

**Sefton Metropolitan Borough
Council**
Completion Report for Those
Charged with Governance

Years ended 31 March 2022, 31 March
2023

Report issued - 15 November 2024





Audit and Governance Committee
Sefton Metropolitan Borough Council
Bootle Town Hall, Oriol Rd,
Bootle L20 7AE

15 November 2024

Dear Audit and Governance Committee

Sefton Metropolitan Borough Council - Completion Report for Those Charged With Governance - 2021/22 and 2022/23 financial years

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit and Governance Committee of Sefton Metropolitan Borough Council (the Council) with a detailed complete report covering our approach and outcomes of the 2021/22, 2022/23 audit(s).

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year, we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. Against this backdrop, we have also considered the Committee's service expectations.

This report considers the impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit and Governance Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Authority's external financial reporting arrangements and the effectiveness of the Audit and Governance Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw the Audit and Governance Committee members and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix G).

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

Yours faithfully

A handwritten signature in black ink that reads "Hayley Clark". The signature is written in a cursive, flowing style.

Hayley Clark

Partner

For and on behalf of Ernst & Young LLP

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Contents

01 Executive Summary



02 Work Plan



03 Results and Findings



04 Value for Money



05 Appendices



06 Spare

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **Audit and Governance Committee and management of Sefton Metropolitan Borough Council**. 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 - System wide and local context

Context for the audit - Ministry of Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting professions
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed

MHCLG (previously the Department for Levelling Up, Housing and Communities (DLUHC)) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The National Audit Office (NAO) has amended the Code of Audit Practice to:

- ▶ Require auditors to issue audit opinions according to statutory backstop dates for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
- ▶ Allow auditors to produce a single Value for Money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of Councils and residents.

As a result of the system wide implementation of backstop dates we anticipate issuing a disclaimed audit opinion on the Council's 2021/22 and 2022/23 accounts. The proposed disclaimer of the Council's 2021/22 and 2022/23 accounts impacts the audit procedures that we have planned and undertaken to gain assurance on the 2021/22 and 2022/23 financial statements and the form of the audit report.



Executive Summary - Local context

Local Background and Context

The position at this Council has developed over recent years resulting in unaudited financial statements for 31 March 2022 and 31 March 2023.

The main reasons for the Council's financial statements not being prepared, audited and signed to date include:

- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2021/22 and 2022/23 audit years.
- ▶ In addition, there were a number of new technical issues and challenges to address during this period, including, accounting for infrastructure assets, taking into account the updated pension fund valuations, which led to delays to the prior year 2020/21 and 2021/22 audits being completed.
- ▶ The Authority has been in a position to present draft statements of account for audit; however, these have not been within the regulatory timeframe. The 2021/22 financial statements were authorised for audit on 30 August 2022 (regulatory date of 31 July 2022) and 2022/23 were authorised for audit on 19 September 2023 (regulatory date of 31 May 2023). This has also resulted in the inspection periods being delayed.
- ▶ The 2020/21 audit was completed, with our audit opinion signed on 9 February 2024. This was signed late as a result of a number of factors, not limited to the accounting for infrastructure assets, misstatements identified in relation to investment properties (resulting in prior year impacts) and the well-publicised issues impacting the local audit market more generally.
- ▶ Due to audit resource constraints, we were unable to schedule the 2021/22 audit in order to meet the reporting timeline of 30 September 2022.
- ▶ We commenced our audit for 2021/22 in November 2022, however we were unable to complete our audit procedures. Heightened findings as a result of our audit procedures, led to a requirement to reduce our performance materiality resulting and the need to perform further procedures across the financial statements. Following discussions with officers in late 2023, and with acknowledgment of the wider reset proposals to move to the most recent year of audit (which at that point was 2023/24), we concluded it was not practical to finalise the 2021/22 audit and schedule the 2022/23 audit.

As a result of the delay to the 2020/21 and 2021/22 audits and requirement to undertake further audit procedures, we did not have audit resource available to complete our detailed audit procedures that would be needed to issue an unmodified audit report on the 2021/22 and 2022/23 financial statements before the backstop date.



Executive Summary - Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 - Executive Summary - this section setting out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting,
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

- ▶ The value for money report covering the years to 31 March 2022 and 31 March 2023.

Section 5 - Appendices



02 Work Plan

Work Plan – Audit Scope

Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and 31 March 2023 and of the income and expenditure for the years then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 4.

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

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

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

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

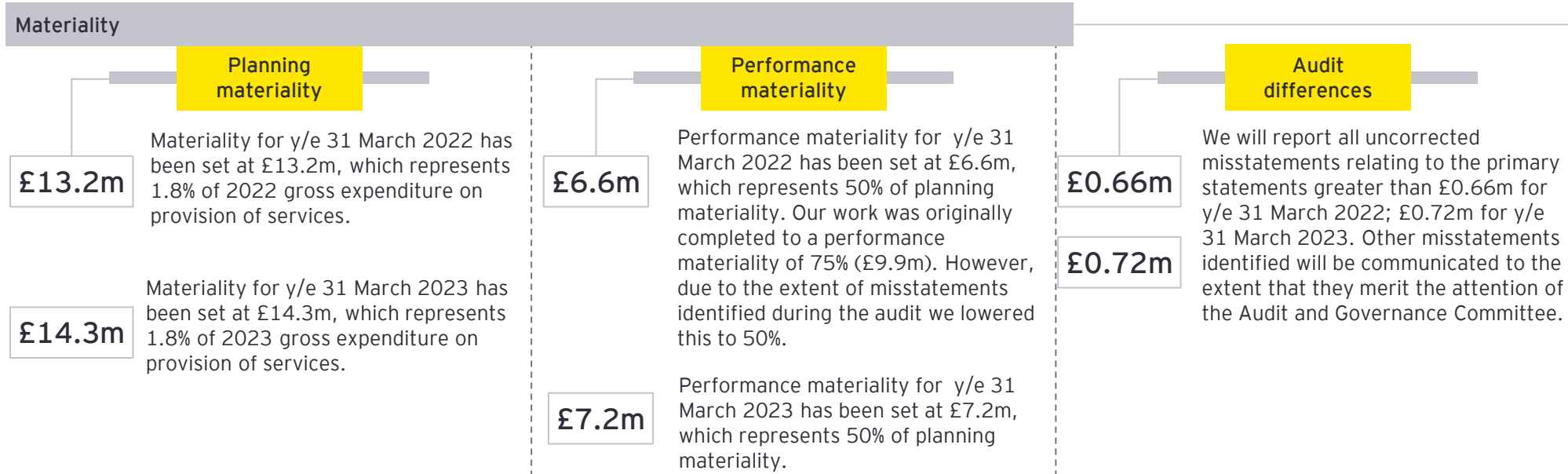
Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

Work Plan - Materiality



In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the published draft financial statements for 2021/22 and 2022/23.

These materiality levels have been set based on the main Authority financial statements - we have not considered group materiality. These levels are being used to assess our response to any issues identified in the Authority's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the 2021/22 and 2022/23 years.

Audit risks and areas of focus

Risk/area of focus	Applicable year(s)	Risk identified	Change from PY	Details
Risk of fraud in revenue recognition: overstatement of fees, charges and other service income	All years covered by this report	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement. Specifically, our risk is focused on the occurrence assertion of fees, charges and other service income. We have rebutted the risk of revenue recognition in relation to grant and taxation receipts where the risk is considered to be low based on the inherent nature of the items.
Misstatement due to fraud or error	All years covered by this report	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in expenditure recognition: understatement of other service expenses	All years covered by this report	Fraud Risk	No change in risk of focus	As set out above, under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider the risk to be relevant to other service expenses, where management is able to apply more judgement. Specifically, our risk is focused on the completeness assertion, where expenditure is understated to manage the financial position year on year.
Infrastructure assets	All years covered by this report	Significant risk	New risk in 2021/22	Due to the ongoing consultation of the CIPFA on the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken as well as issues for the reporting of gross historical cost and accumulated depreciation. There is a risk that policies adopted by the local authorities do not fairly represent the rate in which these assets are consumed or replaced. If records held by the Council do not allow for sufficient appropriate evidence to be obtained to gain assurance over the gross and net positions in respect of these assets, it increases the risk that material assurance cannot be provided within our opinion.
Valuation of property, plant and equipment (PPE) under FV and EUV	All years covered by this report	Significant risk	No change in risk or focus	The Council's PPE account for the biggest proportion of the Council's assets. The assets valued using an Existing Use Valuation (EUV) and/or Fair Value (FV) methodology are subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.

Work Plan – Significant, inherent and other risk areas

The following 'dashboard' summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the 2021/22 and 2022/23 years.

Audit risks and areas of focus

Risk/area of focus	Applicable years	Risk identified	Change from PY	Details
Valuation of investment properties	All years covered by this report	Significant risk	No change in risk or focus	The Council's investment properties account for a significant proportion of the Council's assets. These assets are valued using the Fair Value (FV) methodology which is subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.
New HR/Payroll system	31 March 2022	Significant risk	New risk in 2021/22	A new payroll system was used by the Council during the 2021/22 from using "Resourcelink" to "Midland iTrent". With the migration to a new payroll/HR system, there is a significant risk in relation to completeness of data transferred, implementation of controls and accessibility of historical data.
Valuation of property, plant and equipment (PPE) under DRC	All years covered by this report	Higher inherent risk	Decrease in risk or focus	Given their more formulaic nature and less reliance on market value, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC). However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements.
Valuation of assets and liabilities in the Local Government Pension Scheme (LGPS)	All years covered by this report	Higher inherent risk	Decrease in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet.
Incorrect recognition of COVID-19 related grants	31 March 2022	Higher inherent risk	Decrease in risk or focus	The risk includes the incorrect assessment of the Council as either principal or agent, affecting the income recognition. Additionally, this includes a focus on grants already received in prior year but income recognition was deferred. There is a risk that the subsequent recognition to income will not appropriately reflect the underlying terms and conditions of the grant agreement.
Existence of property, plant and equipment	All years covered by this report	Higher inherent risk	Decrease in risk or focus	There is a risk that the PPE recorded in the financial statements may not exist, or incorrect costs may have been capitalised as PPE.

Work Plan - Independence

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

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

Work Plan - Independence

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

Overall Assessment

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

Self-interest threats

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

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES). None of the services are prohibited under the FRC's ES. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0:1 (see table below). We have adopted the following safeguards as a result. A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

The table below sets out the other self interest threats that exist as the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. The table below sets out the self review threats that exist as the date of this report

Description of relationship or service	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
Housing Benefit (Subsidy) Assurance Process (HBAP)	<ul style="list-style-type: none"> ▶ Self-review ▶ Self interest 	<ul style="list-style-type: none"> ▶ 2021/22 and 2022/23 	<ul style="list-style-type: none"> ▶ Self-review threat: Safeguard: The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of this AUP engagement is distinct and separate to any work we have or will undertake on the financial statements of the Authority. The results of the AUP testing is not reflected in the amounts included/disclosed in the financial statements. In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this AUP engagement. Where the AUP engagement is conducted ahead of our external audit, it remains the responsibility of the external audit team to satisfy themselves that the parameters work has been appropriately performed, should they wish to use it for the purposes of the audit. Therefore, the external audit conclusion is not reliant upon the conclusion of our AUP engagement. No advice will be given in relation to accounting treatment. The report provided will be prepared or given solely for the purposes of the agreed upon procedures and will not be used or relied upon for any other purposes. ▶ Self-interest threat: Safeguard: The NAO's AGN01 excludes HBAP from the PSAA and ethical standards fee caps because this service is required by the awarding central government department. In addition, the fees for this work are relatively limited.

Work Plan - Independence

Management threats

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

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

Other threats

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

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

EY Transparency Report 2024

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2024: [EY UK 2024 Transparency Report | EY - UK](#)



03 Results and findings



Results and findings

Status of the audit

Our audit work in respect of the Authority opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of approved and signed financial statements, annual governance statement and management representation letter.

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included later in this section.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified a risk of significant weakness in respect of governance, including how the body monitors and ensures appropriate standards, such as legislative and regulatory requirements are met. Having updated and completed the planned procedures in these areas we identified a significant weakness. See Section 4 of the report for further details.

Audit differences

In relation to our 2021/22 audit, we reported a number of audit differences (both adjusted and unadjusted) in our preliminary audit results report presented to the Audit and Governance Committee on 27 September 2023. This reported our findings at a point in time and the heightened level of findings as a result of our audit procedures, led to a requirement to reduce our performance materiality resulting and the need to perform further procedures across the financial statements. Following discussions with officers in late 2023, and with acknowledgment of the wider reset proposals to move to the most recent year of audit (which at that point was 2023/24), we concluded it was not practical to finalise the 2021/22 audit and schedule the 2022/23 audit. Therefore, for the reasons listed above we did not have the audit resource necessary to perform the 2021/22 and 2022/23 audits before the backstop date. As a result we cannot confirm if the findings reported in September 2023 are complete.

In relation to the 2022/23 audit we have not identified any audit differences, either adjusted or unadjusted to bring to your attention.

For 2021/22 and 2022/23 we have noted that some of the comparative figures do not agree to the prior year signed financial statements. The Council should ensure that in approving the Statement of Accounts, all prior year comparative figures agree to the final set of prior year Statement of Accounts, or explanations for prior year adjustments have been set out by the Section 151 officer. The Council should also ensure that casting and internal consistency checks have been performed and the financial statements are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom for 2021/22 and 2022/23, including all disclosure requirements.

Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work. The Comptroller and Auditor General has confirmed that he plans to issue his opinion and certificate on the 2022-23 Whole of Government Accounts on 22 November 2024. Given we expect to issue our 2021/22 and 2022/23 audit reports after that date but before the statutory backstop of 13 December 2024, we therefore expect to be able to certify completion of the audit as part of our final 2021/22 and 2022/23 audit reports.

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.



Results and findings

Areas of audit focus

Section 2 of this report includes the areas of audit focus for our audits of the 2021/22 and 2022/23 financial statements. We note that in relation to 2021/22 we presented a separate Audit Plan to the Audit and Governance Committee on 14 December 2022. We concluded we would disclaim the audits and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete. The status of our 2021/22 audit, including and audit findings were reported to the Audit and Governance Committee in September 2023. No detailed testing has been undertaken in relation to 2022/23.

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 other 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 or full Council.

Control observations

During the 2021/22 audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. We first reported these in our preliminary audit results report to the Audit and Governance Committee in September 2023. We have liaised with management since then and refined our findings which are set out in appendix H. As we have not been able to conclude our 2021/22 audit, we cannot confirm that these are complete.

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention..

Other matters

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

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

We have no other matters to report.

Results and findings – Draft Audit Report

Draft audit report - 2021/22

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEFTON METROPOLITAN BOROUGH COUNCIL

Disclaimer of Opinion

We were engaged to audit the financial statements of Sefton Metropolitan Borough Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2022. 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 56 and Group Accounts notes 1 to 12 including a summary of significant accounting policies and including the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 8.

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).

We do not express an opinion on the accompanying financial statements of the Group and the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907), which came into force on 30 September 2024, requires the accountability statements for this financial year to be approved not later than 13th December 2024.

We completed the audit of the 2020/21 financial statements and issued our audit opinion on 9 February 2024.

The Council published their 2021/22 financial statements on 30 August 2022, 1 month after the statutory publication deadline. We commenced our audit for 2021/22 in November 2022 but were unable to complete our audit procedures following a decrease in the materiality used to undertake our procedures as a result of heightened audit findings. Along with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to perform the 2021/22 and 2022/23 audits before the backstop date.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether 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 report to you if:

- 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)

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2021/22

Our draft opinion on the financial statements

- 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 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 Group and the Council 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. Ofsted outlined that the council and senior leaders had not sufficiently understood these failures or taken the necessary actions to improve services for children.

The Ofsted inspection outcome was undertaken in February 2022 and was published in March 2022. This means that the corrective actions planned by the Council would fall within the year 2022/23. However, in February 2023 Ofsted completed a monitoring visit which was released in March 2023. The headline finding of the visit identified that there had been insufficient progress in improving the response to children in need of help and protection. The pace of improvement was too slow and most practice weaknesses identified at the inspection in February 2022 remained. The report further states that, recruitment and retention of social workers remained a significant challenge and a barrier to improvement. There was a continued high dependence on agency social workers, which made the service fragile. The director of children's services (DCS) had announced plans to leave the local authority, and this brought further change. Too many children continued to experience drift and delay in having their needs met and some continued to experience ongoing harm because risks were not always fully recognized in assessments, and the resulting plans were not supporting timely and appropriate decision-making.

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2021/22

Our draft opinion on the financial statements

Not much progress was made by the Council on the recommendations by Ofsted for the period 2022/23. The inadequate rating given in 2022 has yet to be reassessed. This will only occur when the Council is subject to a full “Inspecting local authority children’s services” visit at some point beyond the reporting date. Substantial progress was made in the subsequent period in 2023/24.

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
- Ofsted Children’s services monitoring visits published on 19 July 2023
- Ofsted Children’s services monitoring visits published on 15 November 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.

Action the body needs to take to address the weakness:

The Council needs to execute the Children’s Improvement Plan - Phase 1, Phase 2 and 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 Executive Director of Corporate Resources and Customer Services’ Responsibilities set out on page 25, the Executive Director of Corporate Resources and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the Group and the Council 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

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2021/22

Our draft opinion on the financial statements

accounting unless the Group and the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council 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 responsibility is to conduct an audit of the Group and the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Council 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 Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether 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 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, 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.

Certificate

We certify that we have completed the audit of the accounts of Sefton Metropolitan Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) 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.

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2022/23

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEFTON METROPOLITAN BOROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Sefton Metropolitan Borough Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2023. 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 55 and Group Accounts notes 1 to 12 including a summary of significant accounting policies and including the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 7.

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 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the

accountability statements for this financial year to be approved not later than 13th December 2024.

The audit of the 2021/22 financial statements for Sefton Metropolitan Borough Council was not completed for the reasons set out in our opinion on those financial statements dated xxxx.

As a result of the delays to the previous year's audit together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements before the 13th December 2024 backstop date.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether 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 report to you if:

- 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)

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2022/23

Our draft opinion on the financial statements

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

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 Group and the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

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 2023.

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. Ofsted outlined that the council and senior leaders had not sufficiently understood these failures or taken the necessary actions to improve services for children.

The Ofsted inspection outcome was undertaken in February 2022 and was published in March 2022. This means that the corrective actions planned by the Council would fall within the year 2022/23. However, in February 2023 Ofsted completed a monitoring visit which was released in March 2023. The headline finding of the visit identified that there had been insufficient progress in improving the response to children in need of help and protection. The pace of improvement was too slow and most practice weaknesses identified at the inspection in February 2022 remained. The report further states that, recruitment and retention of social workers remained a significant challenge and a barrier to improvement. There was a continued high dependence on agency social workers, which made the service fragile. The director of children's services (DCS) had announced plans to leave the local authority, and this brought further change. Too many children continued to experience drift and delay in having their needs met and some continued to experience ongoing harm because risks were not always fully recognized in assessments, and the resulting plans were not supporting timely and appropriate decision-making.

Not much progress was made by the Council on the recommendations by Ofsted for the period 2022/23. The inadequate rating given in 2022 has yet to be reassessed. This will only occur when the Council is subject to a full "Inspecting local authority children's services" visit at some point beyond the reporting date. Substantial progress was made in the subsequent period in 2023/24.

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.

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2022/23

Our draft opinion on the financial statements

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
- Ofsted Children's services monitoring visits published on 19 July 2023
- Ofsted Children's services monitoring visits published on 15 November 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.

Action the body needs to take to address the weakness:

The Council needs to execute the Children's Improvement Plan - Phase 1, Phase 2 and 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 Executive Director of Corporate Resources and Customer Services' Responsibilities set out on page 25, the Executive Director of Corporate Resources and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the Group and the Council 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 2022/23 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 Council 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 responsibility is to conduct an audit of the Group and the Council's financial statements in accordance with International Standards on Auditing

Results and findings – Draft Audit Report (cont'd)

Draft audit report - 2022/23

Our draft opinion on the financial statements

(UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Council 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 Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in January 2023, as to whether 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 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 2023.

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, 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.

Certificate

We certify that we have completed the audit of the accounts of Sefton Metropolitan Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) 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 Value for Money

Executive Summary

Purpose

Auditors are required to be satisfied that Sefton Metropolitan Borough Council have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report to comply with the requirements of the 2020 Code of Audit Practice (updated for 2024) and Auditor Guidance Note 3 (AGN 03). For 2021/22 and 2022/23, the annual commentary is included in this report.

The 2024 Code has reduced the scope of the VFM reporting up to and including the 2022/23 financial year. However, in the February 2024 consultation on the new Code, the NAO stated that where auditors have begun or already undertaken work that no longer falls under the reduced scope, they may still report on it in accordance with paragraph 13 of Schedule 3 of the 2024 Code. EY are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of committee reports;
- meetings with officers;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with management and the finance team.

We completed our risk assessment and any detailed audit procedures and identified a significant risk related to governance, including how the body monitors and ensures appropriate standards, such as legislative and regulatory requirements, are met as part of our risk assessment procedures. We set out our planned response to address this risk in the table below.

Description of risk identified	Years affected	Planned procedures to address the risk of significant weakness
<p>VFM Criteria: Governance</p> <ul style="list-style-type: none"> • A full inspection was undertaken by Ofsted during 2021/22 following a focused visit. The Council was graded as inadequate and this triggered the identification of a risk of significant weakness on the governance of the Council's operations/services. Furthermore, the first monitoring visit in February 2023 published in March 2023 highlighted that there has been insufficient progress by the Council in improving the response to children in need of help and protection. 	<p>2021/22 2022/23</p>	<ul style="list-style-type: none"> ▪ Undertake discussions with management on the plans, improvement program and performance monitoring in place to improve Children's services. ▪ Consider progress made against the improvement plans management has submitted to Ofsted over the period, including a review of minutes. ▪ Obtain and consider the results and findings arising from Ofsted Monitoring Visits.

Executive Summary (continued)

Other focus areas

Other focus area	Years affected	Procedures
VFM Criteria: Improving economy, efficiency and effectiveness:	2021/22	<ul style="list-style-type: none"> Review minutes on the concerning the early surrender of the lease.
<ul style="list-style-type: none"> Whilst we did not identify a risk of significant weakness, we did consider the impact of the early lease surrender of the Bootle Strand Shopping Centre on value for money. 	2022/23	<ul style="list-style-type: none"> Consider the implications of the lease surrender with regards to value for money

Reporting

Our commentary for 2021/22 and 2022/23 is set out over pages 29 to 37. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2021/22 and 2022/23. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22 and 2022/23.

The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	Ofsted undertook a full inspection during 2021/22 in relation to children's services following a focused visit in 2021. The overall grade for the Council was inadequate.	After the inspection, the first monitoring visit in February 2023 published in March 2023 highlighted that there has been insufficient progress by the Council in improving the response to children in need of help and protection. As a result, a significant weaknesses has been identified.
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	No significant risks identified	No significant weakness identified

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified in 2021/22 and 2022/23

Sefton Metropolitan Borough Council adhered to governance processes for setting a balanced budget and Medium-Term Financial Plan (MTFP). The budget and MTFP were underpinned by assumptions that we deemed reasonable and well supported. The Council set a balanced budget and Medium-Term Financial Plan for both periods. The 2021/22 and 2022/23 plan was presented to cabinet on 7/11/2019 and 04/11/2021.

The balanced budget for 2021/22 was based on below assumptions:

- The proportion of Business Rates retained by local authorities will increase from 50% to 75%.
- Increase in pay awards, annual pay increases and pensions provisions
- Built service budget pressures from Children's Social Care - Placements & Packages, Communities - Children with Disabilities / PSR2 and Education Excellence - Home to School Transport.
- Increase in provision for levies paid to other authorities
- Additional emergency funding to be received from government during 2021/22 to respond to the financial impact of the pandemic.
- Projected reduction in business rates collection due to COVID-19.
- A reduction in the Council Tax Base for 2021/22 to 82,722.1, a reduction of 2,182.3 from 2020/21.

The Council initially approved a revenue budget for 2021/2022 of £192m, however due to a budget shortfall of £8.997m identified, the council revised and approved the budget for the period was £255m The following measures were proposed to close the budget shortfall in 2021/2022

- 4.99% increase in Council Tax (including a 3% increase for the Adult Social Care Precept).
- There was no planned use of the Council's General Fund Balances to support the short- or medium-term budgets in 2021/22.
- Initial savings identified for 2021/22 amounted to £1.4m.

The council faced unprecedented financial pressure particularly within Children's Social Care, Communities (Children with Disabilities) Education Excellence (Home to School Transport) and Operational In-House Services. These pressures, and the unprecedented financial challenges faced by the Council in relation to COVID-19 made the council implement a remedial action plan by utilising the resources provided by the Government to support the Council's response to ensure a balanced budget position would be achieved.

The final revised budget for 2021/22 was £13.7m. Actual net expenditure for 2021/2022 was £12.5m leading to a positive outturn of £1.2m. The council's General Fund reserve as at 31 March 2022 was £5m and total Earmarked reserves fund as at 31 March 20222 was £3.3m. Final approved capital budget for 2021/22 was £8.8m and the actual outturn at the end of the period was £2.5m with the majority of the projects were carried forward into 2022/23.

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified in 2021/22 and 2022/23

In 2022/23 the council approved an initial budget of budget of £212m. The balanced budget for 2022/23 was based on below assumptions:

- A provision for the estimated costs of annual increases in pay, pensions totalling £5.950m per year.
- A 2.99% increase in Council Tax
- A minimum reserves level of 5.5% - a strategy to increase reserves by £1.500m per year.
- An expectation for the Government to continue to make payments of New Homes Bonus in 2022/23.
- Reductions in council tax and business rates collection due to COVID-19 effects.
- Increase in budget allocations for inflation, cost pressures, pay awards, and energy costs
- Increase in council tax base for 2022/23
- Reduction in income from the Strand Shopping Centre as well as income from sales, fees and charges for a range of services

The 2022/23 Medium Term Financial Plan (MTFP) identified budget gaps in its forecast assumptions over the medium term. The medium-term plan is regularly revised to update the funding gap when information is available. The forecast gaps were as follows;

- £10.9m in 2022/23
- £7.6m in 2023/24
- £4.4m in 2024/25

Management intended to bridge the gap with savings strategies and cost cutting measures across all services as well as increases from council tax and business rates income. The forecast efficiency savings proposed across service areas for future periods were as follows:

- £7.5 million in 2023/24
- £4.3 million in 2024/25
- £2.5 million in 2025/26
- £4.3 million in 2026/27

At the end of 2022/23, the final approved budget for 2022/23 was £ 13.6m. Actual expenditure at the end of the period was £13.2m creating a positive outturn of £430k. The general fund as at 31 March 2023 was £4.5m and the total earmarked reserves at the end of the period was £51.8m.

We note that in the Council's final outturn position for 2022/23 included significant overruns as follows;

- Children's social care by £20.38m
- Energy costs by £2m

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified in 2021/22 and 2022/23

There were 2 remedial actions plans not budgeted for in July and September leading to additional over runs of £14m due to overall pressures noted in the year from increased costs of energy, the pay award and Children's Social Care. The Council was able to achieve increased returns on its cash investments due to the increase in interest rates across the year. This resulted in a net underspend of £1.026m in the Council's Treasury Management budget. The approved capital budget for 2022/23 was £16.8m against capital expenditure of £2.7m which resulted in a year end variance of £14.2m.

The financial sustainability of the council was at risk for the period 2021/22 due of financial pressures and COVID-19. However, the council was able to achieve a surplus outturn of £2m for 2021/22. This was due to the outcome of stringent financial management and budget monitoring as the Council met the financial pressure from demand led services, the extreme challenges of national government policy as well as the impact of COVID19. We thereby conclude that no significant weaknesses were identified in relation to financial sustainability in 2021/22.

In the period 2022/23, the risks to the financial sustainability of the Council was due to inflation levels, reduction in direct government funding and the rising demand for services which places a strain on the Council's resources. We also noted that fund reserves for the council were low therefore strategies to increase the reserve levels needed to be implemented as part of medium-term financial planning. As a result, significant budget and cost reductions have been required.

Monitoring records note the Council's significant financial pressures and risks remain in 2 key business areas namely, children's social care and adults social care for both periods. We also identified the impact of the local government's pay award and energy price rises as additional cost pressures for 2022/23. At the end of January 2023, the Budget Council approved additional resources to be added to the 2022/23 budget in response to the abovementioned pressures. It was funded from additional government grants, savings and increase in council taxes.

We had discussions with Management on their plans and measures in place to sustain their finances for the current and medium-term periods. Management noted that there are monthly updates on budget performance to cabinet to track performance. Also there has been a recent introduction of quarterly reports to Cabinet on financial performance and risk. Plans are also in place to ensure that financial pressures arising are being identified and mitigated early.

We reviewed the budget and noted that significant increases have been built in future budgets when pressures are identified from increasing adult care provider fees and children's care were increasing during the year. Also, the medium-term Financial Plan was aligned to the improvement plan for children's services and agreed with the commissioner in February 2022/23 to make sure resources were available with the plan. However, the findings were reflected in 2023/24 budget.

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified in 2021/22 and 2022/23

The council approved a budget of in 2023/24. The following assumptions were built into the 23/24 budget and MTFP:

- Business rates retained by the council at 100%.
- Growth in the Tax Base for additional properties that would generate £0.500m in each of the next three years.
- Increase in the provision for pay awards of 6.5%.
- National Insurance contribution increase of £1.25m
- The use of the Budget pressures fund of £1 created in 2022/23.
- Increase in provision for levies paid to other authorities.
- A 3.99% increase in Council Tax
- Increase in the provision for inflation on contracts
- Investment of £17.9m made into Children's Services during 2023/24 making the annual budget of children's services to £70m

The financial resilience of Sefton for the periods 2021/22 and 2022/23 was not identified as a significant weakness for the council as measures were put in place to manage the financial pressures for the budget for both years. However, Sefton should take steps to ensure that both in-year overspends are minimised and future savings gaps are identified early with schemes put in place to mitigate those gaps, without compromising front line service delivery. The council also needs to work on bridging the funding gaps within the medium term.

Conclusion: Based on the work performed, the Council had proper arrangements in place in for 2021/22 and 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified

The Council has a governance framework in place supported by the Audit and Governance Committee and several appropriate Oversight and Scrutiny sub-committees to provide sufficient oversight of key areas of activity within the Council. The Council also maintains a constitution which sets out how the Council functions, the decision-making processes in place and the procedures which are followed to ensure that decisions are responsible, effective, and transparent.

The Council has a Risk Management Strategy included within the Risk Handbook and is approved by Audit and Governance Committee. The Handbook provides comprehensive guidelines around risk ownership, assessment, control, monitoring and reporting. Furthermore, the Corporate Risk Register is reviewed by the Audit and Governance Committee each quarter. The Committee will then update the risk register if any of the risks identified require amendment.

The Council has its own in-house Internal Audit function in place with the Chief Internal Auditor reporting to the Section 151 officer and Audit and Governance Committee. The Internal Audit Plan outlines how Internal Audit resources will be used during the forthcoming financial year to provide assurance on the effectiveness of the Council's internal control system. The Internal Audit Plan is reflective of the changing risk landscape of the Council and emphasises the role of Internal Audit at a strategic level.

During 2021/22, 68 pieces of internal audit work were completed and during 2022/23, 106 pieces of internal audit work were completed, 91 for the Council and 15 for schools. Less audit work was completed in 2021/22 due to staffing issues. Based on the work undertaken by Internal Audit in respect of 2021/22 and 2022/23, the overall opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control was adequate and the potential for improvement was also adequate. The Overall School Opinion in accordance with CIPFA's guidance on "Internal Audit Untapped Potential" for both years was also adequate.

The audit report includes an "organisational risk opinion" which highlights the level of risk to the organisation presented by the risks identified in the audit. The risks are graded as major, moderate, minor and negligible. There were eight audits in 2021/22 with a "Major" Organisational Risk Opinion in relation to schools, contract management and ICT security and there were seven audits in 2022/23 with a "Major" Organisational Risk Opinion. Eight significant governance issues were reported in the internal audit opinion report and the annual governance statement for 2021/22. Significant governance issues reduced to four in the 2022/23 internal audit opinion report and the annual governance statement with only one risk still existing within the period. The reports details the nature of the governance issue, actions to address the issue, the timescale and the responsible parties.

We have reviewed the Annual Governance Statement and confirmed that it is consistent with the financial statements and the CIPFA Code for both years. We have shared our observations on the Annual Governance Statement and the financial statement with management. The annual report describes how council reviews the effectiveness their governance, the key sources of assurance that inform the review, analysis of the effectiveness of the governance framework, actions plans for areas of improvement. Key governance issues were reported in the annual governance statement for 2021/22 and 2022/23. The council implements and reports on improvement plans each year that addresses governance issues identified.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified

The Council published their draft 2021/22 and 2022/23 financial statements for audit on 30 August 2022 and 08 November 2023 respectively, in line with the Audit and Accounts regulations, and advertised an inspection period for members of the public in line with these regulations for both periods. We confirm that the 2021/22 and 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code. The Council has carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during both periods. There were no significant changes to the leadership team during 2021/22 and 2022/23.

Ofsted Inspection at Children's Services identified as a risk of significant weakness in the arrangements

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 2021/22, the Ofsted Inspection of Sefton Local Authority Children's Services took place and the Council was graded inadequate. As mentioned earlier, this has been assessed as part of a risk of significant weakness on economy, efficiency and effectiveness. The first monitoring visit in February 2023 published in March 2023 highlighted that there had been insufficient progress on the Council in improving the response to children in need of help and protection. The local authority was still judged inadequate as much not much progress was made.

The first monitoring visit in February 2023 published in March 2023 highlighted that there has been insufficient progress on the Council in improving the response to children in need of help and protection. Therefore, as at 31/03/2023 after the first monitoring visit, the local authority was still judged inadequate as much not much progress was made. We have reviewed the board minutes of the Overview and Scrutiny Committee (Children's Services and Safeguarding) till date to review the updates of the Children's Service Improvement Program. We have inspected subsequent Ofsted Monitoring Visits to the Council with their findings. We have assessed the three improvement plans management has submitted to Ofsted over the period and the progress updates to the plans till date. We had discussions with the Executive Director of Corporate Resources and Customer Services on the plans, improvement programs and performance monitoring in place to improve Children's services. Our review identifies that the Council has focused on improving Children's Services throughout the period from 2021/22.

Three Improvement plans have been developed by the Council and has been submitted to Ofsted over the period. Three monitoring visit subsequent to the inspection in 2021/22 have been made in February 2023, July 2023 and November 2023. The last inspection in November 2023 noted that significant progress has been made with respect to children's services. The report noted that Sefton is making some steady progress in improving services for children with specific vulnerabilities. However, since this issue has been reported in 2020/21 and has not yet been addressed in 2021/22 and 2022/23, we draw attention to the ongoing significant weakness identified.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified

Conclusion: Based on the work performed, we have identified a significant weakness in the arrangements that we will be reporting by exception in relation to governance, including how the body monitors and ensures appropriate standards, such as legislative and regulatory requirements, are met.

Recommendation: We recommend that the improvement plans submitted to Ofsted over the period are executed and completed within the specified timelines. All recommendations in the Ofsted reports from their inspection in 2021/22 as well as the subsequent monitoring reports regarding improvements to the children's services should also be executed by the council with oversight of the Overview and Scrutiny Committee.

Value for Money Commentary (continued)

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

No significant weakness identified

The Council maintain a set of key strategic performance measures to help monitor progress against Council priorities. Performance against these indicators is measured regularly with progress considered by Cabinet. In order to monitor the Council's performance progress, the Council produced an Annual Performance Report, the first of which was published in the 2019/20 financial year which considers the Council's performance in a number of key areas, both financial and non-financial. This includes updates on tackling the Covid-19 spread, business grant allocations in year, climate sustainability measures, as well as the 2022/23 financial year service expenditure results, sources of funding, and council tax and business rates comparisons of targeted versus collected performance.

Repurposing project of the Strand relating to the lease surrender identified as a risk of significant weakness in the arrangements

During the 2021/22 period negotiations were taking place between the Council and the Tenant with regards to the potential early surrender of the lease at the Bootle Strand Shopping Centre. The units let had not been occupied by M&S for more than 5 years as M&S had changed their business model/strategy. M&S sub-let part of their units to a charity who pay service charges. This prompted the Council to repossess the units from M&S. The Council planned to include the unit within future redevelopment plans for the Centre and the Tenant is offered a one-off payment of £2.5M.

The council approved the lease surrender to proceed with the early surrender of the lease. The Council's plans for the demolition of a small section of Bootle Strand have been given the go-ahead. Approval of the plans means that work can begin to unlock the Strand's potential by opening parts of the centre to create more public spaces. Cabinet has approved proceeding with Phase 1 of the proposed Transformation Programme.

We have reviewed minutes on the concerning the early surrender of the lease. Cabinet Members approved the M&S lease surrender with effect from 31 March 2023 for a surrender premium. We assessed the lease surrender transaction and its accounting treatment. We also considered the implications of the lease surrender with regards to value for money.

We have considered the lease surrender of the Strand shopping center. We are satisfied that the accounting treatment proposed by the Council towards the lease surrender premium is appropriate based on the above ground. We are satisfied that the business decision regarding the early lease surrender between the Council and M&S to proceed with the repurposing programme of The Strand has followed proper arrangements and processes based on the above grounds. We conclude that no significant weaknesses were identified with respect to the lease surrender of the Stand Shopping Centre. These are all based on the assumption that the programme is being delivered as planned. Specifically, the Council will need to continually consider the following moving forward:

- Volatile condition of the retail market
- Support of the prospected tenants and the need to find additional interested tenants
- Financial and performance monitoring to ensure that the programme is delivered as planned.

Value for Money Commentary (continued)

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

No significant weakness identified

Lack of SEND specialist placements for children and young people

There has been an increase in the request for specialist provisions for children and young adults. Also, the High Needs budgets are under considerable pressure from increasing numbers of children being diagnosed with complex and life-long SEND related issues. National funding allocations are not increasing annually at a rate to reflect increases in local population demand and so any additional commissioned places need to be financed from within existing budget envelope. Increase in number of EHC Plans for children with SEND - rise from 1765 in 2020 to 2888 in 2023. There is a lack of parental confidence in mainstream provision being able to meet children's needs. This has resulted in an increase in request for specialist provisions. The special school capacity is limited by current physical capacity on current sites so demand for this provision cannot be met within current capacity.

We have reviewed the minutes and subsequent corporate risk registers of the council to monitor the progress of the risk identified. We held discussions with key officers of Sefton and they noted that DFCE has introduced the Delivering Better Value Programme for councils in 3 phases to assist them in managing the deficits. Grants are also being provided to councils for the programme. Sefton is no longer putting many children in external provisions which is more costly to reduce the deficit. Engagements are also being held with DHULC on how to deal with the growing deficit that has increased to £19m (end of 2022/23) ahead of 2026. The council has agreed more projects to generate additional resourced places and a sufficiency report for longer term in-borough placements. The council is reviewing and improving consultation process and challenge under SEND code of practice under reasonable steps. Sefton is also Implementation of Delivering Better Value Programme workstreams to support increased mainstream inclusion process and challenge under SEND code of practice under reasonable steps.

We conclude that this is not a significant weakness, however the council should continue to embark on more projects to generate additional resourced places and manage the growing SEND High Needs deficit.

Conclusion: Based on the work performed, the Council had proper arrangements in place in for 2021/22 and 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



05 Appendices

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

This letter of representations is provided connection with your audit of the [consolidated and parent] Authority financial statements of [name of entity] (“the [Group and] authority”) for the year ended [balance sheet date]. 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 parent Authority financial statements give a true and fair view of (or ‘present fairly, in all material respects,’) the [Group and] authority financial position of [name of entity] as of [balance sheet date] and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the [Group and] the Authority, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (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 parent] Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the [Group and the parent] Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (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] authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the [consolidated and parent] Authority 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 parent] Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (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 financial statements.
3. The significant accounting policies adopted in the preparation of the [Group and] authority financial statements are appropriately described in the [Group and] authority financial statements.
4. As members of management of the [Group and] authority, we believe that the [Group and] authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [applicable financial reporting framework] for the Group and [applicable financial reporting framework] for the Authority that are free from material misstatement, whether due to fraud or error.

Appendix A – Management representation letter

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Management Rep Letter

5. *[When there are unadjusted audit differences in the current year]* 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 parent Authority financial statements taken as a whole. We have not corrected these differences because *[specify reasons for not correcting misstatement]*.
6. *[When the comparative figures have been restated]* The comparative amounts have been restated to reflect the below matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's consolidated and parent Authority financial statements. *[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]* There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent Authority financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent Authority financial statements for the year ended *[date]* are solely the result of reclassifications for comparative purposes.
7. We confirm the *[Group and]* authority does not have securities (debt or equity) listed on a recognized exchange.
8. We have confirmed to you any changes in service organizations within the *[Group and]* authority since the last audited financial year.

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

1. We acknowledge that we are responsible to determine that the *[Group and]* authority's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the *[consolidated and parent]* Authority financial statements may be materially misstated as a result of fraud.
4. *[When management is aware of the occurrence of non-compliance with laws or regulations, or has received allegations of non-compliance with laws and regulations.]* We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the *[Group or]* Authority (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the *[consolidated and parent]* Authority financial statements
 - Related to laws or regulations that have an indirect effect on amounts and disclosures in the *[consolidated and parent]* Authority financial statements, but compliance with which may be fundamental to the operations of the *[Group and]* authority's business, its ability to continue in business, or to avoid material penalties

Appendix A – Management representation letter

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Management Rep Letter

- Involving management, or employees who have significant roles in internal control, or others
- 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 are reflected in the [consolidated and parent] Authority financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the [period] to the most recent meeting on the following date: [list date].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the [Group and] authority'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 period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the [consolidated and parent] Authority financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with [applicable financial reporting framework].
6. We have disclosed to you, and the [Group and] authority has complied with, all aspects of contractual agreements that could have a material effect on the [consolidated and parent] Authority 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, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, 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 effect on the [consolidated and parent] Authority 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.

Appendix A – Management representation letter

Management representation letter

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Management Rep Letter

8. We have disclosed to you, and provided you full access to information and any internal investigations relating to, unauthorized access to our information technology systems that has a material effect on the [consolidated and parent] Authority financial statements, including disclosures.

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 parent] Authority 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 parent Authority financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note [X] to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority'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 the events described in Note [X] to the [consolidated and parent] Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

G. Group audits

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

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information contained within the Narrative Statement and also 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 and the [Group and] authority have reflected these in the consolidated and parent financial statements.

Yours faithfully,

(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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

A breakdown of our fees is shown in the table to the right.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA Ltd to discuss and agree fees.

	2022/23	2021/22
	£	£
Scale fee - Code work	130,950	97,711
Determined scale fee variation	TBC - see note 1	TBC - see note 1
Total audit	0	0
Other non-audit services not covered above (Housing benefits)	33,750 - see note 2	21,450
Total other non-audit services	TBC	21,450
Total fees	TBC	TBC

All fees exclude VAT

Note 1 - PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2021/22 and 2022/23.

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Note 2 - The fee payable for the housing benefit non-audit services is estimated as work remains in progress. Final fees will be discussed and agreed with management.

Appendix C – Required communications with the Audit and Governance Committee

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

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 	This Completion report for Those Charged with Governance

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

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> ▶ 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 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ 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: <ol style="list-style-type: none"> 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 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 	This Completion report for Those Charged with Governance
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ 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 <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 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 committee may be aware of 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance
Group audits	<ul style="list-style-type: none"> ▶ 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 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> ▶ 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 	This Completion report for Those Charged with Governance

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Appendix E - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations

Arrangements in place

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

- ❖ The Council produces a three-year Medium-Term Financial Plan (MTFP) that takes account of the latest financial estimates and the key assumptions and issues that drive budget development, and these are comprehensively reported in the budget report. The MTFP is regularly updated to reflect the latest information available and to reflect all ongoing service pressures that the Council is facing. The budget is prepared and presented to the Executive Council in February every year. This includes the capital program, the capital strategy, the reserve strategy and the treasury management strategy for the period.
- ❖ Every November, the key MHCLG colleagues and other Merseyside Directors of Finance meet to discuss central government funding and key funding pressures and opportunities; these are reflected in budget planning. In addition to this, the Council's senior leadership board fully engage in budget development to ensure a comprehensive package is developed.
- ❖ The Council closely monitors its finances with routine reports being considered by Cabinet monthly and remedial action being taken whenever required to offset emerging budget pressures. All savings proposals are also regularly reviewed for deliverability and are risk assessed by officers throughout the year.

How the body plans to bridge its funding gaps and identifies achievable savings

- ❖ The Council's officers and Members plan the resource needed for the Council's aspirations for the year through the annual budget setting process and assesses the plan for any financial risks. Officers work on refining MTFP assumptions and developing budget proposals to deliver a robust and sustainable budget that includes a Council Tax strategy.
- ❖ The Council has a Framework for Change program - Demand Management Savings to facilitate the changes required to meet the Council's future priorities. This covers three main strands, Economic Growth and Strategic Investment, Council of 2023 and Demand Management.
- ❖ The savings process followed for the development of the budget is identified through the following stages;
 - Cost savings and budget reductions identified through the challenge process led by the Executive Directors and Assistant directors for each service.
 - Savings identified by the meetings between the Executive Directors and Assistant directors with their respective officers and the S151 officer to identify savings in their service.

Appendix E - Summary of arrangements (cont'd)

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the the years 2021/22 to 2022/23.

Reporting criteria considerations	Arrangements in place
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<ul style="list-style-type: none">❖ Sefton has in place a 'Framework for Change' which helps them deliver against its stated objectives including financial sustainability as it identifies how services will be delivered, where savings can be made and where transformation will take place.❖ The Council has Climate Change Emergency Plan that represents its commitment to reducing carbon emissions. Sefton has a 2030 Vision and a Council Core Purpose which enables the Council and partners to demonstrate the connected thinking and action. It will also enable the Council to bring about meaningful and measurable plans with targets, timescales and a performance management framework. The Council reviewed its Vision and the Council Core purpose in 2023, building upon the work previously undertaken, assessing the impact of Vision 2030 and developing Vision.❖ The Council set balanced budget for previous period and this has continued for future periods. A balanced budget was set for 2023/24 and agreed a Medium-Term Financial Plan for the period up to 2025/26 setting out its approach to funding service provision over the next three years after taking into account the challenges it faced from prior years.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<ul style="list-style-type: none">❖ The financial plan and budget is presented to Council each February for the following year reflecting approved revenue budget, capital programme, treasury management strategy (new capital strategy) and reserves strategy detailing the financial and service scenarios, and the policy and expenditure changes required for each scenario. The Framework for Change programme includes a dedicated workstream to Workforce development and organisation design so there is full alignment with the budget and other strategies for the period.

Appendix E - Summary of arrangements (cont'd)

Financial Sustainability (continued)

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Arrangements in place

- ❖ Budget monitoring is completed each month and is reported to cabinet and any budget variations are supported by demand data or key performance data in order. The council also makes use of the CIPFA resilience index and financial management code. This informs the budget process and is reflected in the budget estimates and the Adequacy of Reserves report and the council self-assesses itself against the management code and reports this to audit and governance committee annually.
- ❖ The council produces an outturn report each year which details financial performance for the period. It shows the revenue outturn, capital outturn, level of reserves and corporate performance. It also outlines the risks to the budget and the proposed remedial plan taken by the council to ensure the expenditure is contained. The Council also considers the ongoing implications of COVID-19 on future financial resilience and sustainability through reports on robustness of budgets going forward and whether adequate reserves and balances are in place to support.
- ❖ As part of its corporate risk management, the Council's corporate risk register is developed and maintained by the Chief Internal Auditor in consultation with Executive Directors and Assistant Directors. The risks in the risk register are identified using a systematic approach by considering risks and assigning a risk score, risk owner, risk trigger, result and options to mitigate the risk to ensure that the Council can manage risk to a reasonable level.

Appendix E - Summary of arrangements (cont'd)

Governance

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations	Arrangements in place
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	<ul style="list-style-type: none">❖ The Council has a Risk Management Strategy included within the Risk Handbook and the Corporate Risk Register is submitted to the Audit and Governance committee each quarter for review. The Audit Committee monitors progress in addressing risk-related issues reported including the Corporate Risk Register.❖ The Council has its own independent internal audit function in place headed by a Chief Internal auditor who reports to the Audit Committee. The Audit Plan is approved by Audit and Governance Committee and progress and key issues arising are subsequently reported to Audit and Governance Committee in each quarter.❖ The Council reviews its governance arrangements on an annual basis, along with its arrangements for achieving economy, efficiency and effectiveness, to ensure that it identifies and manages risk effectively and the review. The outcome of the review is reported in the annual governance statement (AGS) which is published as part of the statement of accounts.
How the body approaches and carries out its annual budget setting process	<ul style="list-style-type: none">❖ The Executive council agrees to the timetable for the budget setting process and the draft MTFP is produced. It outlines the estimated budget planning assumptions, which are refined throughout the year as information is obtained and central government funding announced.❖ Senior Leadership and the Executives are involved throughout the budget setting process, to ensure that priorities are considered, and relevant financial pressures taken into account. There are regular progress updates to cabinet including details of any funding gap, budget pressures, potential savings and options around council tax.❖ The budget package is reported to the Overview and Scrutiny committee, cabinet and the executive council. The annual budgets are underpinned by a number of assumptions regarding the prevailing rates of inflation, interest earned, cost growth, council tax base, business rates and cost pressures.

Appendix E - Summary of arrangements (cont'd)

Governance (continued)

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations

Arrangements in place

How the body approaches and carries out its annual budget setting process

- ❖ Each year the Section 151 Officer is responsible for preparing a budget plan for the Council including an approved revenue budget, capital programme, treasury management strategy (new capital strategy) and reserves strategy. The Cabinet, advised by the Section 151 Officer, Executive Directors and Assistant Directors, will develop a budget package including financing options, policy and expenditure options and capital programme. This will be subject to scrutiny by the Overview and Scrutiny Committee before the Cabinet finalises its recommendations to Council. The final Budget policy and Council Tax will be determined by Council.
- ❖ The prudential indicators is also approved prior to the commencement of the financial year as required by the Code. The indicators required include;
 - a. Estimates of capital expenditure
 - b. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)
 - c. Authorised limit for external debt
 - d. Operational boundary for external debt
 - e. Estimate of gross debt to CFR
 - f. Estimated Liability benchmark
 - g. Estimates of the ratio of financing costs to net revenue stream
 - h. Estimate of net income from commercial and service investments to net revenue stream

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

- ❖ The Council has a financial procedure rules in place which are reviewed annually and are approved by Audit and Governance committee and full council. Service schemes of delegation are also in place and are reviewed quarterly. A regular and embedded cycle of budget monitoring is in place for Sefton. This involves a monthly report presented to the Departmental Management teams and is then transferred to the senior leadership board before progressing to cabinet and overview and scrutiny committee. Should in case budget pressures exist, a remedial plan is identified and then this is approved.
- ❖ Regular monitoring is undertaken in year by the Executive and Assistant Directors against the key measures of affordability and sustainability, by reviewing estimates of financing costs to revenue and the capital financing requirement, reporting to Council, setting out management actions. The Council's Internal Audit department undertake a planned IA programme of work which is reported to the Audit and Governance Committee.

Appendix E - Summary of arrangements (cont'd)

Governance (continued)

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Arrangements in place

- ❖ Regular budget monitoring reports progress is reported to the overview and scrutiny committee and cabinet month. The council's financial procedure rules provide clear guidance on who can make decisions and where they should be reported to ensure transparency and accountability. Per the constitution, the Council issues and keeps up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions.
 - ❖ The Council approves the overall policy and budgetary framework annually and the Cabinet subsequently makes decisions at various points throughout the year that are in line with the policy and budget framework. The decisions of the Cabinet are subject to scrutiny through the Council's Overview and Scrutiny Committees which meets regularly during the year. Each Overview and Scrutiny Committee has a work programme for the year and reviews a range of current activities and potential issues.
 - ❖ All decisions made by Committees, Council, Cabinet, Cabinet Member (under their delegated powers) and Chief Officer executive decisions are recorded and published online for transparency and Delegation arrangements for Cabinet Members are reviewed annually by the Chief Legal and Democratic Officer as part of the Constitution review process. The Executive Director of Corporate Resources and Customer Services and the Chief Legal and Democratic Officer are consulted on each decision report and any comments are incorporated into the reports.
 - ❖ The Council's Audit and Governance Committee which provides independent assurance on the adequacy of the Council's risk, governance and assurance environment and the Committee monitors the Corporate Risk Register which includes the mitigating actions that have been taken for the Council to manage the risks to achieving its objectives
-
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)
- ❖ The Council maintains employee and member code of conduct protocols, noted within its constitution and these are approved by Audit and Governance committee and council and are reviewed annually. The Constitution and financial procedures rules also include key detail in relation to conduct and behaviour for employees and staff. Policies and arrangements are in place and standing item on agendas, as such, Councillors are required to complete and update Registers of Interest which are available on the Council's public website.

Appendix E - Summary of arrangements (cont'd)

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations

Arrangements in place

How financial and performance information has been used to assess performance to identify areas for improvement

- ❖ Regular reporting of performance and financial information is undertaken. As part of this, the Council considers the delivery of services and the Council priorities and previous performance. The Council Committees receive a variety of performance-based reports throughout the year to continuously monitor performance. The Annual Report and Annual Governance Statement set out the review of performance for the year. The Council has an embedded process with regard to its Financial Management and its reporting strategy that reflects monitoring undertaken by the Executive Leadership Team, Strategic Leadership Board, budget holders and the central Finance Team.
- ❖ Monthly reports are considered by Departmental Management Teams, Strategic Leadership Board and Cabinet and the Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue monitoring. The CIFPA resilience index is used to identify themes and areas where the council should consider with regard to its financial sustainability and health

How the body evaluates the services it provides to assess performance and identify areas for improvement

- ❖ The performance of each of the council's services are reviewed continually and this is reported via the annual corporate performance report that accompanies the outturn report. In addition, all the council's services within the make use of internal audit reports, external inspections and formal and informal benchmarking.
- ❖ The Council reviews its service delivery in order to ensure best practice and value for money for its residents in respect of Adults and Children's Social Care. The Council has a Framework for Change 2020 programme which involves significant transformational change as to how services are provided which will result in changes to working practices, commissioning relationships and governance arrangements.

Appendix E - Summary of arrangements (cont'd)

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the years 2021/22 to 2022/23.

Reporting criteria considerations

Arrangements in place

How the body evaluates the services it provides to assess performance and identify areas for improvement

- ❖ The council publishes an annual performance report that highlights some of what they have achieved, how they have managed the funding they received, and their priorities looking forward and it sets out the Council's Performance in a number of key areas and is considered in conjunction with the Council's Financial Outturn.
- ❖ The council undergoes a number of external inspections to assess their services and identify areas of improvement. Appropriate action plans are developed, and processes put in place to track delivery. Notable inspections include, Special Educational Needs and Disabilities Information Advice and Support Services (SENDIASS) Service Review; LGA Corporate Peer Review Revisit and Progress Review; and LGA Adult Social Care Preparation for Assurance Peer Challenge.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

- ❖ Partnerships are entered into for the benefit of Sefton and its residents, as such partnership arrangements have clear outputs that are measured and understood. The nature of the management of a partnership is dependent on what the partnership/collaboration is for. The Council has a Financial Procedure Rules which includes a section on partnerships Executive Directors and Assistant Directors will carry out their responsibilities regarding partnership arrangements in line with the FPRs and evidence will be made available to provide assurance that partnership arrangements are being adhered to.
- ❖ The council has a Sefton Partnership in place established in 2022. This Partnership includes the NHS and Sefton Council, along with NHS Cheshire and Merseyside Integrated Care Board (ICB) who have agreed to work together to respond to the health, care and wellbeing needs of the people of Sefton.

Appendix E - Summary of arrangements (cont'd)

Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the years 2021/22 and 2022/23

Reporting criteria considerations

Arrangements in place

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

- ❖ Sefton Safeguarding Adults Board is a statutory body with a responsibility to protect adults with care and support needs from abuse, harm and neglect in Sefton. It is a partnership set up to ensure that safeguarding arrangements are in place and services in Sefton are high-quality and safe. The partnership consists of local organisations including representatives from Merseyside Police, Sefton Council, Merseyside Fire & Rescue, the Probation Service, NHS agencies and several voluntary sector groups.
- ❖ The Council has a Children's Social Work Academy which and commenced the recruitment of over 20 international Social Workers to address the recruitment of Social workers.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

- ❖ The Council has a constitution that contains the procurement strategy and the procurement process and to ensure proper processes are in place and approval is given as per the processes. All procurement, commissioning, contract administration or contract management are carried out in accordance with the Council's Contract Procedure Rules. The Council has a set of contract procedure rules and procurement is undertaken in compliance with these and to aid control in this area, a contracts register is supplied to services to ensure visibility of existing contracts and when they need re-tendering.
- ❖ The Council maintains various guides on procurement, including Ethical Investment Policies to address the legal obligation to consider the social benefits that can be delivered through their procurement processes. The Council places all tender opportunities through the portal 'The Chest' and this portal provides suppliers with access to tender opportunities from across the whole of the North West of England and Suppliers can register their details and be proactively sent opportunities which may be of interest.

Appendix F – Summary of recommendations

Recommendations

The table below sets out the recommendations arising from the value for money work in the year(s) covered in this report, 2021/22 and 2022/23. All recommendations have been agreed by management.

Issue	Recommendations	Management response
<p>Governance: Ofsted undertook a ‘restart’ focused visit of the Council’s Children’s Social Care in 2021 but a full inspection was completed by Ofsted during 2021/22. The overall grade for the Council was inadequate. This triggered the identification of a risk of significant weakness on Council’s operations/services</p> <p>The first monitoring visit in February 2023 published in March 2023 highlighted that, there has been insufficient progress on the Council in improving the response to children in need of help and protection. The local authority was still judged inadequate as not much progress was made at the end of the 2022/23 period.</p>	<ul style="list-style-type: none"> • The three improvement plans submitted to Ofsted over the period should be executed and they should be completed within the specified deadlines included in the improvement plans • All recommendations in the Ofsted reports from their inspection in 2021/22 as well as the subsequent monitoring reports regarding improvements to the children’s services should be executed by the council with oversight of the Overview and Scrutiny Committee. • Regular monitoring reports on the Children's Services Improvement Programme should be given to the Overview and Scrutiny Committee. (Children services and safeguarding) who is responsible for reviewing and making recommendations in relation to all children’s services 	<p>TBC</p>

Appendix F – Summary of recommendations (cont'd)

Recommendations brought forward from 2020/21

The table below sets out the recommendations arising from the value for money work in 2020/21 and progress made up to 2022/23. All recommendations have been agreed by management.

Issue	Progress on Prior year's significant weaknesses	Management response
<p>Improving economy, efficiency and effectiveness- In the prior year (PY), it was identified that a review had been performed by Ofsted during 2020/21 looking at the Children's Services at the Council. The report highlighted that Children's Services within Sefton require some improvement, and there are issues in multiple different areas. In the prior year, it was identified that a full inspection had been undertaken by Ofsted during 2021/22. The overall grade for the Council is inadequate. This triggered the identification of a risk of significant weakness on the economy, efficiency, and effectiveness of the Council's operations/services</p>	<p>Subsequently after the inspection, an improvement plan was prepared and submitted to Ofsted and it comprised of four themes which are quality, Improving Implementation of Learning and Improving Tools. The Overview and Scrutiny Committee is responsible for the monitoring relating to improvement of Children's Services and considers the report of the Executive Director of Social Care and Education on progress made against the Children's Improvement Plan. In January 2023, a phase 2 of the Improvement Plan was presented. In March 2023, the Council's DfE commissioner recommended the alignment of the Medium-Term Financial Plan of the Council to the Improvement Plan that is in place within the service. There were monitoring visits in March, July and November 2023. Our review identifies that the Council has focused on improving Children's Services throughout 2023. The last inspection in Nov 2023 noted that significant progress has been made with respect to children's services.</p>	<p>TBC</p>

Appendix G – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- › prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- › ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- › assign responsibilities clearly to staff with the appropriate expertise and experience;*
- › provide necessary resources to enable delivery of the plan;*
- › maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- › ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- › ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- › during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix H – Control observations 2021/22

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.

Key:

-  A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
-  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.
-  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 after detailed discussion with Management and that we concluded are of sufficient importance to merit being reported to you.

Appendix H - Control observations 2021/22 (cont'd)

Area	Property, Plant and Equipment (PPE) Existence - Surplus Assets	Rating
Observation	Our testing on existence resulted to the identification of land assets (HMRI sites) that no longer exist physically but continue to exist in the Council's Fixed Asset Register (FAR).	
Impact	The HMRI sites' discovery undermines FAR reliability, necessitating extensive verification efforts to ensure the continued existence of other assets, raising concerns about data integrity.	
Recommendation	We recommend that Management perform an exercise to validate the existence of Property, Plant, and Existence as part of the close down process to avoid the same situation in the future.	
Management comment	It has been agreed that HMRI assets will be 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	

Appendix H - Control observations 2021/22 (cont'd)

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 the Audit Results Report previously presented in September 2023.	
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.	
Recommendation	We recommend that Management 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.	

Appendix H - Control observations 2021/22 (cont'd)

Area	Supporting information by key judgment	Rating
Observation	<p>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.</p>	
Impact	<p>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.</p>	
Recommendation	<p>We recommend that Management ensure that all estimates and judgements are robustly evidenced and supported.</p>	
Management comment	<p>Recommendation agreed.</p>	

Appendix H - Control observations 2021/22 (cont'd)

Area	Assets Held for Sale (AHS)	Rating
Observation	<p>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.</p>	
Impact	<p>The Code requirement is for AHS to be carried at the lower of their carrying amount and their fair value less cost to sell. 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.</p>	
Recommendation	<p>We recommend that Management ensure that the valuation of AHS in the books is aligned with what is required in the Code.</p>	
Management comment	<p>Recommendation to be implemented.</p>	

Appendix H - Control observations 2021/22 (cont'd)

Area	Infrastructure Assets	Rating
Observation	<p>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.</p>	
Impact	<p>The statutory relief is granted for only 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.</p>	
Recommendation	<p>We recommend that Management start investing for an improved information on the assets included within infrastructure assets to comply with the componentization requirement of the Code.</p>	
Management comment	<p>Recommendation noted.</p>	

Appendix H - Control observations 2021/22 (cont'd)

Area	Grant and Deferred Grant	Rating
Observation	<p>The Council does not maintain a schedule for grants to specifically monitor the amount received per grant to the amount expended 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.</p>	
Impact	<p>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.</p>	
Recommendation	<p>We recommend that Management maintain a record or schedule to monitor receipt and utilization of grants which is essential for transparency and compliance.</p>	
Management comment	<p>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 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. Examples of how this operates have been provided to the external auditor to demonstrate the work undertaken by Internal Audit. 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.</p>	

Appendix H - Control observations 2021/22 (cont'd)

Area	Timeline of the valuation of De Minimis Investment Property (IP) and PPE	Rating
Observation	<p>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.</p>	
Impact	<p>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. The use of a de minimis limit is not a noncompliance to the Code. However, as per the concept of the rolling programme, it is possible that the policy or other decisions of the authority will affect the categorization of these properties or changes of use may occur which could alter the valuation.</p>	
Recommendation	<p>We recommend that Management perform an assessment whether the valuation of "de minimis assets" do not materially differ from their values when they were last valued and if already being done, ensure that the assessment and review by the valuer on the de minimis assets is explicitly covered and stated in the valuer's report.</p>	
Management comment	<p>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's internal valuer, Suzanne Rimmer, has confirmed that an annual review takes place on all de minimis assets to determine if there has been any change of circumstances that would lead to a revaluation being required.</p>	

Appendix H - Control observations 2021/22 (cont'd)

Area	Heritage Assets	Rating
Observation	<p>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.</p>	
Impact	<p>Inadequate inventory control hinders our ability to confirm the accuracy of disclosed numbers. This issue results in imprecise disclosures, potentially affecting financial transparency and heritage asset management.</p>	
Recommendation	<p>We recommend that Management start addressing the documentation backlog.</p>	
Management comment	<p>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.</p>	

Appendix H - Control observations 2021/22 (cont'd)

Area	Bank Reconciliation - Income Account (Account # 93226632)	Rating
Observation	<p>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".</p>	
Impact	<p>Complex bank reconciliation with recurring and growing 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.</p>	
Recommendation	<p>We recommend that Management regularly clear cash suspense account to ensure cash are coded to the proper source and start simplifying its bank recommendation. One point to consider is to net off reconciling items and remove prior year reconciling items that have already been cleared.</p>	
Management comment	<p>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.</p> <p>The recommendation suggests simplifying the presentation and it is suggested that this is reviewed prior to the 23/24 year-end reconciliation being produced (as the 22/23 year-end reconciliations have now been finalised). Officers will engage with Grant Thornton, the Council's new external auditors for 23/24, to determine what changes to the presentation will be required.</p>	

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