures including:

- ▶ Performing overall analytical review procedures to identify any unusual movements or trends for further investigation;
- ▶ Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move expense between financial years;
- ▶ Undertaking a monthly trend analysis in 2021/22 using our data analytics tools to identify any unusual movements in balances during the year for further analysis and testing;
- ▶ Selecting a sample of expense transactions posted in the period post year-end to confirm if this has been recorded in the correct period; and
- ▶ Performing unrecorded liabilities and payables cut off testing to identify payments occurring just after the year-end, which will address the completeness of the expenditure and creditor balances.

# Audit risks

## Our response to significant risks (continued)

### Infrastructure assets

#### Financial statement impact

Misstatements that occur in relation to the risk that the Council inappropriately adopt a policy on infrastructure assets affecting the financial statements balance.

The net book value of infrastructure assets in the draft Statement of Accounts 21/22 is £171.3m.

#### What is the risk?

Infrastructure assets are valued at historic cost, most specifically the cost incurred when replacing old or constructing new infrastructure assets. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, Councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements (“derecognised”) when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

The main technical issue relates to subsequent expenditure on highways infrastructure assets and specifically on whether local authorities should be assessing if there is any residual value remaining in replaced components that needs to be de-recognised when the subsequent expenditure is added and whether assets are identifiable.

While this is standard practice for many fixed assets, it may not generally be being implemented for (highways) infrastructure assets because there are a variety of significant practical difficulties in applying the standard approach to such assets. This is, particularly in relation to roads, where the engineering records used to maintain, replace and add to the assets have not been created to map against identifiable components. It was recognised previously that it was not possible to typically identify components as the network was one asset and information on previous historical repairs is not available in a meaningful or identifiable way particularly for roads.

A statutory instrument and update to the CIPFA Code of Practice on local authority accounting is planned for release from DLHUC, but will not come into force until later in December 2022. Councils will have the option to apply this instrument to the accounting for infrastructure assets. In addition CIPFA released an adaptation to the Code of Practice on local authority accounting on the 28 November 2022. CIPFA will also issue a technical bulletin to provide further guidance early January 2023.

There is a risk that if we are unable to obtain sufficient, appropriate audit evidence to gain assurance over the valuation and existence of these assets that the scope of our audit may be limited and impact the opinion we provide on the financial statements.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Performing a walkthrough to understand and evaluate the key processes in place to account for infrastructure assets, including; capturing accurate information, componentisation, monitoring of, and the treatment in relation to, subsequent expenditure, impairment and disposal or de-recognition;
- ▶ Testing the reasonableness of the valuation of the infrastructure assets;
- ▶ Testing the existence of assets;
- ▶ Considering any subsequent guidance issued by CIPFA that may impact on the accounting for infrastructure assets; and
- ▶ Assessing the extent of information deficit that exists to create materially accurate disclosures.



# Audit risks

## Our response to significant risks (continued)

### Valuation of property, plant and equipment (PPE) under FV and EUV

#### Financial statement impact

Misstatements that occur in relation to the valuation of Property, Plant & Equipment could affect the Balance Sheet.

The total net book value of other land and buildings and surplus assets in the draft Statement of Accounts 21/22 is £301.9m.

#### What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Council's PPE account for the biggest proportion of the Council's assets. The assets valued using an Existing Use Valuation (EUV) and/or Fair Value (FV) methodology are subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.

#### What will we do?

- ▶ Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- ▶ Consider 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 test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. Also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated and whether asset have been assessed for impairment and are materially correct;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation;
- ▶ Engage internal EY valuation specialists to review the approach of the Council valuer, consider assumptions underpinning the valuation and to provide expected valuations for a sample of assets valued during the year;
- ▶ Test accounting entries have been correctly processed in the financial statements;
- ▶ Review the classification of assets and ensure the correct valuation methodology has been applied; and
- ▶ Consider external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the area where relevant. Specifically we will consider if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.

# Audit risks

## Our response to significant risks (continued)

### Valuation of investment properties

#### Financial statement impact

Misstatements that occur in relation to the valuation of Investment Properties could affect the Balance Sheet.

The value of investment property in the draft Statement of Accounts 21/22 is £32.3m.

#### What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Council's investment properties account for a significant proportion of the Council's assets. These assets are valued using the Fair Value (FV) methodology which is subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes. The fair value of investment property has been measured using inputs other than quoted prices that are observable for the asset, either directly or indirectly, assets being valued using applicable comparative evidence. In estimating the fair value of the Council's properties, the highest and best use has been considered as part of the valuation process.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- ▶ Evaluating the competence, capabilities and objectivity of management's specialist;
- ▶ Reviewing any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards, and assessing if they include a specific instruction from the council to the valuer relating to an assessment of the unvalued population;
- ▶ Engaging our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer;
- ▶ Performing appropriate tests over the completeness and appropriateness of information provided to the valuer;
- ▶ Reviewing the classification of assets and ensuring that the correct valuation methodology has been applied
- ▶ Ensuring the valuer's conclusions have been appropriately recorded in the financial statements; and
- ▶ Testing the accounting entries including the calculation of the gain or loss on revaluation to confirm that the adjustments have been correctly processed in the financial statements.

## Audit risks

### Our response to significant risks (continued)

#### New HR/Payroll system

#### Financial statement impact

Misstatements that occur in relation to the measurement of employee costs could affect the expenditure accounts.

The employee costs balance in the draft Statement of Accounts 21/22 is £256.9m.

#### What is the risk?

During 2021/22 the Council implemented a new payroll and HR system, transferring from using "Resourcelink" to "Midland iTrent".

The migration to a new payroll/HR system increases the risk in relation to the completeness and accuracy of the employee costs recorded in the financial statements in the year of transition, including the completeness of data transferred, implementation of controls and accessibility of historical data.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Understanding the process of the new system going live by discussing with HR management and internal audit, if applicable;
- ▶ Enquiring and obtaining evidence as to how the data was transferred from the old system to the new system;
- ▶ Obtaining assurance over the completeness of data transferred;
- ▶ Considering the use of IT specialists if required;
- ▶ Reconciling data for sample of pre-existing employees to new system; and
- ▶ Agreeing information from the new systems to supporting evidence such as payslips.



## Audit risks

### Our response to inherent risks

What is the risk/area of focus?	What will we do?
<p><b>Valuation of property, plant and equipment (PPE) under DRC</b></p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>Given their more formulaic nature and less reliance on market data, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC). However, as there is still an element of judgment and estimation involved, we do consider there to be a higher inherent risk.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> <li>▶ Considering 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;</li> <li>▶ Sampling testing asset valuations, utilising the support from EY valuation specialists where it is considered appropriate to do so, considering assumptions underpinning the valuation and to provide expected valuations of assets selected;</li> <li>▶ Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by CIPFA. Also considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;</li> <li>▶ Reviewing assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct;</li> <li>▶ Testing accounting entries have been correctly processed in the financial statements;</li> <li>▶ Reviewing the classification of assets and ensure the correct valuation methodology has been applied; and,</li> <li>▶ Testing the accounting entries including the calculation of the gain or loss on revaluation to confirm that the adjustments have been correctly processed in the financial statements.</li> </ul>
<p><b>Incorrect recognition of COVID-19 Grants</b></p> <p>The risk includes the incorrect assessment of the Council as either principal or agent, affecting the income recognition. Additionally, this includes a focus on grants already received in prior year but income recognition was deferred. There is a risk that the subsequent recognition to income will not appropriately reflect the underlying terms and conditions of the grant agreement.</p> <p>The COVID-19 fund balance in the draft Statement of Accounts 21/22 is £25.6m.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> <li>▶ Obtaining an understanding of the types of COVID-19 grants received in year and management’s justification of the Council’s role as principal or agent;</li> <li>▶ Reviewing and challenging the Council’s assessment as principal or agent and its accounting treatment for COVID-19 grants by reading the terms and conditions stipulated in the grant agreement;</li> <li>▶ Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move income into the next year;</li> <li>▶ Sample testing the COVID-19 grants received and recognized in year by the Council to ensure the accounting treatment and recognition applied is appropriate based on our review and assessment above; and</li> <li>▶ Sample testing the COVID-19 grants deferred in prior year and recognised in current year by the Council to ensure the accounting treatment and recognition applied to grant income is appropriate and in line with any associated conditions.</li> </ul>

## Audit risks

### Our response to inherent risks (continued)

#### What is the risk/area of focus?

##### Valuation of assets and liabilities in the Local Government Pension Scheme (LGPS)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Wirral Metropolitan Borough Council. 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 2022 this totalled £395.8m.

The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. 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 will we do?

In order to address this risk we will:

- ▶ Liaise with the auditors of Merseyside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Wirral Metropolitan Borough Council;
- ▶ Assess the work of the Pension Fund actuary (Mercer 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 the EY actuarial team;
- ▶ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model;
- ▶ Consider the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

## Audit risks

### Other matters

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the risks of material misstatement to the financial statements.

#### Area of audit work

##### Going concern compliance with ISA 570

This auditing standard was 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 was effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council was the audit of the 2020/21 financial statements.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 states that organisations can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

The standard increased the work we are required to perform when assessing whether the Council are a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

#### What will we do?

In order to address this, we will carry out a range of procedures as required by the standard:

- ▶ Auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ Greater work for us to challenge management's assessment of going concern, including the cashflow forecast covering the foreseeable future and its impact on liquidity;
- ▶ Improved transparency with a new reporting requirement to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ A stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ Necessary consideration regarding the appropriateness of financial statement disclosures around going concern.





03

# Value for Money Risks





# Value for Money

## 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.

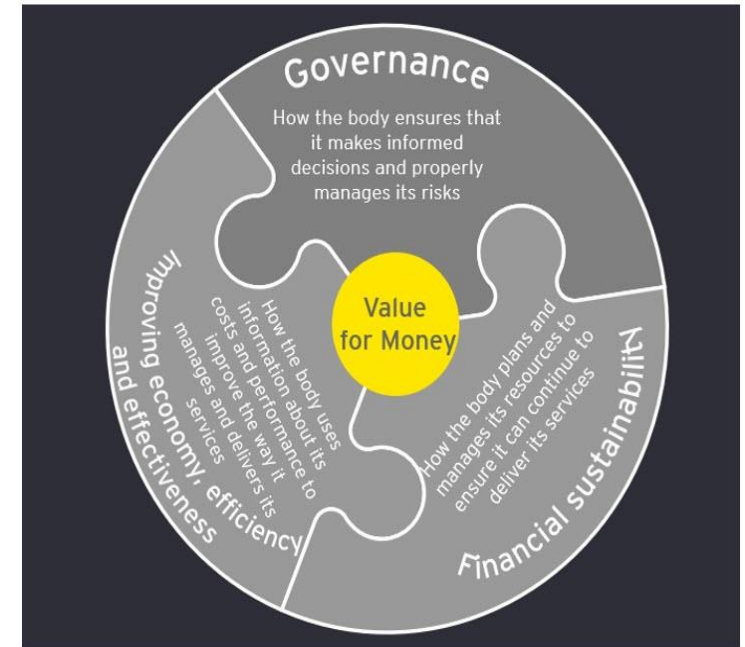
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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 arrangements for securing value for money from the use of resources.

## Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 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.
- 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.





## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- ▶ The Council's governance statement;
- ▶ Evidence that the Council's arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the accounts;
- ▶ The work of inspectorates and other bodies; and
- ▶ Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- ▶ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions; or
- ▶ Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- ▶ The magnitude of the issue in relation to the size of the Council;
- ▶ Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- ▶ The impact of the weakness on the Council's reported performance;
- ▶ Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- ▶ Whether any legal judgements have been made including judicial review;
- ▶ Whether there has been any intervention by a regulator or Secretary of State;
- ▶ Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- ▶ The impact on delivery of services to local taxpayers; and
- ▶ The length of time the Council has had to respond to the issue.





# Value for Money

## Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Governance Committee.

## Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The 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.

## Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning. However, our risk assessment will carefully consider the arrangements that the Council has in place in relation to financial sustainability - including the continued impact of Covid-19, the inflationary pressures and rising cost of living, the M&S early lease surrender and other general funding pressures on the medium term financial planning.

We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.



04

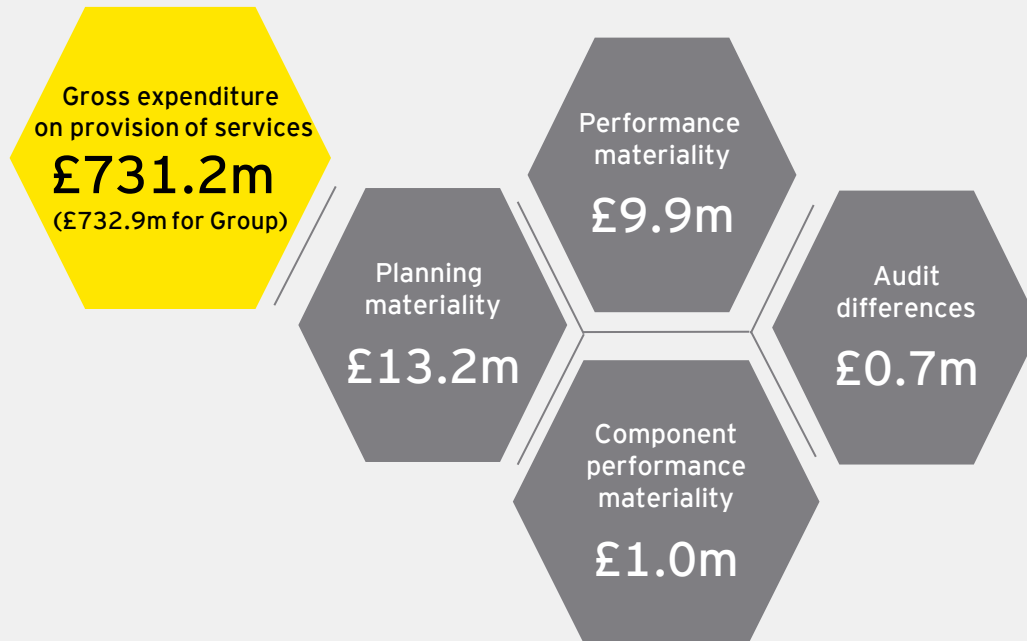
# Audit materiality



# Audit materiality

## Council and Group Materiality

For planning purposes, the Council and the Group materiality for 2021/22 has been set at £13.2m (specifically £13,162K for the Council and £13,193K for the Group). This represents 1.8% of the Council and the Group's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We have provided supplemental information about audit materiality in Appendix C.



The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We request that the Audit and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.9m (specifically £9,871K for the Council and £9,894K for the Group) which represents 75% of planning materiality. When determining the % to be used as performance materiality, we take into account considerations such as our expectation about misstatements, the likelihood and effects of misstatements, internal control environment, changes in circumstances and the result of our client and engagement acceptance and continuance process.

**Component performance materiality range** - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. The threshold for misstatements used for component reporting is £66K. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee, or are important from a qualitative perspective.

**Specific materiality** - we will consider specific materiality in relation to senior officer remuneration, member's allowances, exit packages and related party transactions. As these disclosures are considered to be of interest to users of the accounts, we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.





05

## Scope of our audit



# Scope of our audit

## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

##### Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

##### Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

##### Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 3, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

# Scope of our audit

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2021/22, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit:

We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

# Scope of our audit

## Scoping the group audit

### Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

### Scoping by Entity

Our preliminary audit scopes by number of entities we have adopted are set out below.

1	A	Full scope audits
1	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
1	E	Other procedures

### Scope definitions

**Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. This is our audit with the Council.

**Specific scope:** locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts. Sefton New Directions Limited is under this scope as a significant component based on risk due to an account balance (Turnover) in its Financial Statements exceeding our performance materiality.

**Review scope:** locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 1% of the Group's gross expenditure. Sandway Homes Limited is under this scope. Specifically, we will look into the cash and cash in bank accounts of the components.

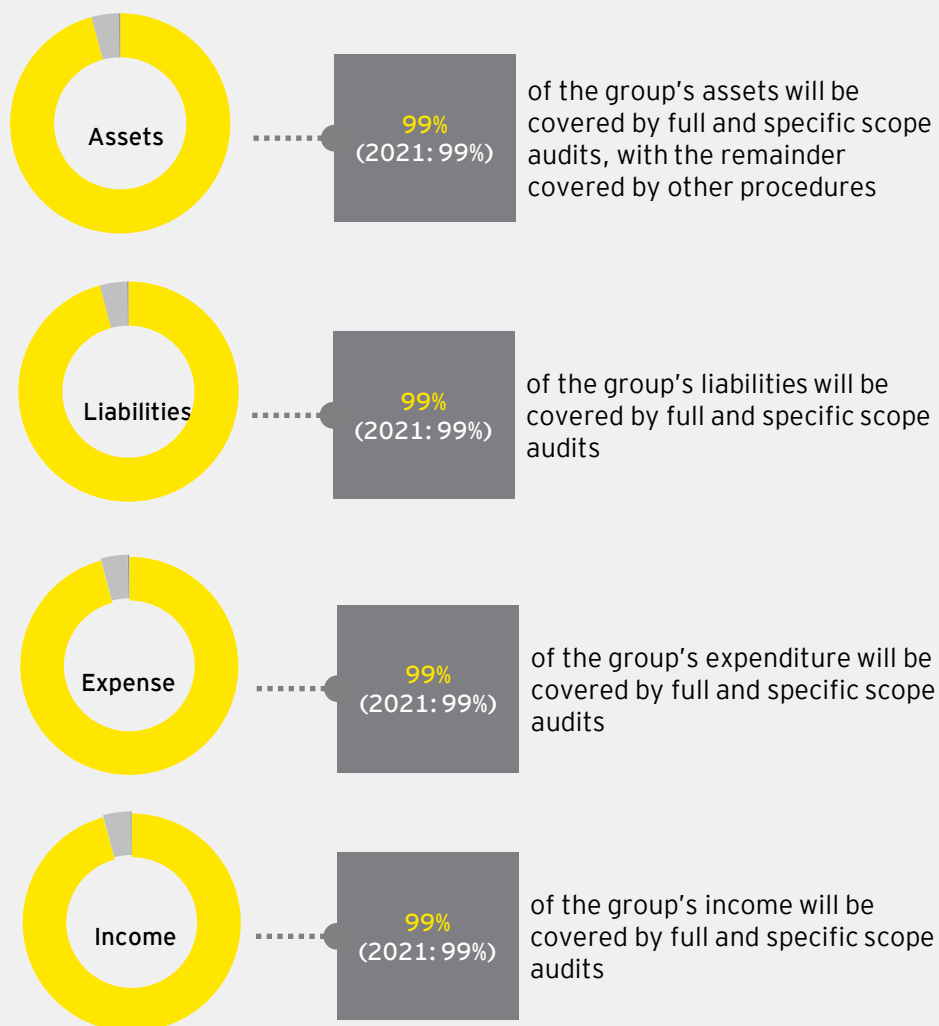


# Scope of our audit

## Scoping the group audit

### Coverage

Based on the group's current year results, our scoping is expected to achieve the following coverage of the group's total assets, total liabilities, gross revenue expenditure and gross income:



### Key changes in scope from last year

- ▶ Sefton New Directions Limited was full scope in the prior year. It has been assessed as specific scope in the current year due to the component being significant based on risk because of the risks associated with one account or disclosure.
- ▶ Sandway Homes Limited availed the exemption to obtain an audit in accordance with Section 476 of the Companies Act 2006, thus there is no component auditor. It was under review scope in the prior year. This year, we will perform other procedures which we will undertake directly. These include obtaining the bank confirmation, testing the bank reconciliation and performing high level overall analytical review.
- ▶ Sefton Hospitality Operations Limited is a new subsidiary incorporated in 2021/22 and not consolidated in group accounts due to materiality. Hence, no procedures are planned to be performed.

### Details of other procedures

- ▶ Since cash and cash in bank generally has no materiality due to it being the most liquid asset and most susceptible to theft, we will perform specified procedures in relation to the existence and completeness of the cash balance as the component holds a large amount of cash but is otherwise not significant.
- ▶ Other procedures may include the following:
  - ▶ Review of management's bank reconciliation for the component's bank accounts;
  - ▶ Perform overall analytical review procedures;
  - ▶ Enquiry of management about unusual transactions in the component; and
  - ▶ Review of management's minutes of the meeting to identify potential newly opened or closed bank accounts.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

# Scope of our audit

## Scoping the group audit

### Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- ▶ Sefton Metropolitan Borough Council as a stand alone entity is considered the significant component and a full scope entity for which we complete the audit procedures as set out in the other sections of this audit plan. This covers over 99% of the group accounts assets, liabilities, expenditure and income.

Auditing standards require us to be involved in the work of component teams. For 2021/22, this will relate to the audit of Sefton New Directions Limited, undertaken by Hazlewoods LLP. We have listed our planned involvement below:

- ▶ We will provide specific instruction to Hazlewoods LLP setting out our expectations regarding the detailed procedures over income recognition and going concern;
- ▶ We will set up an initial meeting with the component team to discuss the content of the group instructions;
- ▶ We will consider the need to perform a file review of component team's work where appropriate; and
- ▶ We will review the reporting pack from the component auditor on procedures performed and findings.

Sandway Homes Limited is entitled exemption to obtain an audit in accordance with Section 476 of the Companies Act 2006. We will use its unaudited Financial Statements for the purpose of the other procedures to be performed as outlined in the previous slides.

Sefton Hospitality Operations Limited is not consolidated into the group accounts on the grounds of materiality due to it being newly incorporated in 2021/22. We have enquired the Management to provide the trial balance and/or financial statements of the subsidiary and provide their assessment to confirm that it is not consolidated as they do not consider it to be material, both quantitatively and qualitatively to the group.



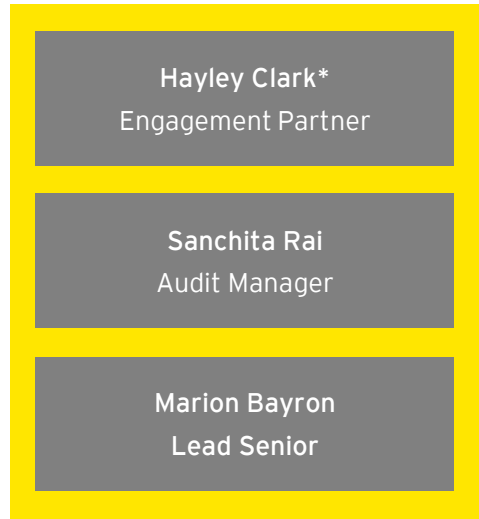
06

## Audit team

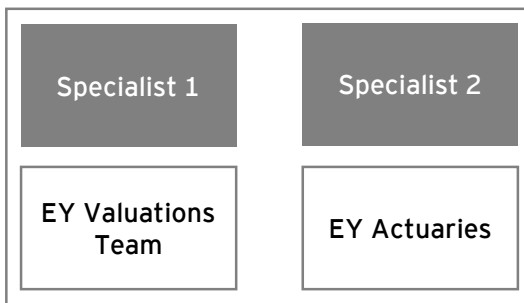


# Audit team

## Audit team structure:



\* Key Audit Partner



\*Hayley Clark is the Audit Engagement Partner who will sign the opinions on the financial statements. Sanchita Rai and Marion Bayron will have the responsibility for all operational matters and for the day to day management and delivery of the external audit service.

## Use of specialists

- ▶ Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of PPE and Investment Property	EY Valuations Team will be utilised where any specific risks or issues are identified that require further consultation. Management's specialist is composed of both external and in-house. External specialist is GVA Grimley Limited for the valuation of a particular asset - Strand Shopping Centre and the in-house valuer for the rest of the assets.
Pensions Disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Mercer Human Resource Consulting, the actuary to the Merseyside Pension Fund.
Pension Fund	PwC are commissioned by the NAO to undertake a review of Local Government Actuaries. EY Pensions team performs a rollforward review as required under ISA540 and review the work performed by PwC.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

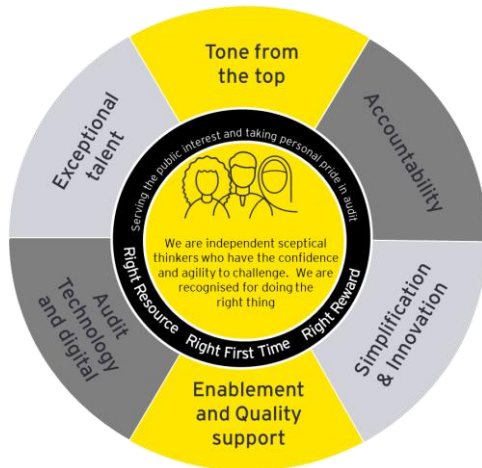
We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.

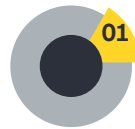


Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

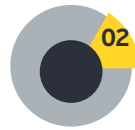
1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
  - ▶ **Right resources** – We team with competent people, investing in audit technology, methodology and support
  - ▶ **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
  - ▶ **Right reward** – We align our reward and recognition to reinforce the right behaviours

### 3. The six pillars of Sustainable Audit Quality are implemented.



#### Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



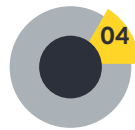
#### Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



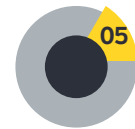
#### Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



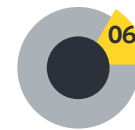
#### Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



#### Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



#### Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

#### 2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

#### We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

*“A series of company collapses linked to unhealthy cultures....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success.”*

Sir John Thompson  
Chief Executive of the FRC





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## Audit timeline





## Audit timeline

### Timetable of communication and deliverables

#### Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes	November 2022	December 2022	Audit planning report
Walkthrough of key systems and processes	November - December 2022		
Yearend audit Account Testing	December 2022 - January 2023		
Yearend audit Audit completion procedures	January 2023		
Audit Conclusions	February 2023		Annual results report (ISA260)
Audit Certification	March 2023 Subject to 2020/21 finalisation	March 2023 Subject to 2020/21 finalisation	Audit results report Auditor's annual report Audit opinion and completion certificate



08

Independence





# Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hayley Clark, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is not above 1:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Relationships, services and related threats and safeguards

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Description of service	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
Housing benefit work no longer forms part of the work required by PSAA and we are engaging separately with the Council on the appointment for this work in 2021/22. Our baseline fees for current year is £15,950 but the finalised fee is yet to be confirmed and will vary depending on the amount of testing required. In 2020/21, fees were £18,500 which comprises of £14,500 baseline fee and £4,000 for additional testing.	Self review threat - figures included in the return are also included in the financial statements.	Year ended 31 March 2022 and for all subsequent accounting periods. However, this will be assessed annually.	<p>The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements.</p> <p>In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement. Our external audit is concluded prior to this engagement. The external audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement. No advice will be given in relation to accounting treatment.</p> <p>The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes.</p>



## Other communications

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### **EY Transparency Report 2021**

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 2022: [EY UK 2022 Transparency Report | EY UK](#)





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## Appendices



## Appendix A

### Fees

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.

	Planned fee 2021/22**	Final fee 2020/21*	Final Fee 2019/20
	£	£	£
Scale fee (1)	97,711	97,711	97,711
Additional fee to address risks	TBC	TBC	33,200
<b>Total audit</b>	<b>TBC</b>	<b>TBC</b>	<b>130,911</b>
Other non-audit services not covered above (Teacher's Pension)	TBC	7,000	6,500
Other non-audit services not covered above (Housing Benefits)	TBC	18,500	11,500
<b>Total other non-audit services</b>	<b>TBC</b>	<b>25,500</b>	<b>18,000</b>
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>148,911</b>

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

#### **All fees exclude VAT**

\*We have been in discussion with PSAA nationally about an increase to the scale fee. For Sefton Council we proposed a revised scale fee of £171,765.




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 and audit of Infrastructure assets. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval. Our actual fees for the Housing benefit - non audit services may exceed this estimate based on the volume of testing required in response to the previous year's report, and the amount of extended testing required from the findings of the initial testing.

\*\*For 2021/22, we expect a number of items to impact on the audit fee, such as the continuation of additional procedures relating to PPE including Infrastructure assets, group scoping, other procedures on subsidiaries, value for money, estimates and going concern and additional procedures required due to implementation of New HR/Payroll System. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval.

## Appendix B





# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit and Governance Committee.

			 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - December 2022	
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 - March 2023 (subject to 2020/21 finalisation)	

## Appendix B





# Required communications with the Audit Committee (continued)

		 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 - March 2023 (subject to 2020/21 finalisation)
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</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 - March 2023 (subject to 2020/21 finalisation)
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>	Audit results report - March 2023 (subject to 2020/21 finalisation)
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 entity</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 entity, 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 - March 2023 (subject to 2020/21 finalisation)







## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <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 entity</li> </ul>	Audit results report - March 2023 (subject to 2020/21 finalisation)
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>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report - December 2022</p> <p>Audit results report - March 2023 (subject to 2020/21 finalisation)</p>
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 - March 2023 (subject to 2020/21 finalisation)
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 - March 2023 (subject to 2020/21 finalisation)
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - March 2023 (subject to 2020/21 finalisation)

## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Audit planning report - December 2022 Audit results report - March 2023 (subject to 2020/21 finalisation)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - March 2023 (subject to 2020/21 finalisation)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - March 2023 (subject to 2020/21 finalisation)
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - March 2023 (subject to 2020/21 finalisation)
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report - December 2022 Audit results report - March 2023 (subject to 2020/21 finalisation)
Value for Money	<ul style="list-style-type: none"> <li>▶ Risks of significant weakness identified in planning work</li> <li>▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.</li> </ul>	Audit planning report - December 2022 Audit results report - March 2023 (subject to 2020/21 finalisation)

## Appendix C

# Additional audit information

### Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with the International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Governance Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

<b>Our responsibilities required by auditing standards</b>	<ul style="list-style-type: none"><li>▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.</li><li>▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.</li><li>▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.</li><li>▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.</li><li>▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.</li><li>▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and</li><li>▶ Maintaining auditor independence.</li></ul>
<b>Procedures required by the Audit Code</b>	<ul style="list-style-type: none"><li>▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.</li><li>▶ Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period</li></ul>
<b>Other procedures</b>	<ul style="list-style-type: none"><li>▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice</li></ul>

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.



## Appendix C

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# Additional audit information (continued)

### **Purpose and evaluation of materiality**

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



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### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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