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*Government and Public Sector*

# *Sefton MBC*

Report to those charged with  
governance (ISA 260 (UK&I))

2010/11 Audit

September 2011



Audit and Governance Committee  
Sefton Council  
Bootle Town Hall  
Oriol Road  
Bootle  
Liverpool  
L20 7AE

8 September 2011

Dear Sirs

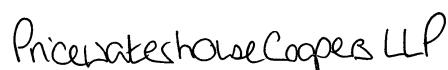
We are pleased to enclose our report to the Audit and Governance Committee in respect of our audit of Sefton Metropolitan Borough Council (“the Authority” for the year ended 31 March 2011, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit and Governance Committee in December 2010. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised are detailed within the ‘significant auditing and accounting matters’ section. We will provide an oral update on these matters at the meeting.

We look forward to discussing our report with you on 28 September 2011.

Yours faithfully



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## ***Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies***

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*



# Executive summary

## The purpose of this report

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Sefton Metropolitan Borough Council ('the Authority'). As agreed with you, we consider that "those charged with governance" at the Authority are the Audit and Governance Committee.

This report contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you on 14 December 2010. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2 to this report.

We have set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

## Significant matters

During the course of the audit we have identified the following significant matters:

- One Vision Housing accounts receivable balance. The Council has a £8.5m receivables balance owed to it from OVH that is past its due date and the Council has not impaired the balance. We will require the Committee to confirm it is comfortable with this position.
- One Vision Housing legal claim. The Council has agreed to go to mediation to resolve a legal claim in relation to the cost of cladding for a number of tower blocks. The anticipated costs are estimated at £6m, and are currently included in the financial statements as a contingent liability. We will require the Committee to confirm it is comfortable with the treatment of this item.
- Sefton New Directions. The Council's subsidiary company is in financial difficulty following a reduction in revenue it receives from the Council. The Council's 2010/11 financial statements treat SND as a going concern. We are currently awaiting further evidence in order to conclude whether we agree with this position, and will also require the Committee to confirm that it agrees the correct position has been taken.
- Provision for doubtful debts (sundry debtors and council tax). We continue to discuss with officers the basis for the provision against doubtful debts for sundry debtors and council tax balances. There is evidence to suggest that it would be prudent to increase the provisions and, pending the outcome of further discussions, we have therefore proposed judgemental adjustments in this area.

Further information on each of these matters is provided within the section below. We will discuss the matters contained within this report with the Audit and Governance Committee on 28 September 2011.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

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We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Council throughout our work.

# *Significant audit and accounting matters*

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

## **Accounts**

We have completed our audit, subject to the following outstanding matters:

- resolution of the significant matters detailed above;
- review of the consolidation of Sefton New Directions
- review of the going concern assessment for Sefton New Directions
- response to technical questions from the Council's valuer;
- receipt of outstanding account confirmation;
- value for money conclusion;
- going concern review;
- final engagement leader review;
- approval of the financial statements and letters of representation; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

## **Significant accounting matters**

### **I. One Vision Housing accounts receivable balance**

Upon the transfer of the Council's housing stock to One Vision Housing (OVH) a VAT shelter agreement was signed between the parties. The agreement entitles the Council to a share of the VAT reclaimed by OVH on housing capital expenditure post transfer. Included within the 2010/11 financial statements is a receivables balance of £8,502,000 of which £5,436,260 is lodged with Trowers & Hamblins solicitors (£5,671,000 in 2009/10).

At the time of writing we are awaiting independent confirmation of the amount which is lodged with the solicitors. On the assumption that this is received, the final item we will require is for the Committee to confirm that it is comfortable that the accounts receivable balance is indeed fairly stated, and that no provision needs to be recognised against it at the current time.

### **II. One Vision Housing legal claim**

The Council is currently going to mediation with OVH to resolve a dispute over the liability in relation to repair works for cladding to seven multi-storey tower blocks that were transferred to OVH upon the stock transfer. OVH have made a claim to the Council that the need to replace the cladding was not identified at the point of the transfer and that as a result they are seeking financial



recompense from the Council, Savills and Curtins. The anticipated cost to replace the cladding is £6m.

The Council is maintaining that it is not liable for the cost of replacing the cladding and as a result the matter is to be resolved by mediation on 22 November 2011. Management have made a provision against the cost of this matter.

We have received independent evidence to support the £6m figure referred to above and have received reasonable assurance that the Council has a strong case. The final item we will require is for the Committee to confirm that it is comfortable with the treatment of this item in the financial statements.

### **III. Sefton New Directions**

For the 2011/12 financial year the Council has reduced the value of its contract with Sefton New Directions (SND). The impact has been a decrease from c. £12m to c.£9m for 2011/12. As a result of this reduction the Council has been in discussions with SND regarding the ongoing viability of the company. As SND is a 100% owned subsidiary of the Council the ability of the company to continue as a going concern has an impact on the presentation of the Council's group accounts. We understand from management that union agreement to changes to pay and conditions has resulted in the conclusion that the entity is a going concern for the foreseeable future.

Should SND cease trading the Council would also be liable for the pension liability within SND relating to the staff that transferred from the Council to SND when the company was formed. Management are to present us with a going concern review to evidence that the company is considered as a going concern for foreseeable future.

At the time of writing we are awaiting further evidence to support the above position. On the assumption this is received, the final item we will require is confirmation from the Committee that it is satisfied that officers have obtained sufficient assurance that it is reasonable to work on the basis that SND is a going concern when preparing the Council's group accounts.

### **IV. Bad debt provision – Sundry accounts receivable and Council Tax**

Sundry accounts receivable – The Council has a sundry accounts receivable balance of £13,845,000 as at 31 March 2011. Within the financial statements management have made a provision of £1,575,000 to recognise the risk to the Council of not receiving these monies. We have reviewed the basis for the provision and believe that it could be argued that the Council should have provided for a significantly greater proportion of the receivables balance given the age profile of the debt. Experience shows that as receivables age the likelihood of recovering the balance decreases.

As a result we have proposed a judgemental adjustment of £2,153,000 within Appendix 1 to reflect the implication to the financial statements of an increased provision. Management have not adjusted the financial statements to reflect this.

Council Tax – The Council has a Council Tax accounts receivables balance of £11,963,000 as at 31 March 2011. Within the financial statements management have made a provision of £1,597,000 to recognise the risk to the Council of not receiving some of these monies. Similarly to the sundry debtor balance we have reviewed the basis for the provision and believe that it could be argued that the Council should have provided for a significantly greater proportion of the receivables balance.

As a result we have proposed a judgemental adjustment of £2,107,000 within Appendix 1 to reflect the implication to the financial statements of an increased provision. Management have not adjusted the financial statements to reflect this.

At the time of writing we are currently discussing this matter further with officers, before we reach a final conclusion on this matter. Regardless of the position we reach, we will require the

Committee to provide us with confirmation that it has considered the approach that officers have taken to calculating the provision, and is comfortable with this.

### ***Adjusted accounting issues***

The Council has adopted International Financial Reporting Standards (IFRS) for the first year in line with the 2010/11 code of practice. The implication of this is a number of significant changes to the treatment of a number of items within the financial statements. Whilst our audit identified errors within the draft financial statements, our overall view is that the Council presented for audit a good draft of IFRS compliant financial statements.

The matters considered as part of our work on IFRS conversion included:

- Accumulated absence reserve. For 2010/11 the adoption of IFRS has seen the Council recognise an accumulated absence reserve in line with the code of practice. We reviewed the basis for the value within the reserve and identified that the Council had recognised the incorrect value from their working papers. Management have amended the value of the reserve as at 1 April 2009 within the audited financial statements.
- Leases. Adoption of IFRS requires the treatment of leases to be reviewed due to changes from the previous recognition criteria. We have reviewed the process the Council has adopted and tested a sample of leases during the audit. Our review identified the Council had incorrectly calculated the depreciation on a number of leases. Management have corrected the errors within the audited financial statements.
- Presentation of financial statements. First time adoption of IFRS requires a significant change to the presentation of the financial statements. We have reviewed the financial statements and made a number of suggested changes to the draft financial statements. Management have reflected these changes within the audited financial statements.

Other adjustments made as a result of our audit include:

- Pension liability. Our audit of the values included within the financial statements in relation to the Council's pension liability identified that the Council had reported incorrect figures to the actuary. Management have provided updated information to Mercers and received a revised pension report. Management have amended the financial statements to reflect the updated balances.
- Legal claim provision. Our audit of the accounts receivables provision identified a balance that related to a provision for anticipated future costs as oppose to against a receivables balance. The Council have adjusted the draft financial statements to re-classify the provision.

### ***Misstatements and significant audit adjustments***

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are described in Appendix 1 to this report.

### ***Significant accounting principles and policies***

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Audit and Governance Committee to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

### ***Judgments and accounting estimates***

The following significant judgments or accounting estimates were used in the preparation of the financial statements:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council has a material interest in Sefton New Directions Limited, an entity which conducts some of the Council's adult and social care activities. It has been deemed that Sefton New Directions Limited is subsidiary of the Council and group accounts are required to be prepared.
- The Authority is deemed to control the services provided under the outsourcing agreement for financial transaction services with Arvato. Assets to the value of £2m were transferred to Arvato for a value of £1 at the start of the contract. At the end of the contract the assets revert back to the Council for nil cost. These assets will be in full working order as a refresher clause is included in the contract. This contract has been treated as a service concession/ embedded lease.
- The Council has agreed to share any proceeds of former council house sales if they are subsequently sold by One Vision Housing Limited. The agreement lasts until 31 March 2037 and the amount received will depend on the number of sales each year.
- The Council has joint working arrangements with NHS Sefton for the provision of intensive care packages for service users with a learning disability, and the provision of an Integrated Community Equipment Service. Whilst no formal agreements are in place, a total of £3.638m has been expended on both services, split 50/50. The Council does not consolidate either element in to its financial statements (see Note 11).
- The Council has given a number of warranties for up to 17 years (One Vision Housing Limited) and 35 years (Prudential Security Trustee Limited) in respect of statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, absence of adverse replies, electricity sub-stations and shop leases, leasehold property, way leaves, telecommunications and works undertaken. In addition warranties for 20 years have been given to both parties in respect of claims for asbestos and a warranty not exceeding £100,500,000 for up to 20 years in respect of environmental pollution has been given to One Vision Housing Limited.
- As part of the voluntary stock transfer an agreement was reached with One Vision Housing Limited to share the VAT that the company can claim from HMRC. This arrangement is unique to councils and registered social landlords upon transfer. We understand that Sefton's share of reclaimable VAT is likely to be in the region of £6m over the next eight years.

### ***Material risks and exposures***

The potential effect of the following material risks and / or exposures were required to be disclosed in the financial statements:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for assets would increase by £0.775m for every year that useful lives had to be reduced.
Provisions	The Authority has made a provision of £0.605m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Authority or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.06m to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £61.34m. However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £51.5m as a result of estimates being corrected as a result of experience and decreased by a further £44.998m attributable to updating of the assumptions.
Arrears	At 31 March 2011, the Authority had a balance of sundry debtors amounting to £13.845m. A review of significant balances suggested that an impairment of doubtful debts of approximately 11% (£1.575m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.575m to be set aside as an allowance.

## ***Management representations***

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 3. We have sought specific representation from management on the following matters:

- Recoverability of the accounts receivable balance totalling £8,502,000 as at 31 March 2011 due from One Vision Housing.
- Legal position on the claim received from One Vision Housing.
- Reasonableness of the provision for bad and doubtful debt against sundry and Council Tax accounts receivable balances.
- Going concern of Sefton New Directions.

## ***Audit independence***

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired. In addition to the role of independent auditors PwC has provided the following additional services:

- Tax litigation advice to support with the preparation of a claim to HMRC for compound interest on monies owed in relation to trade waste.
- Membership of PwC Benchmarking Club.
- Review of existing salary sacrifice schemes.

## ***Accounting systems and systems of internal control***

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

The matters that we wish to bring to your attention are reported within Appendix 2.

## ***Annual Governance Statement***

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

## ***Economy, efficiency and effectiveness***

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience.

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- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we have not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We anticipate issuing an unqualified value for money conclusion.

# ***Risk of fraud***

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## ***Auditors' responsibility***

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## ***Management's responsibility***

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour;
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation; and
- to report significant fraud in accordance with the Audit Code of Practice.

## ***Responsibility of those charged with governance / the Audit and Governance Committee***

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## ***Addressing fraud within our audit***

To address the risk of fraud as part of the audit we have performed the following procedures:

- testing a sample of journals processed within the financial year to address the risk of management override of controls;
- perform a full reconciliation of the trial balance from 2009/10 to 2010/11 outturn;
- unpredictability testing – reviewing a sample of items below the determined materiality level; and
- discussions held with the Internal Audit to understand any actual or suspected fraud cases impacting on the Council.

# ***Fees update***

## ***Fees update for 2010/11***

We reported our fee proposals as part of the Audit Plan for 2010/11. Our actual fees were in line with our proposals. Our fees charged were therefore:

	<b>2010/11 Outturn</b>	<b>2010/11 Fee proposal</b>
Financial Statements and Whole of Government Accounts	£198,758	£198,758
Value for Money Conclusion	£111,846	£111,846
<b>TOTAL</b>	<b>£310,604</b>	<b>£310,604</b>



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# ***2009/10 audit update***

## **Objection to the 2009/10 accounts**

We received an objection to last year's accounts, which related to expenditure incurred by the Council in 2009/10 on homeloss and disturbance payments in respect of the Klondyke housing market renewal programme. After careful review we did not uphold the objection, and neither did we consider it appropriate to issue a report in the public interest.

During our examination we considered a number of issues surrounding the legal powers of the Council, the equity of its treatment of those concerned and the related accounting entries. There were two matters where we suggested that the Council might wish to review its approach:

- In 2009/10 the Council paid disturbance allowances as a lump sum only to owner occupiers, and not to tenants. We understand that this policy has now changed so that both may receive a lump sum.
- There are no documented procedures which set out how the council and its partners should deal with those affected by the programme, particularly where they currently have outstanding rent or council tax arrears.

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# *Recent developments*

## Accounting developments

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12.

The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

## Other developments

Members will be aware that the Local Government pension scheme is subject to a tri-annual revaluation as part of which the actuary determines the employers contribution rate for the forthcoming three year period. As a result of this process that contribution will be a stepped increase over coming three years.

The Government has also confirmed that the Council will continue to face an extremely difficult financial climate in its budget setting for the year 2012/13. Current estimates are that additional savings of £20m will be required to be identified. These are in addition to the £44m which have been incorporated into the 2011/12 budget.

# *Appendices*

# Summary of uncorrected misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit and Governance Committee are requested formally to consider the unadjusted errors listed and determine whether they would wish the accounts to be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

No	Description of misstatement (factual, judgemental, projected)		Income statement £000		Balance sheet £000	
			Dr	Cr	Dr	Cr
1	Dr Comprehensive Income and Expenditure Statement Cr Accounts receivable Being an adjustment to increase the sundry bad and doubtful debt provision	J	2,153			2,153
2	Dr Collection Fund Cr Accounts receivable Being an adjustment to increase the Council Tax and doubtful debt provision	J	2,107			2,107
<b>Total uncorrected misstatements</b>			<b>4,260</b>			<b>4,260</b>

# Internal controls

## Reporting requirements

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit. In our professional judgment, we believe the following matters should be brought to your attention.

## Summary of significant internal control deficiencies

Deficiency	Recommendation	Management's response
<p><b>Declaration of interests</b> During the course of the audit we have reviewed the declaration of interests made by Members. Our review identified that the Council has not received all of the returns. A risk exists that interests go undeclared during the decision making process.</p>	<p>It is recommended that the Council reviews its procedures for obtaining interests from Members and officers.</p>	<p>The process will be reviewed and new arrangements will be introduced in time for the closure of Accounts for 2011/12. A key strand of the changes will be to request Members for the Related Party Transactions declarations much earlier in the process.</p>
<p><b>Fixed asset register</b> The Council currently use a spreadsheet to maintain the information on Property, Plant &amp; Equipment. Given the volume and complexity of the data, this approach is not considered to be sufficiently robust. There is an increased risk of errors in the data and in financial reporting. The importance of detailed asset information will be further raised for 2011/12 when Council's will be required to maintain increased levels of information on infrastructure assets.</p>	<p>We understand the Council is considering the implementation of a fixed asset module and would support this proposal, and recommend its implementation as soon as possible.</p>	<p>Historically, arrangements for the Fixed Asset Register meant that two data bases are kept; one by the Finance Department and another by the old Technical Services Department. The Council is currently working with Capita Symonds to consolidate all data onto one system, in time for the introduction of the infrastructure assets change.</p>
<p><b>Annually recurring journals</b> Our audit sampling identified a journal that related to highways income and an associated expenditure item with a net value of £124k. Upon review it related to disputed transactions with the Highways Agency dating back approximately ten years, for which there is no longer any reliable evidence. The balance has been recognised year on year without consideration of whether it is still appropriate.</p>	<p>We recommend the Council reviews the journals processed year on year to ensure they are supported by appropriate evidence and that there is a clear rationale for processing the journal each year.</p>	<p>A process will be put in place to ensure there is a more robust critical review of all accruals.</p>

<b>Deficiency</b>	<b>Recommendation</b>	<b>Management's response</b>
<p><b>Grant funding remittances</b> Whilst testing a sample of grant income streams it was identified that the finance department does not receive remittance advice notes for all funding received. The remittances are retained by the departments that the monies relate to. A risk exists that the Council is unaware of the source of income received or the terms associated with the funding stream.</p>	<p>It is recommended that the finance department receives copies of remittances relating to grant income to ensure all sources of income are correctly identified and monitored.</p>	<p>The Council will investigate the best means of ensuring that remittance advice notes are available for immediate access.</p>
<p><b>Internal invoicing</b> The Council currently operates a system of internal invoicing for works performed by another department. During the course of the audit we have identified discrepancies between the levels of receivables and payables recognised within the financial statements. Failing to remove all of the internal invoices from the financial statements results in the risk of overstatement of financial values within the financial statements.</p>	<p>The Council should review its procedures for internal recharges to reduce the administration burden on staff whilst ensuring the financial statements are correctly stated.</p>	<p>The Head of Corporate Finance and ICT has already issued instructions to all departments to discontinue internal invoicing. All recharges between departments should be via a journal; this will avoid the possibility of any discrepancy.</p>
<p><b>Bad debt provision</b> The Council has a provision for bad and doubtful debts set aside for both sundry debtors and Council Tax. The basis for the provision has been reviewed as part of the audit and it has been identified that the Council could reasonably increase the level of provision.</p>	<p>It is recommended that the Council reviews the basis for its bad and doubtful debts provision.</p>	<p>A review of the basis of bad debt provisions will be undertaken over the coming months to identify whether any improvements / increases are necessary.</p>
<p><b>Receivables supporting documentation</b> From a sample of accounts receivable balances the Council were unable to provide sufficiently detailed supporting documentation for one receivables balance as a copy of the key working paper had not been retained.</p>	<p>The Council should ensure that documentation is retained to support balances within the financial statement and provide a clear audit trail.</p>	<p>The Council will investigate the best means of ensuring that key working papers are retained to support accounts receivables invoices requested by departments.</p>

<b>Deficiency</b>	<b>Recommendation</b>	<b>Management's response</b>
<p><b><i>Invoicing special educational needs transport costs</i></b> The Council recharges transport costs of some SEN pupils to other local authorities. There have not been invoices raised for costs incurred since 2009/10 and 2010/11 (total approximately £60k), due to weaknesses in the systems for identifying and monitoring activity in this area. There is a risk that the income will not be recovered due to the time elapsed since the costs were incurred.</p>	<p>The Council should update its approach to identifying costs, agreeing these with other local authorities and issuing invoices on a regular basis, for example quarterly.</p>	<p>The Council will immediately review the processes in place in order to ascertain what changes need to be introduced.</p>

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# Audit reports issued in 2010/11

During the course of the 2010/11 audit we have issued the following reports:

- 2010/11 Audit Plan
- Audit Progress Report 2010/11 – March
- Audit Progress Report 2010/11 – June
- Audit opinion for 2010/11
- Annual Audit Letter (to be presented in December 2011)



# Letter of representation

PricewaterhouseCoopers LLP  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Sefton Metropolitan Borough Council (the “authority”) including the consolidated financial statements of the authority and its subsidiary (together the “group”) for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts of the authority gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice. Subsequent references in this letter to “the Statement of Accounts” refer to both the financial statements of the authority and the consolidated financial statements of the group.

My responsibilities as Chief Financial Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Sefton Metropolitan Borough Council and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

## **Financial Statements**

I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used by the authority and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter.

Those charged with governance believe that the amounts that remain unadjusted are considered to be immaterial to the financial statements and arise as a matter of differing judgements for an appropriate level of accounts receivable impairments,

## Information Provided

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the authority's auditors) are aware of that information.

I have provided you with:

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

So far as I am aware, there is no relevant audit information of which you are unaware.

## Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and involves:

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the authority and group's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the authority and the group conducts its business and which are central to the authority's and the group's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

## Related party transactions

I confirm that we have disclosed to you the identity of the authority and group's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### **Employee Benefits**

I confirm that the authority has made you aware of all employee benefit schemes in which employees of the authority and the group participate.

### **Contractual arrangements/agreements**

All contractual arrangements (including side-letters to agreements) entered into by the authority and the group have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

The authority and the group has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

I have disclosed all material agreements that have been undertaken by the authority in carrying on its business.

### **VAT Shelter Income**

We believe that the income accrued totalling £8,502,000 within the financial statements from One Vision Housing Limited is accurately stated and recoverable revenue for the Council.

### **Assets and liabilities**

The authority and the group has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The authority and the group has satisfactory title to all assets and there are no liens or encumbrances on the authority's and the group's assets, except for those that are disclosed in the financial statements.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the yearend have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

### **Litigation and claims**

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

### **One Vision Housing Litigation**

I confirm that the Council is not considered liable for the claim for the costs of replacing the cladding and the disclosure as a contingent liability is appropriate.

## Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or for the group's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or the group or any associated company for whose taxation liabilities the authority may be responsible.

## Retirement benefits

All significant retirement benefits that the authority and the group is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's and the group's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

2009/2010		2010/2011
	<u>Long-term expected rate of return on assets in the scheme:</u>	
7.5%	Equity Investments	7.5%
4.5%	Government Bonds	4.4%
5.2%	Other Bonds	5.1%
6.5%	Property	6.5%
0.5%	Cash/Liquidity	0.5%

7.5%	Other Assets	7.5%
	<u>Mortality assumptions (years):</u>	
20.4	Longevity at 65 for current pensioners: Men	21.4
23.2	Longevity at 65 for current pensioners: Women	24.1
21.3	Longevity at 65 for future pensioners: Men	22.8
24.1	Longevity at 65 for future pensioners: Women	25.7
	<u>Other assumptions</u>	
3.3%	Rate of Inflation - RPI	3.4%
n/a	Rate of Inflation - CPI	2.9%
4.55%	Rate of increase in salaries	4.4%
3.3%	Rate of increase in pensions	2.9%
5.6%	Rate for discounting scheme liabilities	5.5%
50%	Take-up of option to convert annual pension into retirement lump sum	50%

The authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

### Disclosures

Where appropriate, the following have been properly recorded and adequately disclosed in the financial statements:

- The identity of, and balances and transactions with, related parties.
- Losses arising from sale and purchase commitments.
- Agreements and options to buy back assets previously sold.
- Assets pledged as collateral.

The authority and group has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

The authority and group has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the financial statements all guarantees that we have given to third parties, including oral guarantees made by the authority and the group on behalf of an affiliate, member, officer or any other third party.

**Sefton New Directions**

I confirm that Sefton New Directions is considered to be a going concern for the foreseeable future.

As minuted by the Audit and Governance Committee at its meeting on 28 September 2011

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Chief Financial Officer

Chair

For and on behalf of: .....

Date .....



*In the event that, pursuant to a request which Sefton Metropolitan Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Sefton Metropolitan Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Sefton Metropolitan Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Sefton Metropolitan Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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