<u>External Audit – Key Control Findings Response 2021/22</u>

<u>Date : 27 September 2023</u>

	Finding	Rating	Response	Responsibility	Date to be completed by
1	We identified that the Council's Fixed Asset Register 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	High	**Recommendation will be implemented based on advice from CIPFA** The Council uses CIPFA's own software for its Fixed Asset Register. This is described by CIPFA as 'An accounting solution designed by CIPFA to comply fully with CIPFA's guidance and Code'. On that basis the council believes the Council's Fixed Asset Register is 'code compliant' and it ensures that the data set is complete. Officers run the prescribed reports within the Capital Accounting module to support the fixed asset register and accounts. This issue has not been raised by EY in any previous year since they commenced auditing the Council's accounts in 2015/16. To address this issue the Council is engaging with CIPFA to determine if this information can be extracted from the Capital Accounting module. Once a reply is received the outcome will be communicated to the auditor with a view to agreeing the output for the forthcoming audit It has been agreed that HMRI assets will be	S151 officer/dep s151 officer	A&G meeting December 23

	exist physically but continue to exist in the FAR		removed from the FAR. An explanation was provided by officers as to why this was a situation considered unique to these assets due to the management and complexities of the HMRI Programme.		
2	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	High	**Recommendation can be complied with now and will be implemented** The working paper that was supplied for valuations provided subdivisions by category of assets. For Investment Properties, which are valued annually, this includes a list of assets to be valued and a list of those that are de minimis. For Other Land & Buildings and Surplus Assets, which are valued on a rolling five-year cycle, the lists consist of those to be valued, those that are de minimis, and those that are to be reviewed by the valuers to ensure that there has been no material change in value. These lists are summarised by NBV and are reconciled to the opening NBV in the 2021/22 Statement Of Accounts. The download taken from the Fixed Asset Register to produce these lists does include method of valuation and also categorises assets by type, such as car parks etc. Therefore, this recommendation can be met. However, this information has not previously been requested in this form as part of the audit process since 2015/16 and	S151 officer/dep s151 officer	**Completed**

			could have been provided in the audit if requested at the start of the audit. This is reconciled to the Fixed Asset Register each year and the reconciliation can be made available now and will continue to be available in future years.		
3	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.	High	**Implementation of Recommendation will be agreed with external auditor.** The use of a de minimis limit has been in place within the Council since the capital accounting regulations were introduced in 2004/05. The current level was increased from £20k to £30k in recent years with the agreement of the current auditors. 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.	S151 officer/dep s151 officer	A&G meeting December 23
4	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	Low	**Recommendation is noted and the council policy will be updated when new guidance comes into place** The paragraphs highlighted are taken from the 2021/22 MRP policy (not the current MRP Policy), whereas the proposed	S151 officer/dep s151 officer	A&G meeting December 23. Wording will be updated in

	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.		changes in the regulations referred to in the auditor's finding will not apply until 2024/25 at the earliest, so relate to two different time periods. The Council's MRP policy is **fully compliant** with the current Capital Finance and Accounting Regulations and associated guidance. We are aware of the proposed changes to the Regulations regarding the calculation of the MRP charge which may apply from 1 April 2024 pending Government approval. The MRP Policy is reviewed annually in December, changes are made as required, and the updated policy is approved by Council in March each year. It is not entirely accurate to say that the approach highlighted will not be permitted anymore under the proposed regulations. Loans to third parties may still be excluded from the MRP charge under certain circumstances as defined in the draft regulations published in June 2022. Also, it was never the Government's intention for the proposed changes to ban the use of capital receipts to reduce the overall debt position which may have the effect of reducing the MRP charge in future years. Instead, the Government wish to ban		next MRP policy that will be considered by cabinet and council in Feb /March 2024

			authorities from using capital receipts to directly offset their MRP charge, **a practice which has never been applied in Sefton**. However, the following changes are suggested to the MRP policy wording for 2024/25 to provide clarity and ensure future compliance: 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 in certain circumstances. These loans may only be excluded from the MRP calculation where they meet the definition required under the Capital Finance and Accounting Regulations. b. Any proposal to use capital receipts to reduce the overall Capital Financing Requirement and therefore reduce future MRP charges will be presented for approval in line with the Council's scheme of delegation.		
5	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.	High	A central register of grants will be developed to **meet this recommendation.** The Council has a grant funding protocol for the management of grants. The Council in utilising any grant is clearly	S151 officer/dep s151 officer	A&G committee December 23

			aware from the terms and conditions accompanying the grant determination as to whether it is ring fenced or not. This is tested by the authorisation of grant claims or the internal audit review that now is becoming required for most allocations. If there is evidence of this not being complied with this by the external auditor this will be investigated and reported to Audit and Governance committee.		
6	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"	Moderate	**Recommendation implementation to be agreed between Sefton MBC and external auditor** The audit finding acknowledges that the reconciliation is a complex process as you would expect for an organisation of this size. The bank reconciliation process is well established, and the current format has been in place since before EY commenced auditing the Council's accounts in 2015/16 and no issues have been raised previously during that period. The recommendation suggests simplifying the presentation and it is suggested that a meeting is held between EY and the relevant officer to agree how this can be achieved for 23/24 (as the 22/23 year-end reconciliations have now been finalised)	Deputy S151 officer	Update at A&G December 23 and completion by March 24
7	Management have struggled to obtain the supporting documentation for the starters and leavers samples. For the starters, there was significant delay in the provision of	Moderate	**Recommendation noted and will be complied with** It is acknowledged that the main request		**completed**

	the contracts to confirm start date or salary. For the leavers, the equivalent leaver notification to support the end date has proven to be a hurdle.		for starter and leaver documentation took some time to provide – five weeks – but multiple documents were required for each of the 25 starters and 25 leavers sampled so some delay was to be expected. It would appear that there may have been a misunderstanding of some of the information subsequently requested by the auditors which caused a further delay. However, all of this information was made available and future information will be provided as it is requested. However, to ensure documentation can be provided in as timely manner as possible, auditors should provide sample details as early as possible during the audit and meet with officers to discuss their requirements.		
8	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.	Moderate	**Recommendation agreed** The audit finding acknowledges that application of judgement is an area that is difficult to evidence. For Provisions for Bad Debts work has been undertaken in certain areas to evidence their appropriateness (e.g., Council Tax and Business Rates). For sales invoices, the assessment by the Chief Debtors Officer is an annual assessment based on their knowledge of individual cases. That assessment is only at a point in time so will change over time. However, the Council will review the basis for estimates of bad debt provisions (note that this will be from 2023/24 as the	Deputy S151 officer	Update at A&G December 23 and completion by March 24

			2022/23 calculations have already been determined).		
9	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.	Moderate	**Recommendation to be implemented** All operational assets are valued at Fair Value (FV) on a rolling five-year basis, and any assets not revalued are reviewed to ensure that there is no material change in the assets value. Hence any asset categorised as Assets Held for Sale (AHS) will have a carrying value which equates to FV. However, due to unusual market conditions, certain assets classified as AHS at the end of 2020/21 remained in this category at the end of 2021/22 as the sale process became protracted. In future a formal exercise will be introduced to ensure that all AHS that have been categorised as such for two years will be valued for audit purposes.	Deputy s151 officer	Update at A&G December 23
10	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	Moderate	**Recommendation noted** The council seeks to ensure that its working papers and disclosure adjustments are of the highest standard and will continually review these each year following audit feedback- this has been the case during the engagement with EY since 2015/16 and will continue	S151 officer/ deputy s151 officer	As detailed
11	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		**Recommendation noted** The Council complies with the current requirements of the CIPFA Code of Practice. We will continue to engage in any new	S151 officer/ deputy s151 officer	As detailed

	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		consultation process regarding changes to the way infrastructure assets are recorded in the accounts. An action plan will be formulated once a decision is made on the future of the statutory override.		
12	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 exactly 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 to the total number of objects disclosed being a very broad estimate		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	Deputy s151 officer	As detailed