Sefton Metropolitan Borough Council
Preliminary Audit results report
Year ended 31 March 2022

19 September 2023

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

Dear Audit and Governance Committee Members

Preliminary 2022 audit results report

We are pleased to attach our preliminary audit results report, summarising the status of our audit for Sefton Metropolitan Borough Council for the forthcoming meeting of the Audit and Governance Committee. We will update the Audit and Governance Committee at its next meeting scheduled on further progress to that date and explain the remaining steps to conclude the audit before issuing the final opinion.

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 27 September 2023.

H. Clark

Yours faithfully
Hayley Clark
Partner
For and on behalf of Ernst & Young LLP
Encl

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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.psaa.co.uk/audit-quality/statement-of-responsibilities/)).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.psaa.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.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the December 2022 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: In our Audit and Governance Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £13.2m (specifically £13,162K for the Council and £13,193K for the Group). The basis of our assessment has remained consistent with prior years at 1.8% of the Council and the Group's gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on income, and misstatements in the Comprehensive Income and expenditure is £0.658m. In light of the additional findings arising from the 2020/21 audit, as well as the findings arising as part of the 2021/22 audit, we will need to consider if the level of materiality applied in conducting our audit remains appropriate, which may result in additional audit work required to ensure sufficient assurance is gained over the risk of material misstatements present in the financial statements.
- New/changes to risk factors that caused a corresponding change in our audit strategy: Due to the exception noted on our representative samples for Property, Plant and Equipment (PPE) existence related to HMRI sites which have long been non-existent but continues to exist in the fixed asset register, we increased our inherent risk on the "Existence of PPE" which caused us to increase our sample size and consequently, the substantive audit work has also increased significantly. This also impacted the FY 2020/21 financial statements, impacting the opening balances.
- New significant risks (including fraud risks) not identified at planning stage or significant changes to the significant risks initially identified: In our Audit and Governance Committee Planning Report, we identified a new significant risk on Infrastructure Assets due to the ongoing consultation of the CIPFA on the derecognition requirements. During the course of our audit, the Council provided their resolution that it would adopt the Statutory Instrument issued by DLUHC where the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil and CIPFA's temporary solution where authorities are allowed not to report the gross cost and accumulated depreciation for infrastructure assets on its financial statements. Due to this being non-complex and the nature of the audit procedures to be performed, we decreased the risk from a Significant Risk to Inherent Risk.
- Value for money significant risks identified: In our Audit and Governance Committee Planning Report, we reported that we were undertaking our VfM Planning work and would update the Committee in due course on whether we identified risks of significant weaknesses in arrangements. We have identified a significant risk related to the Children's Services Ofsted inspection results, impacting on governance arrangements. The further procedures we performed resulted in the identification of a significant weakness. Due to the significant weakness identified which will result in us reporting this by exception in our audit report on the financial statements. We are currently undertaking an internal consultation with our risk management team to confirm the final wording for inclusion in the opinion.
- Changes in scope caused by the triennial valuation: The 2022 triennial valuation of the Local Government Pension Scheme represents relevant information that needs to be considered by the Authority and auditors when forming a view on the material accuracy of pension employee benefits accounted for under IAS19 as at 31 March 2022. As such the Authority has been required to obtained an updated IAS 19 report to assess the impact on the financial statements. We have updated our risk assessment on the valuation of the pension scheme assets and liabilities, to also include consideration of the triennial.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Executive Summary (cont’d)

Status of the audit

We met with management in July 2023 to discuss the progress of both the 2020/21 and 2021/22 financial statements and audit process. At this meeting we agreed that we would prioritise the close out and finalisation of the 2020/21 audit before recommencing the 2021/22 audit. Given that the audit process in 2021/22 is still ongoing, we will continue to assess the sufficiency of the audit evidence in light of the findings arising from the finalization of the 2020/21 accounts and the matters arising during the course of the 2021/22 audit. We will also continue to challenge the remaining evidence provided and the final disclosures in the Annual Report and Accounts which could influence our final audit opinion.

Our audit work in respect of the 2021/22 group opinion is progressing and the following items are the key areas outstanding at the date of this report:

- Completion of work on the test of opening balance for 2021/22 pending sign off and finalization of FY 2020/21 audit;
- Stand back review of our risk assessment, including materiality, taking into account finalisation of the 2020/21 financial statements and findings arising from the current year audit;
- Supporting evidence for the additional samples on PPE existence;
- Completion of work on the IP and PPE valuations;
- Completion of group accounts and consolidation work;
- Internal review including Manager and Partner review of areas of audit work;
- Completion of internal consultation process on VfM arrangements;
- Receipt and review of the updated financial statements;
- Reassessment of materiality upon receipt of the updated financial statements;
- Receipt of signed financial statements and signed management representation letter; and
- Completion of subsequent events review;

In order to issue our audit certificate, closing out the audit we will also need to complete the following:

- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission.
- Issuance of the Auditor’s Annual Report, including the VfM commentary.

Executive Summary (cont'd)

Audit differences

Section 04 of this report sets out the audit differences arising from our audit. Uncorrected misstatements in the current year impacting the Comprehensive Income and Expenditure Statement (CIES) total £0.188m, being a decrease in the deficit, with uncorrected misstatements impacting Other Comprehensive Income by £4.5m, being an overstatement of other comprehensive income.

We also report the impact of those unadjusted differences from the prior year that turnaround into the current year. Taking both the current year and prior year differences, the impact on the Comprehensive Income and Expenditure Statement is an increase to income of £0.188m, with uncorrected misstatements impacting Other Comprehensive Income by £6.4m, being an overstatement of other comprehensive income.

Management have corrected misstatements (identified by both management and audit team) amounting to £100.1m, 7 of which aggregate to £65m related to reclassification. The £65m reclassification include:

- £34.719m reclassification from short-term borrowings to current portion of long-term borrowings
- £0.728m reclassification within short-term debtors in terms of the correct receivable category based on its nature; from council tax debtors to other local authorities debtors
- £15.945m reclassification of non-ringfenced grants from taxation and non-specific grant income account to grants credited to services (revenue grant) account
- £0.9m reclassification of short term debtors to receipts in advance
- £2.2m amount not due in the next 12 months incorrectly recognised as Short term Debtors
- £3.6m reclassification of prepayments to creditors and receipts in advance on account of Error in Treatment of ASC Payment Run
- £7m reclassification of rechargeable works incorrectly calculated resulting overstatement of debtors and RIA

We have agreed a number of other disclosure amendments with Management which have no impact on the financial results reported for the year but are equally important in ensuring the material accuracy of the financial statements as a whole.

Executive Summary (cont’d)

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Sefton Metropolitan Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the ‘Areas of Audit Focus’ Section of this report.

Misstatements due to fraud or error

- Subject to finalisation and review procedures, we have not identified significant findings or issues to draw to the Committee’s attention.

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

- Subject to finalisation and review procedures, we have not identified significant findings or issues to draw to the Committee’s attention.

Risk of fraud in expenditure recognition: understatement of other service expenses

- Subject to finalisation and review procedures, our audit work on the search for unrecorded liabilities and payables cut off testing has identified an understatement of expenditure as a result of non-accrual of electricity expenses for the months of February and March 2022 resulting to a misstatement of £0.702m

Infrastructure assets

- Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolves accounting issues in this area, and the Council has amended the disclosures in its financial statements to comply with the revised requirements . We are content with the changes made following further minor amendments to disclosure as a result of our work. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council to depreciating infrastructure assets against this guidance. Subject to finalisation and review procedures, we are satisfied that the approach taken by management is reasonable.

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

- The work undertaken by our specialist valuer is substantially complete with no issues to report to date. Subject to finalisation and review procedures ,our testing of assets carried at fair value and existing use value has identified no required amendments to the carrying values in the financial statements.

Valuation of investment properties

- The work undertaken by our specialist valuer is substantially complete with no issues to report to date. Subject to finalisation and review procedures, our testing of investment property valuation has identified no required amendments to the carrying values in the financial statements.

New HR/Payroll system

- Subject to finalisation and review procedures, we have obtained reasonable assurance to be able to conclude that the change in payroll system did not result to loss and / or inaccuracy of data during implementation.

Executive Summary (cont’d)

Areas of audit focus

Valuation of property, plant and equipment (PPE) under DRC

- The work undertaken by our specialist valuer is substantially complete with no issues to report to date. Subject to finalisation and review procedures, our testing of assets carried at depreciated replacement cost has identified no required amendments to the carrying values in the financial statements.

Incorrect recognition of COVID-19 Grants

- Subject to finalisation and review procedures, we have not identified significant findings or issues to draw to the Committee’s attention.

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

- As in previous year, an adjustment was made to account for the difference between the audited value of the Council’s share of pension scheme assets and the estimated value communicated to the Council’s actuary earlier in the year to inform its assessment of the Council’s pensions liability. This adjustment, which we do not consider to be the correction of an error, increases the reported pensions liability by £4.5m. The Management has not corrected the misstatement. We also note the impact of the triennial valuation which has resulted in amendments to the net liability reported in the financial statements.

Going concern compliance with ISA 570

- We are satisfied the Council will remain a going concern for a period of at least 12 months from our reporting date as assessment was made until March 2025, that management’s assessment of this is reasonable and supportable, and adequately disclosed in the financial statements.

PPE Existence

- The work on the existence testing on PPE is still in progress due to the issue identified on the HMRI assets and pending the receipt of all evidence on the remaining samples.

We request that you review these and other matters set out in this report to ensure:

- There are no further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

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

Control observations

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

During the audit we identified a number of observations and improvement recommendations in relation to management’s financial processes and controls that we want to bring to your attention. Details of this are included in Section 07 of this report. We will issue a detailed management letter setting out our observations.

Executive Summary (cont'd)

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Value for money

In our Audit Planning Report presented to the December 2022 meeting of the Audit and Governance Committee we reported that we were undertaking our VfM planning work and would update the Committee in due course on whether we identified risks of significant weaknesses in arrangements.

During the course of the audit, we identified a significant risk related to Children's Services Ofsted inspection results concerning the criteria governance. We have included in Section 05 the detailed work we carried out in response to this risk.

Based on the work we have completed to date, we have identified a significant weakness in the arrangement. In the auditor's report, we expect to include this as part of the matters we are required to report to you by exception in the context that we are not satisfied that the Council has put in place proper arrangements to secure value for money. We plan to issue the VFM commentary, incorporating the work carried out against the risks identified in our 2021/22 within 90 days from the date of the auditor's report.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Subject to finalisation and review procedures, we have no matters to report as a result of this work as of the date of this report.

The Group Audit Instructions was released by the National Audit Office (NAO) in February 2023. We have not yet performed the procedures required by NAO on the Whole of Government Accounts submission. Sefton falls below the threshold for requiring additional procedures. However, we will not be able to release our certificate to close the audit until it has been confirmed that the NAO do not wish to sample Sefton Metropolitan Borough Council for additional procedures.

Independence

There are no independence issues have been identified. Please refer to Section 09 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error (Fraud risk)

What is the risk, and the key judgements and estimates?

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 are our conclusions

In our work performed to date, which is subject to finalisation and review procedures:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- Our testing of journals found the items in our risk based sample to be appropriately supported and entered into the general ledger accurately.
- Our testing of judgements and estimates did not identify inappropriate judgements or bias in estimates.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.

Our response to the key areas of challenge and professional judgement

At the planning stage, we identified the areas of the statements that were more susceptible to fraud, and remained alert throughout the course of the audit for where this assessment may have changed. We did not identify any previously unidentified areas of risk.

We inquired of management about where risks of fraud could exist and the controls that have been put in place to address those risks; considering the effectiveness of controls designed to address the risks. We also understood the oversight given by those charged with governance of management's processes in this area.

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

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

We considered the existence of significant unusual transactions during the year and evaluated their nature and business rationale.

Areas of Audit Focus

Risk of fraud in revenue recognition: overstatement of fees, charges and other service income (Fraud risk)

What is the risk, and the key judgements and estimates?

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 are our conclusions

In our work performed to date, which is subject to finalisation and review procedures, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Performed overall analytical review procedures to identify any unusual movements or trends for further investigation;
- Used 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;
- Undertook a monthly trend analysis using our data analytics tools to identify any unusual movements in balances during the year for further analysis and testing;
- Sample tested the income transactions posted in the period post year-end to confirm if this had been recorded in the correct period; and
- Sample tested the receivables posted just prior to year-end to confirm if this had been recorded in the correct period.

Areas of Audit Focus

Risk of fraud in expenditure recognition: understatement of other service expenses (Fraud risk)

What is the risk, and the key judgements and estimates?

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.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Performed an overall analytical review procedures to identify any unusual movements or trends for further investigation;
- Used 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;
- Undertook a monthly trend analysis using our data analytics tools to identify any unusual movements in balances during the year for further analysis and testing;
- Sample tested the expense transactions posted in the period post year-end to confirm if this has been recorded in the correct period; and
- Performed a search for 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.

What are our conclusions

Our work performed to date is subject to finalisation and review procedures.

To date, our audit work on the search for unrecorded liabilities and payables cut off testing has identified an understatement of expenditure as a result of non-accrual of electricity expenses for the months of February and March 2022 due to the late receipt of invoice.

The supplier for this electricity usually sends in late invoices to the Council which has been the case for several years. Although the Council has anticipated them, no accrual estimate was made as Management commented that they have recorded a 12-month equivalent utility in in 2021/22 because a 2020/21 invoices were also subsequently recorded in 2021/22. Management commented that this adjustment will affect the outturn position already presented in various reports and is not material to warrant changes in the accounts. Whilst 12 months of expense have been included in the financial statements, this has not been accounted for in line with accounting requirements on an accruals basis. Due to this being above our threshold, we have reported this as an uncorrected misstatement in Section 04.

Areas of Audit Focus

Infrastructure assets (Significant risk)

What is the risk, and the key judgements and estimates?

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.

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.

At the time of issuing our planning report, the CIPFA Board were considering whether full application of IAS 16 requirements is appropriate for (highways) infrastructure assets or whether it should be adapted to take account of the practical issues identified. CIPFA continued to consult in this area and on 25 December 2022, the Department for Levelling Up, Housing and Communities (DLUHC), issued a statutory instrument (“the SI”) to cover all audits starting on or before 1 April 2024. This gave the option for authorities to apply the SI or continue to apply the code. In January 2023, a temporary solution has been finalised by the CIPFA which states that that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets.

With this clarity, the Council provided us their resolution that it would adopt the Statutory Instrument.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Performed 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;
- Considered any subsequent guidance issued by CIPFA that may impact on the accounting for infrastructure assets; and
- Assessed the extent of information deficit that exists to create materially accurate disclosures

What else did we do?

- We obtained the Council’s resolution towards the issue following the guidance set out by CIPFA in the technical bulletin issued in January 2023.
- Following the resolution adopted which is the application of the SI, we have tested management’s assessment of the CIPFA guidance, confirmed the correct accounting of infrastructure assets by performing test of in year movements (i.e., additions, depreciation) and assessed whether the amended disclosures are in line with the CIPFA adaptation.
- The bulletin issued by CIPFA also covers how infrastructure assets should be depreciated in terms of its economic useful life. We tested management’s assessment of Useful Economic Lives (UELs) for reasonableness.

What are our conclusions

Our work performed to date is subject to finalisation and review procedures. We have set out our findings to date on the next page.

Areas of Audit Focus

Infrastructure assets (Significant risk)

What are our conclusions

For FY 2021/22, the Council have a gross book value and net book value of infrastructure assets totalling to £255.4m and £171.3m, respectively. The 2020/21 expenditure testing demonstrates that the Council does not record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation which is still the same case in 2021/22. This means that the Council does not have sufficient records to show that all assets accounted for actually continue to exist and that the gross cost and accumulated depreciation of infrastructure assets are not materially overstated.

As changes were made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to change the accounting rules in this area, this temporarily resolved the derecognition and existence issues identified above. This temporary resolution was adopted by the Council and as a result, the Council has amended the disclosures in its financial statements to comply with the revised requirements. We are content with the changes made following further minor amendments to disclosure as a result of our work.

A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council in depreciating its infrastructure assets against this guidance. We are satisfied that the approach taken by management is reasonable.

To obtain reasonable assurance on the other relevant assertions, we tested the in year movements (additions, derecognition and depreciation) and we have not noted any issues.

As mentioned above, the resolution is temporary with the SI only being in place for a period of limited time (2 financial years years), we had discussions with Management to query and emphasise the need to initiate/establish arrangements to maintain infrastructure asset records at the individual asset level to ensure the continued evidence of existence in the next financial year. We have made a recommendation regarding controls in this area relating to how management monitor spend going forward to keep updated records in respect of when assets are being replaced to provide purposeful data for both asset lives and book values. This recommendation is to ensure that Management can assess how such assets may be classified when the temporary provisions end. These are formally included in Section 07.

Areas of Audit Focus

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

What is the risk, and the key judgements and estimates?

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 are our conclusions

As part of our audit approach, we engaged our internal valuation specialists (EY Real Estate) to perform a detailed and specialised review of a sample of assets. The work performed by our specialist team to date has not identified any issues relating to both methodology and input used by the Management's valuers.

As set out in the executive summary we are still finalising our work in this area, which will then be subject to review procedures.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Documented 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;
- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. Also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed 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;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Engaged 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;
- Tested accounting entries have been correctly processed in the financial statements;
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied; and
- Considered 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 and considered if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.

Areas of Audit Focus

Valuation of investment properties (Significant risk)

What is the risk, and the key judgements and estimates?

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 assessed as Level 2 on the fair value hierarchy for valuation purposes which means that 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. 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 are our conclusions

We engaged EY Real Estate to perform a detailed and specialised review of a sample of assets. The work performed by our specialist team has not identified any issues relating to both methodology and input used by the Management's valuers to date.

As set out in the executive summary we are still finalising our work in this area, which will then be subject to review procedures.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Documented 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;
- Evaluated the competence, capabilities and objectivity of management's specialist;.
- Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards, and assessed if they include a specific instruction from the Council to the valuer relating to an assessment of the unvalued population;
- Engaged our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer;
- Performed appropriate tests over the completeness and appropriateness of information provided to the valuer;
- Reviewed the classification of assets and ensured that the correct valuation methodology has been applied;
- Ensured the valuer's conclusions have been appropriately recorded in the financial statements; and
- Tested 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.

Areas of Audit Focus

New HR/Payroll system (Significant risk)

What is the risk, and the key judgements and estimates?

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 are our conclusions

In our work performed to date, which is subject to finalisation and review procedures, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council’s financial position. We have obtained sufficient appropriate audit evidence to be able to conclude that the change in payroll system did not result to loss and / or inaccuracy of data during implementation.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Understood the process of the new system going live by discussing with HR management and internal audit;
- Enquired and obtained evidence as to how the data was transferred from the old system to the new system;
- Obtained assurance over the completeness of data transferred;
- Considered the use of IT specialists for which we assessed as not required;
- Reconciled data and selected sample of pre-existing employees to the new system; and
- Agreed the information from the new systems to supporting evidence such as payslips.

Areas of Audit Focus

Valuation of property, plant and equipment (PPE) under DRC (Higher Inherent Risk)

What is the risk, and the key judgements and estimates?

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.

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.

What are our conclusions

We engaged EY Real Estate to perform a detailed and specialised review of a sample of assets. The work performed by our specialist team has not identified any issues relating to both methodology and input used by the Management's valuers to date.

As set out in the executive summary we are still finalising our work in this area, which will then be subject to review procedures.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested asset valuations, utilised 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;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by CIPFA. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed 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;
- Tested accounting entries have been correctly processed in the financial statements;
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied; and,
- Tested 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.

Areas of Audit Focus

Incorrect recognition of COVID-19 Grants (Higher Inherent Risk)

What is the risk, and the key judgements and estimates?

The risk includes the incorrect assessment of the Council on COVID-19 grants as either principal or agent, affecting the income recognition. Additionally, this includes a focus on COVID-19 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.

What are our conclusions

In our work performed to date, which is subject to finalisation and review procedures, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Obtained 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;
- Reviewed and challenged 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;
- Used 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;
- Sample tested 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
- Sample tested 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.

Areas of Audit Focus

Valuation of assets and liabilities in the Local Government Pension Scheme (LGPS) (Higher Inherent Risk)

What is the risk, and the key judgements and estimates?

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.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Liaised with the auditors of Merseyside Pension Fund to obtain assurances over the information supplied to the actuary in relation to Wirral Metropolitan Borough Council;
- Assessed 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;
- Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model;
- Considered the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions

In our work performed to date, which is subject to finalisation and review procedures, we have not identified any material misstatements in the balances and disclosures associated with the local government pension scheme other than the below.

The pension fund auditor highlighted a difference in the overall pension fund assets amounting to £43m (overstatement in fund assets) which has not been rectified by the management of the pension fund. The apportioned impact of this error for Sefton amounts to £4.5m. As this is above our reporting threshold therefore we have reported this as part of uncorrected misstatement and has included in Section 04.

In addition to the above, we received the revised triennial valuation for 2021/22 in April 2023 and assessed its impact on the financial statements, recognizing an additional £31m in the net pension liability. Consequently, the management updated the 2021/22 financial statements. Our testing confirmed that assumptions used in the revised IAS19 report are within acceptable ranges and there are no changes to membership data. The triennial valuation does not provide further evidence that needs to be reflected in the original IAS19 accounting valuation and the defined benefit pension balances in the prior year 2020/21 remain to be fairly stated.

Areas of Audit Focus

Existence of property, plant and equipment (PPE) (New Higher Inherent Risk)

What is the risk, and the key judgements and estimates?

During the course of our existence verification procedures for Surplus Assets in Property, Plant and Equipment, we noted that some of the assets which have been sampled did not exist.

Upon further investigation and probing enquiries, it was noted that all of these assets pertain to the HMRI sites and there was a possibility of multiple other assets in the same category which might have been recorded in the Fixed Assets Register but were not actually present.

Due to this finding, there is a risk that the above is not isolated to HMRI sites and we are unable to obtain sufficient, appropriate audit evidence to gain assurance over the existence of the rest of the assets within the fixed asset register.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Held meeting with the Management to communicate the effect of this issue on our risk assessment and its impact on our audit strategy;
- Liaised with the Council to perform a thorough exercise to review the assets in the fixed assets register and prepare a detailed response to the observation;
- Obtained from the Management a memorandum as a formal assurance towards the existence of the rest of the Council's assets;
- Increased our sample size for testing by using a revised population after taking out the total of HMRI assets to substantiate the existence of the rest of the assets that Management has confirmed to be not affected by the issue; and
- Determined that the assets go back to previous years and considered whether there is a need for a Prior Period Adjustment (PYA)

What are our conclusions

In our work performed to date, which is subject to finalisation and review procedures, our audit work did not identify any further issues or errors.

The impact of the HMRI assets has been set out in section 04 of this report.

Areas of Audit Focus

Going concern compliance with ISA 570 (Other Matters)

What is the risk, and the key judgements and estimates?

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 and Governance Committee.

Our response to the key areas of challenge and professional judgement

In order to address this risk, we:

- Challenged the 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;
- Challenged the management's assessment of going concern, including the cashflow forecast covering the foreseeable future and its impact on liquidity;
- Concluded on whether the management's assessment is appropriate and ensured compliance with any updated reporting requirements;
- Considered all the evidence obtained, whether corroborative or contradictory, when we drew our conclusions on going concern; and
- Considered the appropriateness of financial statement disclosures around going concern.

What are our conclusions

In our overall audit work, we have not noted any events or conditions that may indicate that a material uncertainty exists on the going concern assumption of the Council.

Our assessment covered the cash flow projection until the end of March 2025. We have concluded that the Management's assumptions and projections are reasonable and that the basis of going concern is supported by the cash flow forecast. There are no misstatements in the disclosures associated with the going concern except the appropriate revision in the narrative to describe that the Management have assessed its cash flow until the date which is at least 12 months from the approval of the Statement of Accounts.

03 Audit Report

Draft audit report subject to Internal consultation

Our draft opinion on the financial statements

Opinion

We have audited the financial statements of Sefton Metropolitan Borough Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Council and Group Movement in Reserves Statement,
- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Balance Sheet,
- Council and Group Cash Flow Statement
- the related notes 1 to [x].
- Collection Fund and the related notes 1 to [x]

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Sefton Metropolitan Borough Council and the Group as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Corporate Resources and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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

Other information

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

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

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

We have nothing to report in this regard.

Draft audit report contd...

Our draft opinion on the financial statements

Matters on which we report by exception

We report to you if:
•in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Council
•we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
•we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
•we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
•we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
•we make an application for judicial review under Section 31 of the Local Audit and
•Accountability Act 2014 (as amended)
•we are not satisfied that the Group and the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

In respect of the following we have matters to report by exception:

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

On the basis of our work, having regard to the Code of Audit Practice 2020, and to the guidance issued by the Comptroller and Auditor General in December 2021, we have identified the following significant weakness in the Council's arrangements for the year ended 31 March 2022.

Significant weakness in arrangements

Our judgement on the nature of the weakness identified:
In May 2021 Ofsted reported the findings from their focused visit and outlined that improvements were needed in:

•The quality assurance arrangements and senior management oversight of social work practice.
•The strategic and operational focus on achieving change and reducing risk for vulnerable children.
•The capacity in social work teams and the number of children on social workers' caseloads.

Following their 2021 focused visit Ofsted undertook a full inspection in 2022 and overall the Council were graded as "inadequate" with each of the following areas of judgement also rated as inadequate:

- The impact of leaders on social work practice with children and families
- The experiences and progress of children who need help and protection
- The experiences and progress of children in care and care leavers

Ofsted reported that over a long period the political and executive leadership had not secured the structures, systems and processes to keep an effective single line of oversight of children's service and that the focused visit in 2021 identified serious weaknesses in child protection practice and management oversight resulting in areas for priority action. Oftsed outlined that the council and senior leaders had not sufficiently understood these failures or taken the necessary actions to improve services for children.

The weaknesses reported by Ofsted are evidence of significant weaknesses in arrangements for governance, including how the Council monitors and ensures appropriate standards, such as legislative and regulatory requirements, are met.

The evidence on which our view is based:
- Ofsted Children's services focused visit published on 10 March 2021
- Ofsted Children's services inspection published on 21 February 2022
- Ofsted Children's services monitoring visits published on 21 February 2023
- Review of the most recent Council minutes of the Overview and Scrutiny Committee responsible for monitoring the challenges relating to improvement of Children's Services to the Council's Cabinet.

Impact on the local body:
Ofsted identified both serious and widespread failures in core areas of social work practice including assessment, planning, and management oversight. Ofsted reported that there is insufficient capacity across the workforce to secure a timely and appropriate response for children. As a result, some children are left with inadequate protection, and experience delays in having their needs met, including the need for timely permanence. Ofsted also reported that there is a heavy reliance on agency staff across all areas of the service making the service unstable and there is a lack of management oversight to support timely decision-making and planning in the best interests of children.

Draft audit report contd...

Our draft opinion on the financial statements

Action the body needs to take to address the weakness

The Council needs to execute the Children's Improvement Plan – Phase 3 effectively, bringing about the necessary changes to enhance outcomes for vulnerable children and young people in Sefton. This will require collaboration with regulators and key stakeholders to address the shortcomings in safeguarding arrangements highlighted by Ofsted.

This issue is evidence of weaknesses in proper arrangements for governance, including how the body monitors and ensures appropriate standards, such as legislative and regulatory requirements, are met.

Responsibility of the Executive Director of Corporate Resources and Customer Services

As explained more fully in the Statement of the Responsibilities set out on pages [X], the Executive Director of Corporate Resources and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the Council and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Executive Director of Corporate Resources and Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Corporate Resources and Customer Services is responsible for assessing the Group and the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Council either intends to cease operations, or has no realistic alternative but to do so.
The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

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

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the Council and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- National Health Service Act 2006,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

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

We understood how Sefton Metropolitan Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and the Council's committee minutes to confirm Group and the Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

Draft audit report contd...

Our draft opinion on the financial statements

We assessed the susceptibility of the Group and the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we obtained the Group and the Council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether the Sefton Metropolitan Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Sefton Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

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

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

04 Audit Differences

Audit Differences

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

Summary of adjusted differences

At the time of writing this report we highlight the following misstatements greater than £0.658m which have been corrected by management that were identified during the course of our audit:

Adjustments identified and corrected by management after 1st set of financial statement :

- Balance Sheet - Prepayments - £3.6m reclassification of prepayments to creditors and receipts in advance on account of Error in Treatment of ASC Payment Run
- Balance Sheet – Short Term Debtors- £7m reclassification of rechargeable works incorrectly calculated resulting overstatement of debtors and RIA

Adjustments identified by audit team during the course of audit :

- CIES – Grant income : £0.840m understatement of contribution income erroneously credited to expenditure
- CIES - Other Operating Income and Expenditure : £1.675m overstatement of gain on the disposal of non-current assets
- Balance Sheet – Borrowings : £34.719m reclassification from short-term borrowing to current portion of long-term borrowing
- Balance sheet - Short Term Debtors : £0.728m reclassification from council tax debtors to other local authorities debtors
- CIES – Grant income : £15.945m reclassification from taxation and non-specific grant income (non-ringfenced) to grants credited to services (revenue grant)
- Balance Sheet & CIES – £31m increase in Pensions liability on account of revised triennial valuation
- Balance Sheet & CIES – PPE - £2.5m on account of revaluation of Crosby PFI
- Balance Sheet – Short Term Debtors - £0.9m reclassification of short term debtors to receipts in advance
- Balance Sheet – Short Term Debtors & Long term Debtors- £2.2m Amount not due in the next 12 months incorrectly recognised as Short term Debtors

Audit Differences (cont'd)

We also highlight the more significant disclosure misstatements which have been corrected by management that were identified during the course of our audit:

- In Note 19: Heritage Assets, there is an incorrect disclosure of balances and inventory of assets. The Council also holds loaned exhibits, which were reflected in the insurance report but not disclosed in the statement of accounts.
- In Note 23 Long-term Investments, the investment in Sandway Homes Limited (a wholly-owned subsidiary) is in the form of a loan or debt facility, with a disclosure narrative stating that it is in the form of a loan including details such as the term, principal amount, repayment dates, stipulated interest, and collateral, if any. Aside from the loan to Sandway Homes Limited, the composition of the long-term investments is the council's interest in its subsidiary, Sefton New Directions Limited. However, the interest in Sandway Homes Limited and Sefton Hospitality Operations Limited were not presented due to materiality.
- In Note 28 Cash and Cash Equivalents, our testing noted that the rent income bank account for the Strand Shopping Centre and Car Park is held by Savills. A disclosure narrative included describing the arrangement between Savills for funds held on behalf of other parties (Sefton Council).
- In Note 44 Events After the Balance Sheet Date, the lease with M&S underwent an early lease surrender in 2022/23. Disclosure narrative updated with a fact of early lease surrender.
- In Note 48, Operating Leases, the balances presented in the table for future lease payments receivable under non-cancellable leases in future years were overstated by £882m.

During the performance of our audit for FY 2021/22, we identified certain misstatements having impact on the prior year and as the financial statements for FY 2020/21 have not yet been finalized, the management has adjusted these misstatements in the FY 2020/21 financial statements. These misstatements include:

- Prior Period Adjustment with respect to reclassification of car parks from investment property to Property, Plant and Equipment amounting to £19m;
- Derecognition HMRI sites from surplus assets which were disposed off in prior years but were not removed from the Fixed Assets Register amounting to £3.6m; and
- Adjustment to Gain/ loss on the disposal of non-current assets amounting to £1.6 million with respect to Capital Receipt recorded in incorrect financial year.

Audit Differences (cont’d)

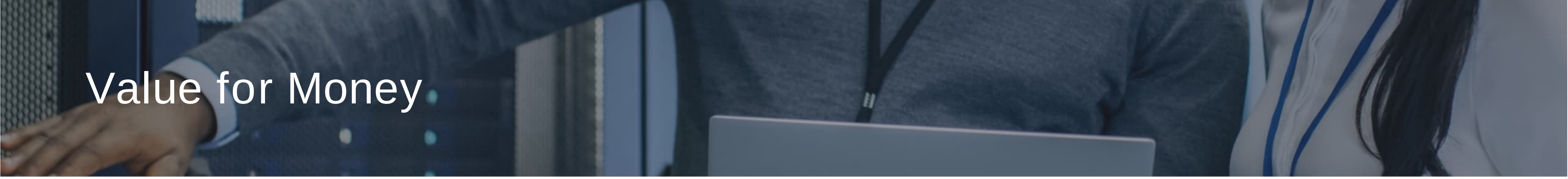
Summary of unadjusted differences

At the time of writing this report, we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We ask that the Audit and Governance Committee request of management that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Governance Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2022	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Income statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non-current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors						
Factual differences:						
► Highways maintenance costs not capitalised as infrastructure asset	-	(890,239)	-	890,239	-	-
► Non-accrual on utilities from Npower for February and March 2022	-	702,126	-	-	(702,126)	-
Judgemental differences:						-
► Overstatement of the fair value of plan assets of the pension fund	4,522,035	-	-	-	-	(4,522,035)
Balance sheet totals	-	-	-	890,239	(702,126)	(4,522,035)
Income effect of uncorrected misstatements (before tax)	4,522,035	(188,113)	-	-	-	-
Less: tax effect at current year marginal rate	-	-	-	-	-	-
Cumulative effect of uncorrected misstatements before turnaround effect	4,522,035	(188,113)	-	-	-	-
Turnaround effect. See Note 1 below.	1,863,367	-	-	-	-	-
Cumulative effect of uncorrected misstatements, after turnaround effect	6,385,402	(188,113)	-	-	-	-

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period. This includes the impact on the prior year of the error identified above in relation to the valuation of investment property.

05 Value for Money



Value for Money

The Authority's responsibilities for value for money (VFM)

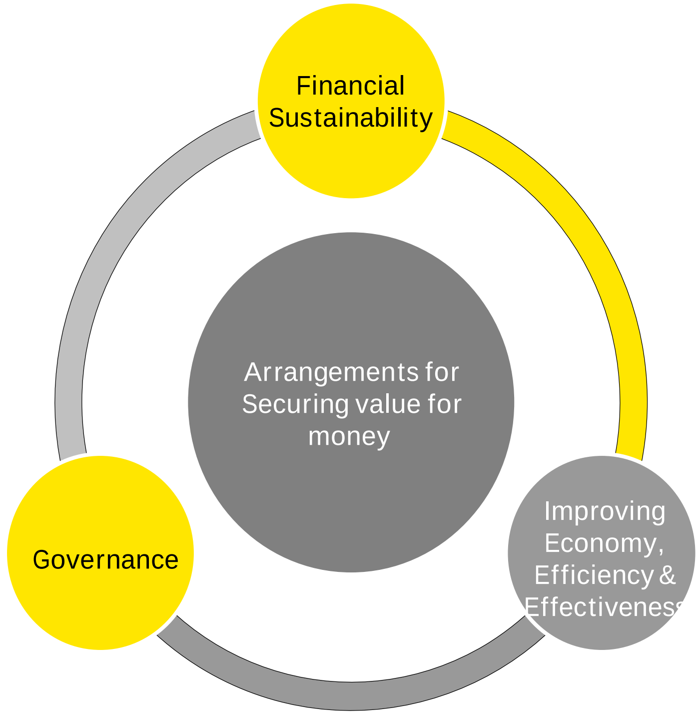
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We identified one significant risk related to the Council's arrangements, specifically in the reporting area of governance.

A significant issue was identified in the Annual Governance Statement (AGS) relating to an Ofsted inspection on Children's Services. There is an overdue Ofsted Inspection of Local Authority Children's Services following a pause in the inspection framework due to COVID-19. Ofsted undertook a 'restart' focused visit of Children's Social Care in March 2021, however this was not graded as this was not a full inspection. In February 2022, the Inspection was undertaken and the outcome was received for which the overall grade of the Council is inadequate. In February 2023, a monitoring visit was made which highlighted that there has been insufficient progress on the Council in improving its response to children in need of help and protection. The table in the next slide presents our findings in response to the risk.



Status of our VFM work

- We have now completed our VFM risk assessment, review process and conclusion and we have identified a significant weakness. In the updated audit results report in 2020/21, this is also identified as a significant weakness and will be reported by exception. We note that our review procedures are underway and are subject to finalisation.
- In 2021/22, we draw attention to the ongoing significant weakness as part of our exception reporting and will refer to this matter in the Auditor's Annual Report (AAR).
- Under the Code of Audit Practice 2020, we are required to issue our commentary on the Council's VFM arrangements in the Auditor's Annual Report (AAR). The AAR is issued on the conclusion of the audit. We plan to issue the VFM commentary, incorporating the work carried out against the risks identified in our 2021/22 within 90 days from the date of the auditor's report.

Value for Money

Value for money

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

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

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

The table below presents the findings of our work in response to the risk area identified in the previous slide.

What is the significant value for money risk?

In the prior year, it was identified that a review had been performed by Ofsted during 2020/21 looking at the Children’s Services at the Council. Originally, the Council was overdue an Ofsted Inspection of Local Authority Children’s Services following a pause in the inspection framework due to COVID-19. In March 2021, Ofsted undertook a ‘restart’ focused visit of the Council’s Children’s Social Care, but this was not regarded a full inspection and therefore was not graded.

In the current year, it was identified that a full inspection had been undertaken by Ofsted during 2021/22 following the focused visit in 2020/21 as mentioned above. The overall grade for the Council is inadequate. This triggers the identification of a risk of significant weakness in proper arrangements for governance, including how the body monitors and ensures appropriate standards, such as legislative and regulatory requirements, are met.

What arrangements did the risk effect?

Governance – on how the body monitors and ensures appropriate standards, such as legislative and regulatory requirements, are met

What are our findings?

Our work considered:

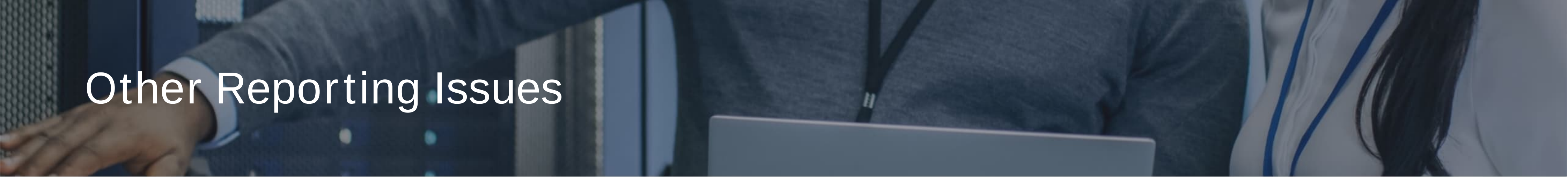
- The timeline of the inspection and the results; and
- The Council’s response to the inspection outcome and the arrangements in place to deliver and monitor improvement

The 2021/22 Ofsted full inspection was undertaken in February 2022 and the outcome was published in March 2022 for which the Council was graded inadequate. The corrective actions planned by the Council fall within the year 2022/23. The Council’s Overview & Scrutiny (O&S) Committee is the one responsible for the monitoring and challenge relating to the improvement of Children’s Services. In July 2022, the O&S indicated that an Improvement Plan was being prepared as a response to the inspection results. Our review identified that the Council has focused on improving Children’s Services throughout the year. While there have been noted improvement in some areas, this is offset with the areas that continuously need improvement.

In February 2023, there was an Ofsted monitoring visit and the results were published in March 2023. The visit highlighted that there has been insufficient progress on the Council in improving the response to children in need of help and protection. It also mentioned that this was the second monitoring visit since the local authority was judged inadequate in February 2022. As mentioned above, an improvement plan has been developed by the Council and has been submitted to Ofsted. Despite this, a subsequent finding was received indicating that the pace of improvement was slow and most of the practice weaknesses identified at the inspection in February 2022 remained in 2022/23. We have reviewed the minutes of the meeting up to June 2023 and have not observed any papers in relation to progress of addressing the issues raised.

Therefore, we identified this to be a significant weakness impacting our VFM conclusion for 2021/22. We recommend that the Council seeks to identify ways to fast track the items in the improvement plan to demonstrate significant and positive changes in the Children’s Services.

06 Other Reporting Issues



Other Reporting Issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2022 with the audited financial statements.

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

We are yet to complete the review and consistency check between the financial information in the narrative report of the Statement of Accounts for the year ended 31 March 2022 and the audited financial statements, and will do this on receipt of updated financial statements.

We have read the Annual Governance Statement and are in the process of confirming that it is consistent with other information from our audit of the financial statements and we have no other matters to report.

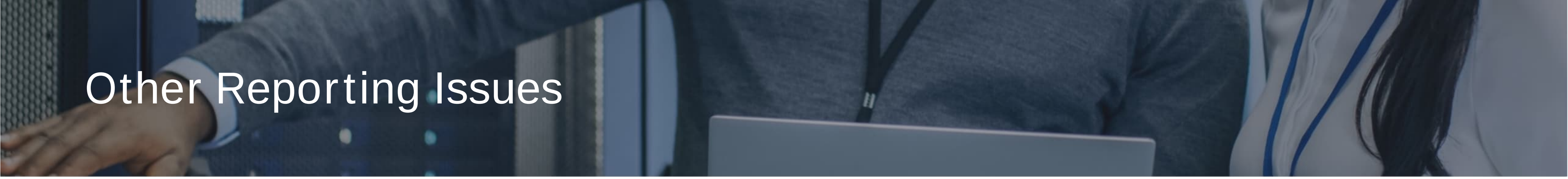
Whole of Government Accounts

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However, Sefton falls below the threshold for requiring additional work, so there will be no reporting issues in this area. We cannot release our certificate to close the audit until it has been confirmed that the NAO do not wish to sample Sefton Metropolitan Borough Council for additional procedures.

Other powers and duties

- We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.
- We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues requiring written recommendations.



Other Reporting Issues

Other matters

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

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

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

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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

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

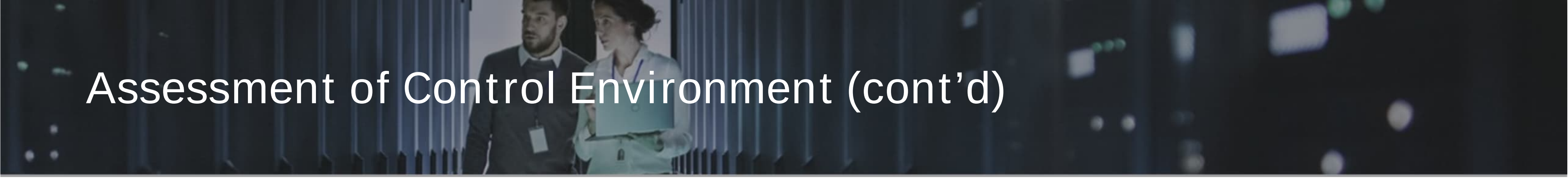
The table below provides an overview of the ‘high’ ‘moderate’ and ‘low’ rated observations we have from the 2021/22 audit (including IT controls). At the completion of the audit, we will issue our Annual Auditor’s Report containing all of the identified points.

	High	Moderate	Low	Total
Open at 1 April 2021	1	-	-	1
New points raised in 2021/22	4	6	2	12
Points merged in the year	1	-	-	1
Total open points as at the conclusion of the audit	4	6	2	12

Key:

- (Green) A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6–12 months.
- (Amber) Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- (Red) Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

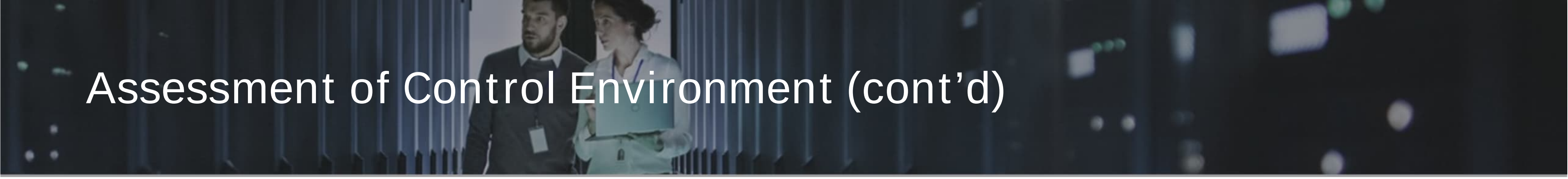
The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



Assessment of Control Environment (cont'd)

Area	PPE Fixed Asset Register (FAR) Maintenance
Rating	
Observation	We identified that the Council's FAR does not include columns related to the assets original and remaining useful life, residual value, date of capitalisation and/or not prepared in specific detail to determine individually when each of the asset has been capitalised and when to calculate the start of depreciation. Additionally, our testing on existence resulted to identification of land assets (HMRI sites) that no longer exist physically but continue to exist in the FAR
Impact	The Fixed Asset Register (FAR) plays a critical role in the Council's financial reporting, especially for the substantial fixed asset component on the Balance Sheet. The absence of crucial asset details makes it challenging to determine individual asset depreciation schedules, affecting accurate financial assessments. Additionally, the HMRI sites' discovery undermines FAR reliability, necessitating extensive verification efforts to ensure the continued existence of other assets, raising concerns about data integrity.
Management comment	Recommendation will be implemented based on advice from CIPFA

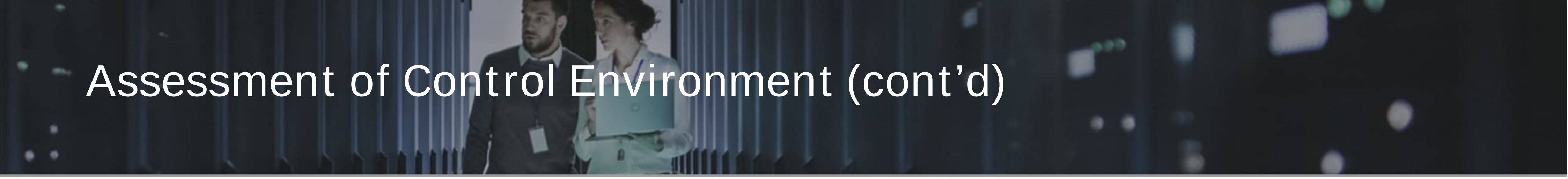
Area	PPE and IP Asset Valuation File Maintenance
Rating	
Observation	The working paper that lists the assets valued and not valued during the year is not kept with sufficient detail. The valuation method and asset type for each item is not indicated. We initially were not able to identify whether the assets are valued at DRC, EUV, FV and if assets are either categorised as leisure centre, retail, industrial, offices, etc. Further, the overall balance is not reconciled to the FAR
Impact	The Council's fixed asset portfolio is a significant part of its assets, with valuation of Property, Plant, and Equipment (PPE) and Intangible Property (IP) posing a key risk due to complexity and estimation uncertainties. To address this, specialists are engaged to aid testing and evaluate valuation methods. However, missing crucial details led to extensive reconciliation efforts with the Fixed Asset Register (FAR), causing substantial delays. This deficiency could compromise accurate asset reporting, impeding financial transparency, and impacting decision-making and budgeting while also jeopardizing data integrity through reconciliation challenges.
Management comment	Recommendation can be complied with now and will be implemented



Assessment of Control Environment (cont'd)

Area	Grant and Deferred Grant
Rating	
Observation	The Council does not maintain a schedule for grants to specifically monitor the amount received per grant to the amount expensed off from each grant. With various grants received from different sources, some of them may be ring-fenced subject to specific and special conditions with regard to the disbursements and some may be non-ringfenced.
Impact	Whilst we performed alternative procedure to obtain reasonable assurance over the utilization of grant, The Council's absence of a grants monitoring schedule poses internal control challenges. Without tracking the inflow and outflow of funds for each grant, there's a risk of misallocation or non-compliance with specific grant conditions. This deficiency can lead to financial inaccuracies, jeopardize grant accountability, and potentially result in non-compliance issues, affecting the Council's reputation and financial stability. Proper grant monitoring procedures are essential for transparency and compliance.
Management comment	A central register of grants will be developed to meet this recommendation.

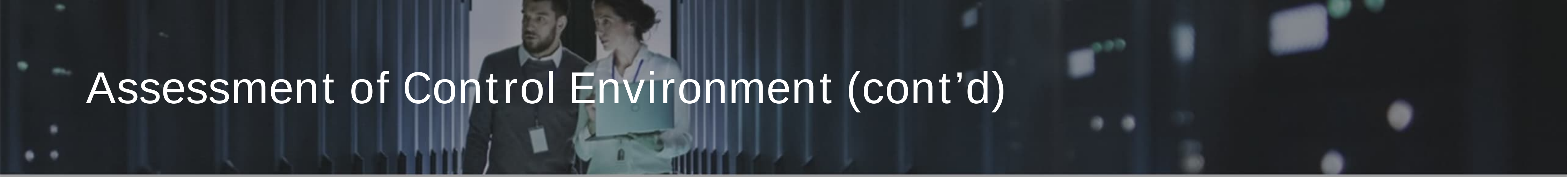
Area	Timeline of the valuation of IP and PPE
Rating	
Observation	For IP and PPE, valuation frequency is followed as per CIPFA Code which is annually and on a 5-year rolling programme, respectively. However, there is an exception which applies to assets with balances of £30,000 and below referred to as "De Minimis". They are not subject to valuation.
Impact	The absence of exceptions in the CIPFA Code for Intangible Property (IP) and Property, Plant, and Equipment (PPE) valuation raises the Council's responsibility to align its policy with the framework. An evaluation of assets with balances under £30,000 as long-term assets is necessary to ensure compliance and effective internal control.
Management comment	Implementation of Recommendation will be agreed with external auditor. The total NBV of de minimis assets is £2.3m and so any misstatement in value is likely to be immaterial. The Council will engage with other councils to determine what approach is undertaken and will engage with the External Auditor to agree an approach for the 2023/24 audit.



Assessment of Control Environment (cont’d)

Area	Payroll Supporting Documentation
Rating	(amber)
Observation	Management have struggled to obtain the supporting documentation for both starters and leavers samples. In the case of new hires, there was a notable delay in receiving the contracts needed to verify their start dates and salaries. Similarly, for employees who have left the organization, obtaining the corresponding leaver notifications to substantiate their end dates has proven to be a hurdle
Impact	The starters and leavers testing is a test that aims to provide us with assurance on the design and implementation of the controls around them to supplement our reliance on the employee count data used in the payroll procedures and assurance over compliance with contractual arrangement. Management should ensure that proper storage and safe-keeping is in place to locate and obtain the supporting documentation easily. This will provide the audit team the opportunity to do checks on the accuracy of data and ensure that the support is readily available when requested
Management comment	Recommendation noted and will be complied with

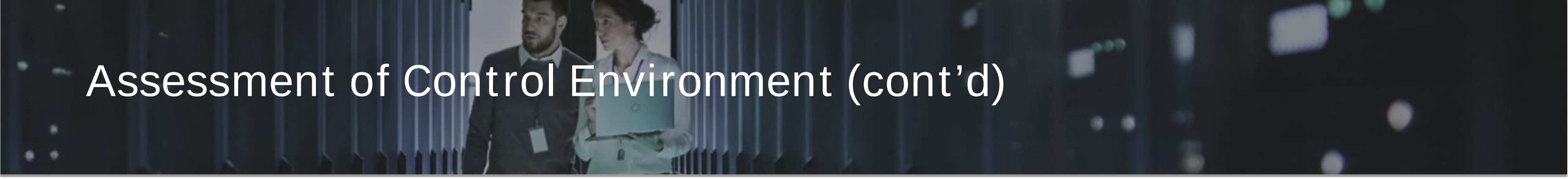
Area	Supporting information by key judgment
Rating	(amber)
Observation	During our testing of provisions on debtors, we identified instances where judgements applied by management were not wholly supportable. As an example, a 25% rate is used for the Housing Benefit provision without sufficient evidence to support this being appropriate. Most of the % in the provisioning has been used for several years and inquiry confirmed that assessment has been made with the aid of the Chief Debtor Officer, however there is no real basis to support if they continue to be reasonable
Impact	Judgment is an area where it is difficult to evidence, however, they cannot be directly made without a starting point. Basis used to form key judgment and estimates should be documented and retained and assessment on whether they continue to be reasonable and appropriate should be recorded. This would help the audit team build expectation and test the basis. Whilst we undertook alternative procedures to gain reasonable assurance over the provision, Management should ensure that all estimates and judgements are robustly evidenced and supported
Management comment	Recommendation agreed



Assessment of Control Environment (cont’d)

Area	Assets Held for Sale (AHS)
Rating	
Observation	We noted that assets transferred and reported as held for sale as of 2020/21 continue to exist and remain unsold in 2021/22. The Council’s practice is that non-current assets are first revalued as IP and/or PPE before they are transferred to AHS. If already transferred, they will not be subject to valuation as they are expected to be disposed within one year from the date of reclassification. However, the Code requirement is for AHS to be carried at the lower of their carrying amount and their fair value less cost to sell.
Impact	Whilst we were able to verify the correctness of classification of assets classified as AHS, concur with the rationale on why the AHS classification remain to be appropriate and obtain reasonable assurance on their valuation through an alternative procedure, no exercise was done by the Council to compare the fair value less cost to sell and the carrying amount recorded from the year of transfer. Management should ensure that the valuation of AHS in the books is aligned with what is required in the Code.
Management comment	Recommendation to be implemented

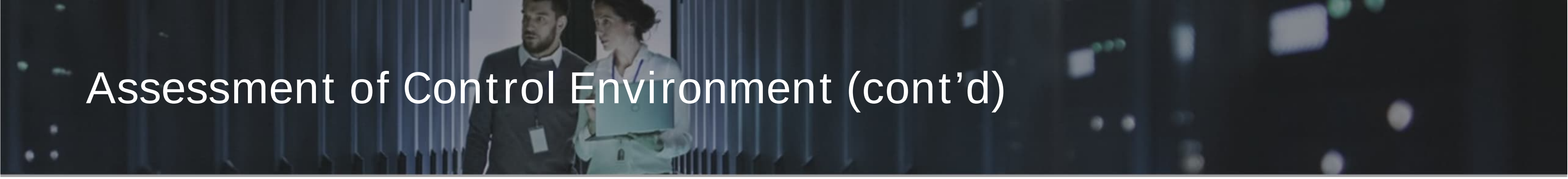
Area	Financial Statements Closedown Process – Quality Assurance
Rating	
Observation	We noted several disclosure adjustments with no impact on the primary financial statements but were significant in their value or nature to enhance understandability. Example of these are highlighted in Section 04 of this report
Impact	The CIPFA Code provides that an authority shall also consider whether to provide additional disclosures when compliance with the specific requirements in another section of the Code or IFRS is insufficient to enable users of financial statements to understand the impact of a particular transaction, event or condition. Although they are of a disclosure nature only, Management should ensure that the process of compiling the financial statements includes controls to reduce the likelihood of material misstatements of a disclosure nature
Management comment	Recommendation agreed



Assessment of Control Environment (cont'd)

Area	Bank Reconciliation – Income Account Account # 93226632
Rating	
Observation	The bank reconciliation on the general income bank account is not as straightforward and contains reconciling items that could be simplified. Items from the suspense account brought forward from PY continue to appear as a reconciling item even when already cleared in CY. The subsequent clearance is included in the "list of items from the suspense account in the current year" reconciling item. Some of the balances included in the above quoted item were also cleared during the year and the clearance is included in another reconciling item known as the "Y Indicators"
Impact	Complex bank reconciliation with recurring suspense account items and unclear categorization of cleared balances poses a risk to financial accuracy and efficiency. This issue may lead to prolonged reconciliations, increased error potential, and hindered financial transparency.
Management comment	Recommendation implementation to be agreed between Sefton MBC and external auditor

Area	MRP Policy
Rating	
Observation	The current MRP Policy includes the following: a. Loans made to third parties to enable them to incur capital expenditure are repaid by the borrower and so MRP provision does not need to be made b. Any proposal to use capital receipts to reduce future MRP charges will be presented to Cabinet for approval In the consultation issued by DLUHC, these approach are not anymore permitted when the Statutory Instrument comes into effect. However, changes to the Regulations are applied prospectively.
Impact	We bring this to the attention of TCWG and the Council to ensure they review the policy on MRP and reconsider whether the MRP policy is in line with the proposed changes to the regulations and the Statutory Guidance.
Management comment	Recommendation is noted and the council policy will be updated when new guidance comes into place



Assessment of Control Environment (cont'd)

Area	Infrastructure Assets
Rating	
Observation	The Council's resolution towards the accounting for its infrastructure assets is the adoption of the Statutory Instrument issued by DLUHC where the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil. This is driven by the situation that the Council does not record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation
Impact	The statutory relief is granted for two years, thus temporary. Whilst the Management believes that this will be extended due to the complication and the time it would take for local authorities to comply with the requirement, the Council has to start planning what arrangements to establish to maintain infrastructure asset records at the individual asset level to cope the issue and align infrastructure treatment with CIPFA. We recommend the need for an improved information on the assets included within infrastructure assets
Management comment	Recommendation noted

Area	Heritage Assets
Rating	
Observation	During our testing of the disclosures on Heritage Assets, we identified instances where disclosed number or quantities of categories of heritage assets were not wholly supportable. As an example, the number of artworks pieces disclosed as 3,500 and the 30,000 items of social and natural history are not verified. There is significant documentation backlogs and a number of boxes of items from the Botanic Garden Museum collection are not on the inventory. This results in the total number of objects disclosed being a very broad estimate
Impact	Inadequate inventory control hinders our ability to confirm the accuracy of disclosed numbers. While we recommended omitting specific figures in the financial statement about heritage assets, management should address the documentation backlog. This issue results in imprecise disclosures, potentially affecting financial transparency and heritage asset management.
Management comment	Work is being undertaken with the relevant team to develop an action plan for this and progress will be reported to the Audit and Governance Committee at the next meeting

08 Data Analytics

Data Analytics

Analytics driven audit

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

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

In 2021/22, our use of these analysers in the authority's audit included testing income recognition, journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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

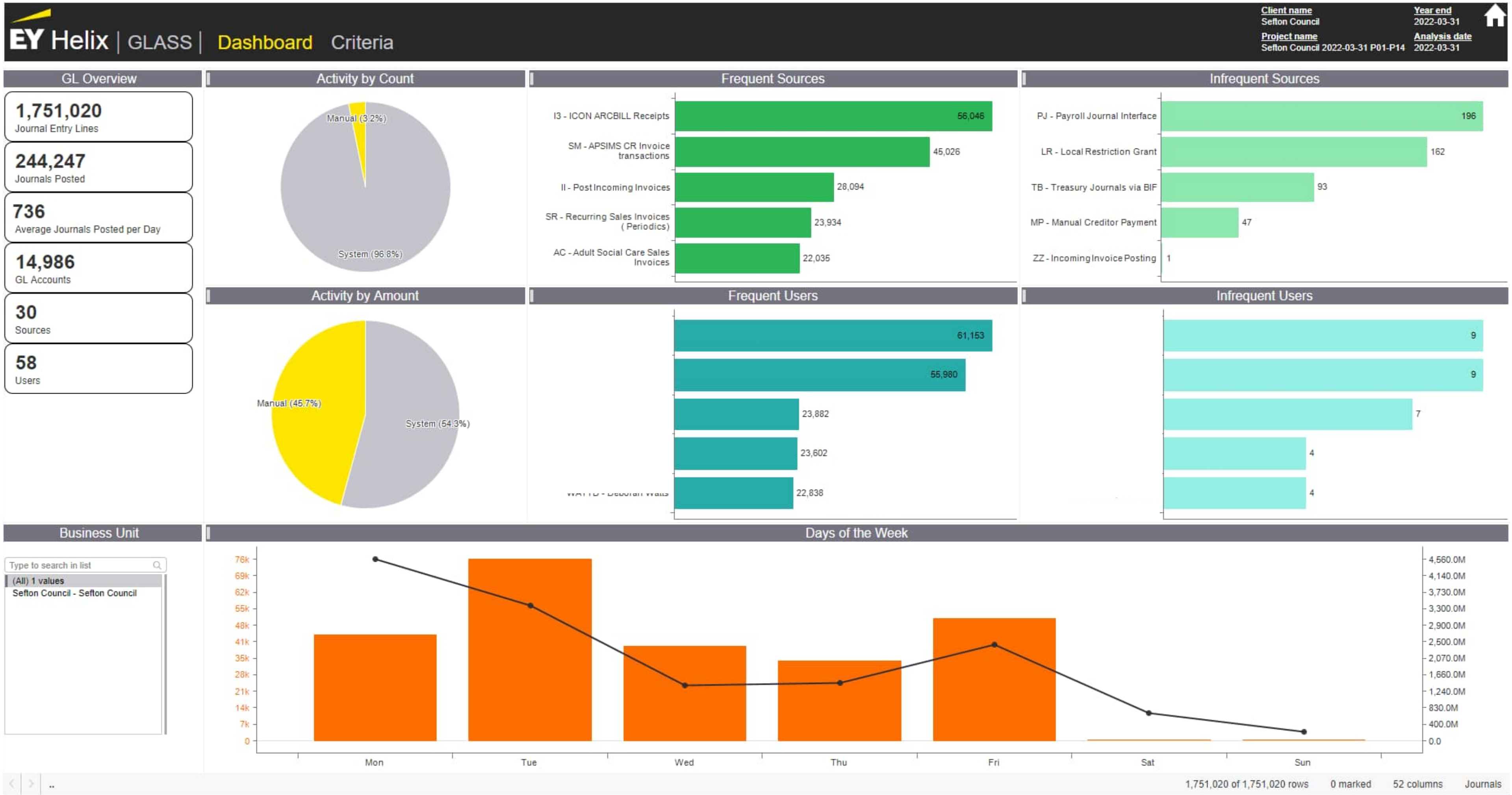
Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year across payroll codes. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

Data Analytics

Journal entry data insights

The graphic outlined below summarises the journal population for the year. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions. The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



Data Analytics

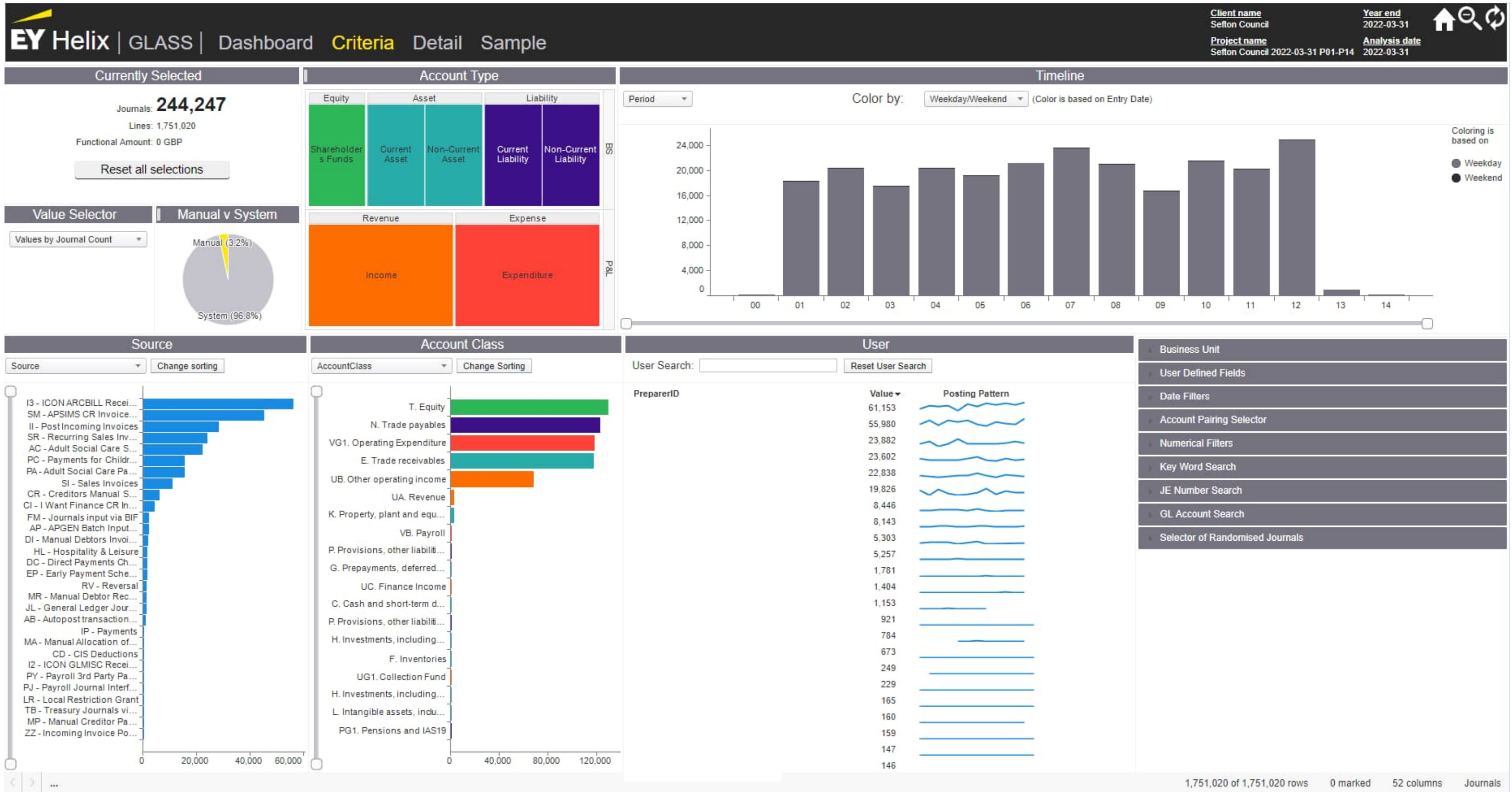
Journal entry testing

What is the risk?

In line with ISA 240, we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers, we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

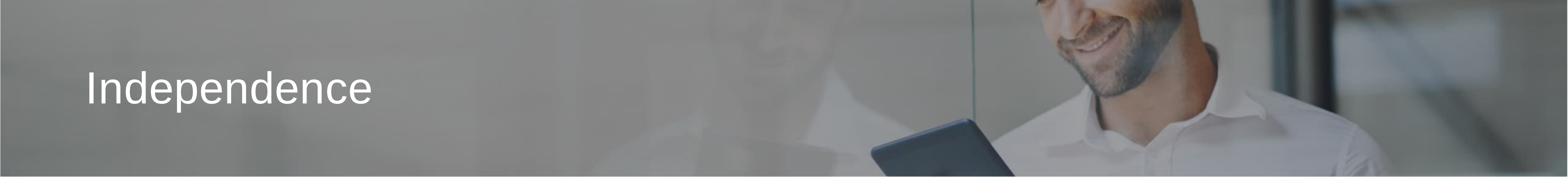
We obtained the general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

09 Independence



Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report presented in December 2022.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee in 27 September 2023.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on the certification of the Authority's Housing Benefits return. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

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

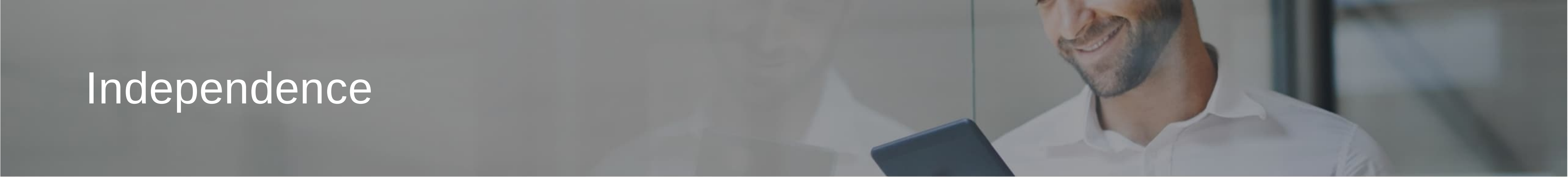
There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

The next slide includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services have been provided on a contingent fee basis.

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



Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2022.

	Planned fee 2021/22**	Proposed 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
Total audit	TBC	TBC	130,911
Other non-audit services not covered above (Teacher's Pension)	NA	6,500	6,500
Other non-audit services not covered above (Housing Benefits)	21,450	18,500	11,500
Total other non-audit services	TBC	25,000	18,000
Total fees	TBC	TBC	148,911

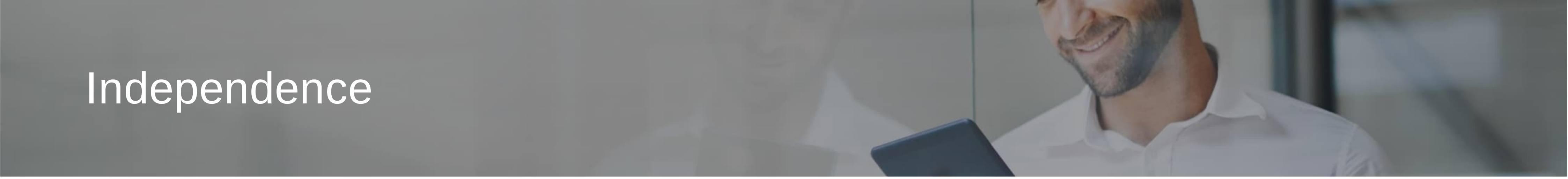
**For 2021/22, we expect a number of items to impact on the audit fee, such as the continuation of additional procedures relating to PPE including Infrastructure assets & PPE existence , group scoping, other procedures on subsidiaries, value for money, pensions based on triennial valuation, estimates and going concern and additional procedures required due to implementation of New HR/Payroll System , challenges encountered as a result of the items identified under Section 07 control environment and VFM arrangement weakness. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval. We are in discussion with management to finalise the Housing benefit fees.

We are still in the process of agreeing the 2020/21 & 2021/22 fees with Management and will provide an update once this process has been finalised. The fees will also be subject to approval by the PSAA.

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 during an exercise performed in 2019/20.

*For 2020/21, 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 VFM arrangement, Investment Property (IP) PYA, PPE and IP valuation, PPE existence, Pensions based on triennial valuation 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. We have broken the fees in table below to provide details of our estimated position:

Area	Proposed fees (£)
Increased cost of regulation	17,000
Additional procedures PPE valuation	10,000
Additional procedure for VFM	20,000
Additional procedure for PYA for investment property	8,000
Additional procedure on IAS 19	7,000
Additional procedures for PPE existence	8,500
Infrastructure assets	4,500
Additional procedures on Going concern	5,000
Revised estimates standard	4,500



Independence

EY Transparency Report

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 dated October 2022: EY UK 2022 Transparency Report | EY UK

10 Appendices

Appendix A – Audit approach update

Audit approach update

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

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

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

Appendix A – Audit approach update (cont’d)

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Cash and cash equivalents	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Short-Term debtors	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Prepayments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Investments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Assets held for sale	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Heritage assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Investment property	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Property, plant and equipment	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Infrastructure assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Short-term creditors and accruals	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Grants receipt in advance	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Provisions	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Net pension asset or liability	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Borrowings	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Usable reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year
Unusable reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – Consistent approach as the prior year

Appendix B – Summary of communications

Summary of communications

Date	Nature	Summary
09 September 2022	Meeting	Senior members of the audit team met with senior members of management to discuss audit plan
14 December 2022	Audit Committee	Senior members of the audit team, attended the Audit and Governance Committee, where the Audit Plan was presented
18 January 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
03 March 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
20 March 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
14 April 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
17 April 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
11 May 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
26 June 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
12 July 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
18 July 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
27 September 2023	Audit Committee	Senior members of the audit team, will attend the Audit and Governance Committee, where the Audit Results Report will be presented

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

Appendix C - Required communications with the Audit and Governance Committee

Required communications with the Audit and Governance Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report December 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report December 2022
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report September 2023
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	Audit results report September 2023
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report September 2023

Appendix C - Required communications with the Audit and Governance Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Subsequent events	• Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might effect the financial statements.	Audit results report September 2023
Fraud	• Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.	Audit results report September 2023
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report September 2023

Appendix C - Required communications with the Audit and Governance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report December 2022 Audit results report September 2023
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report September 2023 We have received all expected confirmations.
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit 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	Audit results report September 2023 We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report September 2023

Appendix C - Required communications with the Audit and Governance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report December 2022 Audit results report September 2023
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report September 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report September 2023
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report September 2023

Appendix C - Required communications with the Audit and Governance Committee (cont’d)

		Our Reporting to you
Required communications	What is reported?	When and where
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report December 2022 Audit results report September 2023
Auditors annual report	• Value for money commentary	Auditors Annual report

Management representation letter - Draft

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
One Colmore Square,
Birmingham,
B4 6HQ

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of Sefton Metropolitan Borough Council ("the Group and Council") for the year ended March 31, 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of Sefton Metropolitan Borough Council as of March 31, 2022 and of its financial performance and its cash flows for the year then ended for the Group and the Council in accordance with, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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

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

A. Financial Statements and Financial Records

1.We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements for the Group and the council in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
2.We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.
3.The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4.As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)] for the Group and for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and the effects of the conflicts and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

Appendix D – Draft management representation letter (cont’d)

Management representation letter - Draft

Management Rep Letter

5.We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].
6.We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

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

1.We acknowledge that we are responsible for determining that the Group and Council’s activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2.We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3.We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4.We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

1.We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2.All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic and including those related to the conflict can related sanction in Ukraine, Russia and/or Belarus.
3.We have made available to you all minutes of the meetings of the Group and the Council committees or summaries of actions of recent meetings for which minutes have not yet been prepared held through the year to the most recent meeting on the following date: August 31, 2022.

Appendix D – Draft management representation letter (cont'd)

Management representation letter - Draft

Management Rep Letter

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

5.We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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

7.From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact on the Group and Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1.All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.

2.We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3.We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Going Concern

1.Note [X] to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

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

G. Group audits

- 1.Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Council, subsidiary undertakings and associated undertakings.

Management representation letter - Draft

Management Rep Letter

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises content of the Statement of Accounts other than the financial statements and your audit opinion thereon, being the Narrative Report by the Executive Director of Corporate Resources and Customer Services, the Statement of Responsibilities and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1.We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered ,including the impact resulting from the commitments made by the Group and Council, and reflected in the consolidated and Council financial statements.

2.The key assumptions used in preparing the consolidated and Council financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), aligned with the statements we have made in the other information or other public communications made by us.

J. Ownership of Assets

1.Except for assets recognised as finance lease, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

2.All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.

3.We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

4.There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

K. Reserves

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

L. Contingent Liabilities

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

Appendix D – Draft management representation letter (cont'd)

Management representation letter - Draft

Management Rep Letter

M. Use of the Work of a Specialist

1.We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, plant and Equipment, Investment property and Pensions. and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

N. Estimate - (Property, Plant and Equipment, Investment Property, Provisions, NDR appeals and Pension Liabilities)

1.We confirm that the significant judgments made in making the accounting estimate have taken into account all relevant information [and the effects of the COVID-19 pandemic on which we are aware.

2.We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate.

3.We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out on behalf of the entity.

4.We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) .

5.We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimate.

6.We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

O. Retirement benefits

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

Yours faithfully,

____

(Chief Financial Officer/Finance Director)

____

(Chairman of the Audit and Governance Committee)

EY | Building a better working world

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Ernst & Young LLP

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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ED None

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