

Sefton Metropolitan Borough Council

Report to those charged with governance

Report to the Audit and Governance Committee of the authority on
the audit for the year ended 31 March 2014 (*ISA (UK&I) 260*)

Government and
Public Sector

10 September 2014

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.

Contents

1) Audit approach	1
2) Significant audit and accounting matters	6
3) Economy, Efficiency and Effectiveness	13
4) Internal controls	15
5) Independence	18
6) Risk of fraud	21
7) Fees update	23
Appendices	24
Appendix 1: Summary of corrected misstatements	25
Appendix 2: Control recommendations	29
Appendix 3: Letter of representation	39

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

Sefton Council
Bootle Town Hall
Oriel Road
Bootle
L20 7AE

10th September 2014

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2014. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in March 2014. We have subsequently reviewed our audit plan and concluded that our original assessment remains appropriate, with the exception of increasing the financial resilience risk in relation to economy, efficiency and effectiveness to significant from elevated. Within Section 1 (Audit Approach) and Section 3 (Economy, Efficiency and Effectiveness) of this report we draw your attention to our approach to address the risks identified for our audit.

Following our audit approach there are a number of findings that we would like to draw to your attention which are explained further within Section 2 (Significant audit and accounting matters) and Section 4 (Internal Control) of this report. These are:

1. Financial resilience;
2. Cash controls;
3. Plant Property and Equipment; and
4. IT General Controls.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements, and Use of Resources (arrangements for securing economy, efficiency and effectiveness) subject to the satisfactory completion of outstanding items outlined on page 6. We will provide an oral update on these at the meeting on 10 September 2014.

We look forward to discussing our report with you on 10 September 2014.

Yours faithfully
PricewaterhouseCoopers LLP

1) Audit approach

An audit of the Statement of Accounts 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.

Changes to our audit approach

We presented our audit plan to you in March 2014, prior to commencement of the audit we reassessed the risks identified in our plan, across both the financial statements audit and our work surrounding arrangements in place for securing economy, efficiency and effectiveness. Whilst we believe that the risk assessment for the financial statements audit remained appropriate, we have increased the risk around financial resilience to significant for the purposes of our work in relation to arrangements in place for securing economy, efficiency and effectiveness, which we expand upon further within Section 3 of this report.

Audit Approach

We have summarised below the significant and elevated risks we identified in our audit plan and the audit approach we took to address them.

Risk	Categorisation	Audit approach	Conclusion
<p>FRAUD AND MANAGEMENT OVERRIDE OF CONTROLS</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	Significant	<p>In response to this risk we have:</p> <ul style="list-style-type: none"> Assessed the relevant systems and controls in place over key cycles; Applied Computer Assisted Audit Techniques (CAAT's), risk scoring and statistical sampling to undertake substantive testing of journals. This has provided the audit team with assurance over the level of manual and automated journals; Incorporated elements of unpredictability in our selection of audit procedures. Such tests have included performing audit procedures related to accounts, disclosures and assertions that would not otherwise be tested based on their value or our risk assessment and selecting items for testing that have lower amounts or are otherwise outside customary selection parameters; Reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of 	<p>From the work that has been undertaken, we have not identified any risks that need to be brought to your attention. However, consideration should be given to the:</p> <ul style="list-style-type: none"> Significant audit and accounting issues in Section 2 of this report, where we note our results of inherently judgemental areas such as property valuations and pension liabilities; and In Section 4 of this report we have raised a number of recommendations to improve internal controls at the Council. Such controls are part of the Council's defence against fraud.

Risk	Categorisation	Audit approach	Conclusion
		<ul style="list-style-type: none"> material misstatement due to fraud; and Evaluated the business rationale underlying significant transactions. 	
<p>RECOGNITION OF INCOME AND EXPENDITURE</p> <p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in income recognition.</p> <p>This includes any areas of deferred income or other significant credit balances in the accounts.</p> <p>We extend this presumption to the recognition of expenditure in the Local Government. This includes judgemental areas, estimates, accruals and provisions.</p> <p>The risk is deemed to be specifically in relation to material income and expenditure journals.</p>	Significant	<p>In response to this significant risk we have:</p> <ul style="list-style-type: none"> Obtained an understanding of key income and expenditure controls; and Tested a sample of income and expenditure journals recognised in 2013/14 to ensure income and expenditure was appropriately included within the accounts. <p>In response to the transactional level risk we have:</p> <ul style="list-style-type: none"> Examined and tested the underlying information supporting the income and expenditure recognition policies to ensure that they comply with current accounting standards; Performed detailed testing of income and expenditure transactions focusing on areas we regard to contain greater risk and ensured that they are accounted for on an accurate basis and in the proper period; Performed controls testing over payroll processing and standing data; and Reviewed accounting estimates for income and expenditure, for example, accruals and provisions, to ensure that they are accounted for on an accurate basis and in the proper period. 	<p>Whilst the work that we have undertaken has not identified any material misstatements, we do draw your attention to the points raised in Section 2 (Significant Audit and Accounting matters) and Section 4 (Internal Control) of this report.</p>
<p>VALUATION OF PROPERTIES</p> <p>Property, Plant and Equipment is the largest figure on the Balance Sheet.</p> <p>Economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment.</p> <p>ISA s (UK&I) 500 and 540 require us to undertake certain procedures on the use of valuers, processes and assumptions underlying fair value estimates.</p> <p>Specific areas of risk include:</p>	Significant	<p>Sefton MBC used a valuation expert (internal valuation team, formally of Capita Symmonds) to revalue land and buildings during the year.</p> <p>In response to this significant risk we have:</p> <ul style="list-style-type: none"> Agreed the source data used by your valuer to supporting records; Assessed the work of your Valuer through use of our own internal expert where required; Reviewed the processes that have been adopted to undertake an impairment review over the assets not revalued as part of the three year rolling programme; and 	<p>We note that the valuation of assets is a highly judgemental area. Following a review undertaken by our valuation expert we note that the assumptions used by the council are reasonable. Further information with regards to our work in this area is included within Section 2 significant audit and accounting issues.</p> <p>We also draw your attention to points raised in Section 4 (Internal</p>

Risk	Categorisation	Audit approach	Conclusion
<ul style="list-style-type: none"> The accuracy and completeness of detailed information on assets. Whether the Authority's assumptions underlying the classification of properties are appropriate. The valuer's methodology, assumptions and underlying data, and our access to these. 		<ul style="list-style-type: none"> Agreed the outputs to your Fixed Asset Register as well as having tested the entries and disclosures within the accounts. <p>We have also considered the inclusion of any notional finance costs in the valuation of buildings in line with CIPFA guidance.</p>	Control) of this report.
<p>CONTAMINATED LAND RESERVE</p> <p>In 2011/12 the council identified a stretch of Crosby beach that has levels of asbestos on the coast line. Since then the Council has continued to perform air sampling tests to identify if there is a health risk. Although to date no health risk has been identified by the testing, the recent storms led to some damage of the coastline. It is possible that future storm damage could release visible fibrous asbestos that would require rapid clean up.</p>	Elevated	<p>In response to the elevated risk we have reviewed the current position of the contamination to gain an understanding of the Council's current obligations.</p> <p>We have also reviewed the accounting treatment of any potential costs that the Council may face as a result of the contamination.</p> <p>We have reviewed relevant documentation from Public Health England regarding testing in the area and noted that this did not indicate a risk that would require the Council to include a liability in its financial statements.</p>	Our review of the treatment adopted by the Council in relation to the contaminated land reserve appears reasonable as there is not yet an indication of the Council having an obligation. Further information with regards to this issue and our approach is included in Section 2, (Significant audit and accounting matters) of this report.
<p>SAVINGS TARGETS</p> <p>The Council is experiencing increased pressures on many of its budgets in the current economic climate and savings continue to be required, with a further £55m expected over 2015/16 and 2016/17. Budget holders therefore may feel under pressure to move costs between periods, or to miscode expenditure to make use of resources intended for different purposes. We would also consider the budgetary processes and the Councils achievement of said budgets as part of our VFM responsibilities. Originally this risk was elevated across economy, efficiency and effectiveness; and going concern assessments. However, given the extension of the period assessed</p>	Elevated	<p>In response to the elevated risk we have reviewed the Council's budget monitoring processes to identify any areas of further consideration for our going concern assessment (it is of note that this risk is significant in terms of the financial resilience elements of arrangements to ensure economy, efficiency and effectiveness, see Section 3).</p> <p>We have considered the budgetary processes in place at the Council in relation to going concern. Based on the historical performance of the Council against budgets, a number of years of underspend, levels of usable reserves, cash balances and ability to borrow, it would not appear that there is a material risk in relation to going concern.</p> <p>In addition we have incorporated the risk into</p>	From the work undertaken we do not believe that there is a going concern risk for the council being considered 12 month period from the point that the financial statements are signed.

Risk	Categorisation	Audit approach	Conclusion
<p>for economy, efficiency and effectiveness this element of the risk has been increased to significant.</p>		<p>our income and expenditure testing and cut off testing.</p> <p>We have also considered the accounting implications of future savings plans and reviewed any new unusual proposals. In particular, we have considered the impact of the efficiency challenge on both income and expenditure.</p>	
<p>COUNCIL TAX BENEFIT REFORM</p> <p>From the 1 April 2013, Council Tax Benefit (CTB) was replaced by local authorities' own Council tax support and reduction schemes.</p> <p>Prior to the CTB reforms, national rules were set by the Government and therefore standard calculations and system parameters would have been applied to the assessment and processing of all claims. Following the abolition of CTB, the Council has introduced a Council Tax Support (CTS) scheme having set their own rules (subject to a number of Government imposed restrictions).</p> <p>Changes have therefore been made to eligibility criteria and processes for assessment.</p> <p>Previously such system amendments will have been as part of a national system upgrade, but this year the changes have been undertaken by the Council reflecting their rules. This has therefore increased the manual processes within the Northgate system.</p> <p>There is a risk that the new scheme rules have not been appropriately implemented within the Council's controls for assessing eligibility, or have not been effectively applied within Northgate, which could impact on the accuracy of the calculations.</p>	<p>Elevated</p>	<p>We have understood the processes put in place by the Council in implementing CTS. This has included:</p> <ul style="list-style-type: none"> • Reviewing a sample of CT benefits between 2012/13 and 2013/14 to ensure that changes due to the new criteria have been properly applied; • Understood the processes and changes made to the Northgate system; and • Substantively tested a sample CTS balances to underlying records 	<p>Based on the work undertaken we have not identified any areas of concern that would pose a material risk to the financial statements.</p>

Materiality

In our audit plan presented to you in March 2014 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality was amended to be based on the actual results for the Council for the year ended 31 March 2014:

Our revised materiality levels are as follows:

	Updated materiality £	Original materiality £
Overall materiality	12.8m	12.6m
Clearly trivial reporting de minimis	50k	50k

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2014.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2014, and this has not changed.

2) Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Status of the Audit

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

- Finalisation of Fixed Asset verification;
- Note 22 – Finalisation of review to source documentation;
- Completion of our work regarding the Whole of Government Accounts return; and
- Completion procedures e.g. Subsequent events and signed letter of representation.

We will provide a verbal update on these matters at the Audit Committee on the 10 September 2014.

Accounting issues

Below we draw your attention to the significant audit and accounting matters that have been identified as part of our audit process for your consideration.

Accounting/ Audit issue	Background	Audit Findings	Conclusion
<p>Valuation of property, plant and equipment and investment property</p>	<p>The process of obtaining a valuation for property, plant and equipment is highly judgemental. During the year Sefton MBC commissioned its internal valuers to undertake a professional revaluation of its estate. The revaluation was prepared in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The revaluation led both upward valuations and impairments. Overall a portion of Sefton MBC's estate was impaired with £4.6m being recognised in the revaluation reserve and £29.6m impairment being recognised in the Surplus/Deficit on the Provision of Services.</p>	<p>Our audit approach is required to apply professional scepticism to estimates of this nature and that we assess the competency of management's valuer.</p> <p><i>Rolling valuation</i> The Council adopts a three year rolling programme for asset valuation this has changed from the five year basis adopted in 2012/13. This approach is in line with guidance. In the year the valuer has valued 78% of other land and buildings and surplus assets.</p> <p><i>Assets valued in year</i> We have utilised our own internal valuer to review the assumptions that have been used by the internal valuers in relation to the assets that have been valued in year. Our valuer has noted that the basis and the assumptions used are reasonable.</p> <p><i>Assets not valued in year</i> As part of the scope of work, the Council requested for an impairment review over assets that were not valued. However, a formal impairment review of the assets has not been undertaken by the Council as part of revaluation exercise. A process has subsequently been carried out to evidence if an impairment had occurred. We reviewed the data provided, and challenged the assumptions used, concluding that overall there was not an indication of impairment. A control recommendation has been raised within Section 4, regarding undertaking an annual impairment review.</p> <p><i>Underlying data (PPE)</i> One of the key sources of information in undertaking a valuation is the site area of the asset. Our testing identified two instances where the incorrect site area had been used. This reduced the value of one property by £269k and the other property amended the split between land and buildings but the overall value was accurate. Further extended testing did not identify any further issues that would impact the financial statements. A control recommendation has been raised</p>	<p>We are satisfied that the property, plant and equipment balance is not materially misstated, following adjustments made by management. However we would ask the Committee to consider this assessment and confirm that they are satisfied with the conclusions reached.</p>

Accounting/ Audit issue	Background	Audit Findings	Conclusion
		<p>within Section 4, regarding the accuracy of underlying data.</p> <p><i>Investment property</i> The accounting policy of the Council is to revalue assets on an annual basis. However, investment property has been valued as part of the rolling programme, meaning that a proportion has not been revalued. This was raised with the Council and an impairment assessment was undertaken over the remaining assets to ensure that they have not been overvalued. This process led to the reduction in value of a property by £98k. There is a risk that the properties are undervalued, however due to the nature of the valuation, and challenge over these assumptions used by the Council this is not felt to represent a material risk to the financial statements. A control recommendation has been raised in Section 4 of this report regarding undertaking the revaluation exercise in line with the accounting policy.</p>	
<p>Segmental Reporting</p>	<p>Segmental reporting is designed to show the readers of the financial statements the link between the information used in the management of the authority by the Chief Operating Decision Maker ('CODM') and the information included in the financial statements.</p>	<p>Our review of Segmental Reporting identified differences between the information reported to the CODM and the Segmental information included in the financial statements. This is due to the fact that the Segmental Reporting is more in line with the Monthly Management Reports utilised by Senior Leadership Team (SLT) rather than the risk based Red Amber Green (RAG) rated information that is provided to Cabinet, which provides the direction of travel of the Council against key savings targets and priorities.</p> <p>Whilst it is clear that Cabinet is the CODM for Sefton MBC as they are the only body that can approve virements. Whilst we do recognise that the Cabinet are provided with risk based information that allows them to make informed decisions, we do note an opportunity for the Authority to potentially utilise the information provided to management for opportunities to enhance existing information.</p>	<p>Consistent with 2012/13 we have raised a control recommendation that management jointly review with Cabinet the information that is provided and in addition a process is put in place for this to inform the "Amounts Reported for Resource Allocations Decisions" disclosure within the Statement of Accounts in the 2014/15 financial statements.</p>

Accounting/ Audit issue	Background	Audit Findings	Conclusion
<p>Contaminated land reserve</p>	<p>During the course of 2011/12 it was identified that part of the sea wall in the Council's geographical area is contaminated by asbestos. The Council requested a review to be performed by the Health Protection Agency with that review concluding that there is currently no public health risk. The Council had a further review performed by Coastal Engineering UK Ltd to review the potential cost implication on the Council of the remedial to sea wall. The cost implication dependent on various factors ranged from £5.3m to £10.0m. The Council therefore set aside within its earmarked reserves £1.5m for anticipated costs and a contingent liability for additional potential costs. In the prior year, following our review of the evidence provided by the Council we concluded that whilst no public health risk remained the Council did not have an obligation to perform remedial work. The Council confirmed that they would continue to perform air monitoring tests to ensure no public health risk existed.</p>	<p>In the current year, Sefton MBC has worked with Public Health England to perform further testing at the site to assess if there is a health risk to the public, and an obligation to undertake the clear up.</p> <p>Testing was undertaken by the Council in December 2013 and May 2014. In the testing undertaken in May 2014 it was noted there were small traces noted at three of the 15 sites tested. Based on assessment undertaken against Public Health Guidance this is not believed to present a public health risk, due to:</p> <ul style="list-style-type: none"> • The traces found are low; • They were not identified in populated areas; • The location on the coast also reduces the risk further; and • The situation is monitored three to four times a year or after major weather events. <p>The Council also undertake regular reviews of the wall and repair as necessary.</p> <p>On this basis there remains no obligation for the council to undertake major clear up work.</p>	<p>In 2013/14 the £1.5m of earmarked reserve continues to be provided, as it is believed that the situation is consistent with that of 2011/12.</p> <p>We are aware that the Council is only obligated to undertake the work and incur the liability once a public health risk is identified therefore it would appear correct that the Council has not included a liability within its financial statements.</p> <p>However, reflecting that there is a potential risk, but that the obligating event has not yet occurred the Council have included a contingent liability within its financial statements.</p> <p>Management should continue to perform annual checks around the risk to public health and ensure that the reserves remain appropriate for the potential liability. Due to the nature of this item we have sought specific management representation.</p>

Accounting/ Audit issue	Background	Audit Findings	Conclusion
Pensions Liability	<p>The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). Your net pension liability at 31 March 2014 was £285.1m (2013 - £347.6m).</p> <p>The movements experienced are in part due to the completion of the 2013 triennial valuation which has impacted on the balances and has been reflected in the 2013/14 Statement of Accounts.</p> <p>Changes to IAS 19: Employee Benefits From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Authority's financial statements.</p>	<p>We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. These assumptions are included in with our Letter of Representation in Appendix 3 for reference.</p> <p>We have obtained information from the auditors of the pension fund in relation to the controls that exist over the accuracy and completeness of the source data and over the provision of this source data to the actuary. This letter did note that a comparison had been made between the Actuary's projected year end fund balance and the actual net assets of the fund at the 31 March 2013. The difference between these two figures is less than 0.5%; in monetary terms this equates to £3m. This is a highly judgemental balance and immaterial to the financial statements and as such no adjustment has been proposed, but does evidence that the balance included is reasonable.</p> <p>As part of our review of the assumptions we have also considered whether Sefton MBC's assumptions are appropriate and consistent with those used by other actuaries and by Mercers on a national basis. We have considered the report PwC issue as a consulting actuary to the Audit Commission that reviews the work of all local government pension scheme actuaries for 2013/14. This has not identified any issues that we need to draw to your attention.</p>	<p>The information as included in the financial statements appears reasonable.</p>

Other Reporting Matters

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. It is of note that other than one item management have amended all balances over our SUM reporting level of £50k that have been brought to their attention. The item that remains unadjusted for is included with Appendix 1 of this report and relates to a reconciling difference of £218k between the Fixed Asset Register and the financial statements.

We also bring to your attention the misstatements set out in Appendix 1 to this report which have been corrected for by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Financial Performance

Sefton MBC has disclosed that it considers it appropriate to prepare the accounts on a going concern basis.

Prior to signing off the Statement of Accounts we have reviewed the MTFP and savings plans in order to assess whether the Council has taken appropriate steps to confirm that it is appropriate to prepare the annual report and accounts on a going concern basis.

As part of our programme we are required to consider whether there are any events or conditions that may cast

significant doubt on the Council's ability to continue as a going concern. As part of this work, we have considered:

- the financial position of the Council as at 31 March 2014; and
- The assumptions used by management in developing the budget for 2014/15 and 2015/16.

Through our review of the budget and MTFP we note that there will be significant continued financial challenge as the Council will be required to achieve savings of £28m in 2014/15 and a further £55m over the two years to 2016/17. This challenge will require the Council to continually review its services, resources and potential implications to the public of Sefton, and may mean that it starts to use reserves that it has avoided so far. Based on the historic performance of the Council in achieving savings plans, delivery of underspends and the availability of reserves, cash balances and for the Council to borrow to mitigate short term gaps, we believe that the Council will continue as a going concern.

We do reflect on the fact that there are a number of risks and uncertainties in relation to cashflows and savings plans over the longer term. Going forward it is important for the Council to monitor these risks and uncertainties, to ensure that timely and appropriate action can be taken where needed.

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 Statement of Accounts.

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.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We did not identify any matters during the course of our work

To gain comfort over the completeness of the related party listing we have undertaken a number of tests including:

- Searches through Google; and
- Reviewing information on companies house.

Based on this information we have no reason to doubt the completeness of the listing

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 3.

We have included additional disclosures in the management representation letter on the following matters:

- Accuracy of data used by management's expert in revaluation of land and buildings in 2013/14;
- Actuarial assumptions used when accounting for the local government pension scheme;
- Accuracy of the data used by management in the preparation of the "Amounts Reported for Resource Allocations Decisions" disclosure within the Statement of Accounts;
- Infrastructure assets, that management have undertaken appropriate procedures to identify assets where possible meaning that there is not a material risk to the financial statements;
- Confirmation that the accounting treatment in relation to the contaminated land reserve is appropriate and management's best estimate of future liability; and
- Confirmation that management are satisfied with the valuation of heritage assets as at 31 March 2014, which is based on insurer valuations performed in 2005.

3) Economy, Efficiency and Effectiveness

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 the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Risk re-assessment

In our audit plan presented in March 2014 we identified savings targets as an elevated risk, whilst we still believe that this assessment is correct for the financial statements, for economy, efficiency and effectiveness we have increased the risk to significant.

In 2013/14, the guidance surrounding financial resilience has been extended to note “However, given the continuing pressures on funding, auditors should consider whether the body has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term.” In this scenario medium term is defined as the length of the Medium Term Financial Plan (‘MTFP’).

Given that our consideration should consider the full MTFP to 2016/17, we note that the MTFP identified a gap over the two year period 2015/16 and 2016/17 of £55m. Given the magnitude of this gap against our levels of materiality we increased the risk from elevated to significant.

Approach

We determine a local programme of audit work based on an audit risk assessment and consideration of the Commissions scope of work. In 2013/14 our approach has included:

- Consideration of the audit risks and any relevant audit findings;
- Consideration of the sector specific risks identified by the Audit Commission;
- Review of the performance of the Council against the financial analysis tool;
- Review of the outputs from the VFM tool produced by the Audit Commission;
- Review and consideration of findings from minute review of council meetings and consideration of any relevant news articles;
- Consideration of financial resilience, financial planning and financial control. Due to the increase of the financial standing risk, this has been discussed further below.
- Consideration of resources provided and improving efficiency and productivity.

Financial resilience

Given the increased risk in this area, we have undertaken the following work:

- Assessed the Council against recommended practice set out by the Audit Commission for ensuring Financial Governance, Financial Control and Financial Planning;
- Reviewed and challenged the historical budget process and performance of the Council;
- Review of historical financial performance;
- Assessed and challenged the performance in 2014/15 against planned budget; and
- Understood and challenged the budgetary setting process for 2015/16 and 2016/17, and status of the identification of plans to bridge the budgetary gap.

Based on the work undertaken above we note the following:

- The gap for 2015/16 and 2016/17 of £55m has been identified based on reasonable assumptions, however this will need to be reassessed once funding amounts are known and for any relevant sector developments.
- The Council has undertaken a risk assessment on all non-core services, if the services were no longer provided, this has also involved an assessment of non-financial risks, e.g. public health and wellbeing. This assessment has included linking individual services to themes, to support the identification of where levels of savings should be made. This process is supported by an outline timetable to identify and agree plans by 1 April 2015.

- Currently the Council has outlined plans for c.£40m of the £55m gap and additional proposals for a potential £14m, although these plans are yet to be approved by Cabinet or to go through consultation.
- Historical performance against budgets has been good. Whilst the achievement has not always been achieved against the original budget, significant savings have been achieved and mitigations put in place allowing for underspends to be achieved in each of the years from 2010/11 to date.
- Based on 2014/15 to date (June 14) it would appear that there are £2.7m of budgetary savings being classified as known shortfalls or significant risk. The Council has however identified other savings of £1.2m to mitigate part of this gap.

As we look forward there remains a significant challenge for the Council to achieve the savings to deliver a balanced budget. As we look at the MTFP, it is important that the Council ensure that saving schemes are fully identified and delivery appropriately governed to bridge the £55m gap, as we have evidenced historically.

Conclusion

Our opinion covers two key criteria being:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Through our work, whilst there are clear challenges it would appear that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness.

4) Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing 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 Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention, these are classified between significant and other. We have summarised the control recommendations in a table below across these categories, with summaries over the key areas.

Control recommendation summary

In total we have raised 22 (2012/13: 11) control recommendations for the current year, summarised as:

Area	Number of Significant	Number of Other
Cash	3	2
IT	4	2
Plant Property and Equipment/ Investment property	3	2
Other	0	6
Total	10	12

Of the control recommendations raised above six of the recommendations have rolled forward from 2012/13, where this is the case it has been identified in the detailed listing in Appendix 2 of this report.

Cash

Over the last two years the council has been undertaking processes to improve its controls around cash control both at the Council and at schools. It is believed that the improvements made to controls have improved the availability of information and in turn allowed the remaining gaps within the controls to be identified. Through our audit process in the current year we have identified a number of weaknesses, summarised below, some of which we would classify as significant. However, it is important to note that management have adjusted for all the misstatements within cash and are looking at ways to improve controls further to mitigate against this risk in the future.

- Miscoding to the general ledger – bank account coded as a debtor rather than cash;
- Accuracy of schools bank reconciliations – a number of errors were identified across 17 schools and 13 schools that were not included on the general ledger;
- Items of expenditure and income reflected through the bank account, not reflected through the general ledger;
- Number of bank accounts not initially included within the general ledger; and
- Number of old items within the bank reconciliations that date back to 2009/10

Plant, Property and Equipment ('PPE') / Investment Property

Through the work that we have undertaken in the year we have identified a number of PPE related control recommendations which are summarised below:

- Investment properties were not fully revalued during the year. Whilst a proportion of investment properties were revalued and an impairment review carried out over the remaining items, this is not in line with the Councils accounting policy. It is of note that the impairment review did lead to an adjustment of £98k, and due to the nature of the properties valuation there is a low risk of material misstatement.
- Underlying data- we assessed a number of the site area data on the Councils GIS system. We identified two properties where the site area had been incorrectly calculated reducing the value of one property from £1.2m to £900k. Our testing was extended and no further issues identified that would impact the financial statements.
- Infrastructure assets- our work identified that there were £5m of assets on the Fixed Asset Register to which there was insufficient information to tie this through to a physical asset. Information has since been identified by the finance team outside the Fixed Asset Register which agrees in full to the £5m balance. However, this information is not within the Fixed Asset Register and was not readily available.

Information Technology General Controls

As part of the work undertaken through the audit we review processes that are in place surrounding systems key to the production of the financial statements. Our work has identified a number of control weaknesses that are summarised as:

- Password settings on key systems are not in line with best practice;
- Password expiry was not set for all Oracle users;
- Generic user IDs were in use;
- Audit logging and monitoring is not performed over key systems, with logs not being formally review, logs recorded for privileged users or logs being maintained beyond 3 months;
- Privileged users can bypass standard change control processes having access to both test and live environments; and
- Segregation of duties can be improved, currently people have access to both systems and generic user IDs can be used with pass words widely known.

Closedown process

In the current year management set a target of removing three weeks from the close down process. We believe that whilst this has been a challenge for both management and audit, through effective working we jointly been able to achieve the reduction to the process. As we look forward we are aiming to work with management to reduce the time in the closedown process further, however this will be increasingly difficult unless there is a significant change to the process currently adopted. We will therefore work with management to look at options such as a period 10 close down and audit. We will be undertaking the start of this work with management from the beginning of October to get the plans agreed and in place.

Conclusion

We have set out recommendations for improvement for each of the control weaknesses we have identified throughout the audit and management responses have been received.

A detailed listing of all the control recommendations identified is included within Appendix 2 of this document.

5) Independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is subject to internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has undertaken the following other work for the Council:

Support provided by PwC	Value	Threats to independence and safeguards in place
Audit of Sefton Grants	Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance within the Grants Report to Management in relation to 2013/14 grants.	<p>Self Review - The advice does not involve the preparation of information subject to audit by PwC. In addition, the services are delivered by a separate team from the audit engagement team.</p> <p>Self Interest - The total fee level is not deemed to be material to the Council or PwC. The work undertaken is not paid on a contingency basis.</p> <p>Management - The work does not involve making any decisions on behalf of management.</p> <p>Advocacy - The work does not involve advocating the Council to third parties.</p> <p>Familiarity - Work is not deemed to give rise to a familiarity threat in that a separate team from audit team is used.</p> <p>Intimidation - The nature of the work does not give rise to any intimidation threat.</p>

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 19 and 23. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve auditors for an additional period of up to no more than two years, provided

that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, Executive or senior management team or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- Our objectivity is not compromised.

We would ask the Audit and Governance Committee consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

6) 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; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

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

Your views on fraud

In our audit plan presented to the Audit Committee in March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?

- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

**Why
commit
fraud?**

Opportunity

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

Rationalisation/attitude

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

7) Fees update

Fees update for 2013/14

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals.

Our fees charged were therefore:

	2013/14 outturn	2013/14 fee proposal
Statement of Accounts (including whole of government accounts and Value for Money conclusion)	£167,726	£167,726
Work initially to be part of the scope of the LA01 and BENO1 grant audits, now undertaken through the external audit*	£2,537(**&*)	£7,093***
Additional work undertaken due to the implementation of localisation of Council Tax Support*	£1,000*	0**
TOTAL	£171,263	£167,726****

* Note that proposed fee variations are subject to being agreed with the Audit Commission.

**The risk of additional fees being required to undertake this work was set out within our audit plan

*** Fee for the related work included in certification work proposals.

**** Based on the fee original quoted in our plan

Appendices

Appendix 1: Summary of corrected misstatements

During the audit we found the following errors above the £50k reporting level agreed in our audit plan, that have not been adjusted by management. We draw these to your attention as we consider you should be aware of these in fulfilling your governance responsibilities.

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	<p>Fixed Asset Register reconciling item</p> <p>Reconciling difference between the Fixed Asset Register ('FAR') and the Financial statements of £218k.</p> <p>Our review has challenged this difference with management and it is felt that this is built up of a number of smaller items rather than the net effect of material balances. Given the fact that the balance is immaterial and unlikely to represent a material risk to the financial statements, we have raised a control recommendation for management to reconcile the FAR.</p>	-			-
2	<p>Equal Pay Provision</p> <p>We have reviewed the equal pay provision. The provision included within the financial statements was based on the best available information at that time. However after the year end further information has been presented that indicates that the Council have over provided by £125k. Given the judgemental nature of the provision, and the immaterial nature the Council has decided not to amend the financial statements for this balance.</p>	-	125	125	-
Total uncorrected misstatements		-	125	125	-

We also draw your attention to the following items that have been adjusted for by management.

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	<p>Bank and cash (Factual)</p> <p>During our audit we proposed 11 adjustments to cash balances. The net effect of these was:</p> <p>Dr Operating Expense £39k</p> <p>Dr Accounts Receivable £14k</p> <p>Cr Accounts Payable £17k</p> <p>Cr Cash £36k</p>	39		14	17 36
2	<p>Overstatement of the valuation of Splashworld (Factual)</p> <p>Due to errors in calculating the site area of splashworld the asset had been over valued by £269k.</p> <p>Dr Revaluation Reserve</p> <p>Cr Plant, Property and Equipment</p>			269	269
3	<p>Transitional relief (Factual)</p> <p>Incorrect accounting treatment had been used for transitional relief of £1.2m reducing both accounts payable and accounts receivable by this balance.</p> <p>Dr Accounts Payable</p> <p>Cr accounts Receivable</p>			1,296	1,296
4	<p>NNDR Provision for appeals(Factual)</p> <p>Due to a change in guidance issued regarding the accounting for NNDR provisions the Council has had to amend the previous treatment. This has increased the provision by £1.9m</p> <p>Dr Provisions (I&E)</p> <p>Cr Provisions (Balance Sheet)</p>	1,985			1,985
5	<p>Overstatement of Investment Property (Factual)</p> <p>After undertaking a review of the Investment Property assets that were no subject to an in year valuation, it was identified that the value of a property was over stated by £98k.</p> <p>Dr Operating Expense £98k</p> <p>Cr Investment Property £98k</p>	98			98
6	<p>Impairment classification between revaluation Reserve</p>				

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
	and I&E (Factual) Our work indicated that £449k of the impairment had been incorrectly classified in the Plant Property and Equipment note to Revaluation Reserve rather than I&E. Dr I&E Cr Revaluation Reserve	449			449
7	Accounts Payable Cut off error identified (Factual) Item accounted for in 2014/15 rather than 2013/14. Dr Operating Expenditure £104k Cr Accounts Payable £104k	104			104
8	Accounts Receivable Cut off error identified (Factual) Item accounted for in 2013/14 rather than 2014/15. Dr Income £39k Cr Receipts in advance £39k	39			39
9	Surplus Assets – Demolished assets negative Net Book Value Our testing identified a number of assets that had been demolished that had a negative net book value. Dr Property, Plant and Equipment £165k Cr Revaluation Reserve £165k			165	165
10	Surplus Assets – Negative Net Book Value Our testing identified surplus assets that had a negative net book value in the financial statements. Dr Property, Plant and Equipment £151k Cr Revaluation Reserve £151k			151	151
11	Surplus Assets – Demolished assets Our testing identified a number of assets that had been demolished, but which still had a value in the Fixed Asset Register.				

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
	<i>Dr Operating Expenses £228k</i>	228			228
	<i>Cr Property, Plant and Equipment £228k</i>				
	Total corrected misstatements	2,942	-	1,895	4,837

Appendix 2: Control recommendations

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

The matters that we wish to bring to your attention are set out below and cover the following:

- 1) Summary of internal control deficiencies; and
- 2) IT General Control Recommendations.

Summary of internal control deficiencies

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
<p>Cash miscoding to the general ledger Our review of cash identified instances where items were incorrectly coded on the general ledger. For example one bank account was classified as a debtor</p>	N	<p>Management implement controls to ensure that a completeness check is undertaken to ensure that the cash balance includes all bank accounts that the Council are required to account for.</p> <p>Management review its current processes for coding cash related items to the general ledger and bank reconciliations to ensure that such items are identified earlier.</p>	<p>Agreed. Implement September 2014.</p>
<p>School bank account reconciliations <i>(Similar recommendation raised in 2012/13)</i></p> <p>Testing of cash balances relating to schools identified a number of weaknesses:</p> <ul style="list-style-type: none"> • 13 schools balances were not included on the general ledger (GL)(£13k) • There were errors on the GL for 17 schools (£17k) • Number of instances of cheques being cancelled on the GL but not with the 	Y	<p>A fundamental review should be undertaken in relation to the processes that exist for the day to day management and reconciliation of school bank accounts, this should include:</p> <ul style="list-style-type: none"> • Review bank account information for all schools where the bank accounts accounted for in the Councils accounts, ensuring that this list is kept up to date; 	<p>Agreed. Procedures are currently being reviewed in respect of school bank reconciliation with the GL, including accounting for cancelled cheques. These procedures will be duly agreed between the Treasury Management Team and Schools Finance Team, with clear responsibilities identified, to ensure the process is improved, and to give confidence in the</p>

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
<p>bank or on the reconciliation</p> <ul style="list-style-type: none"> Number of errors across the reconciliations completed for schools (£11k) Three schools had opened their own bank account with Lloyds bank and the council had limited information in relation to these accounts. 		<ul style="list-style-type: none"> Undertake completeness checks to ensure all accounts are included in the GL; Where necessary undertake training with schools regarding the completion of bank reconciliations; Review processes with regard to the cancellation of cheques to ensure that where cheques are cancelled from the GL, these are also cancelled with the bank; Ensure that processes are in place to monitor and maintain control where schools open their own bank accounts. 	<p>year end bank reconciliations going forward.</p> <p>Schools are not allowed to open bank accounts unless the School Governors have signed off the Schools Banking Procedures Manual, which governs how the school must operate the bank account. Bank reconciliations are performed as for other schools. This process has been agreed with Internal Audit.</p> <p>Those that have opened bank accounts via Lloyds are being closely monitored by Schools Finance Officers.</p> <p>Implement from September 2014.</p>
<p>Bank account income and expenditure</p> <p>During testing we noted a number of instances where expenditure or income had been reflected through a bank account, although this had not been reflected through the GL. For example this included: the elections account, petty cash balances Children's centre income.</p>	Y	<p>Management should review processes over the accounts identified during our audit process where income and expenditure are not reflected through the GL, to ensure:</p> <ul style="list-style-type: none"> That finance are informed of expenditure incurred through these accounts; and That a monthly review is undertaken to ensure that the GL and the bank accounts are consistent and accurate. 	<p>Agreed. Implement from September 2014.</p>
<p>Bank accounts</p> <p>Our Natwest confirmation identified six bank accounts that were finance were initially unaware of. In the main these accounts turned out to relate to old petty cash accounts and some of these accounts should be closed. These accounts were initially not reflected in the GL and amounted to £6k.</p>	Y	<p>Management should ensure that a complete listing of all bank accounts is kept and monitored, this listing should be updated through the opening and closing of bank accounts once appropriate approval has been sought. This would ensure that all accounts are included in the GL and that accounts</p>	<p>Agreed. Those bank accounts noted are many years old. Any requests for opening of bank accounts with Natwest must be signed in accordance with the bank mandate and this can only be authorised centrally within the Finance Department.</p>

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
		are closed where necessary.	Implement from September 2014.
<p>Bank reconciliation <i>(Similar recommendation raised in 2012/13)</i></p> <p>On review of the bank reconciliations undertaken by the Council there were a number of items noted that dated back to 2009/10.</p>	N	As part of performing bank reconciliations management should investigate old or unusual items to ensure that they are still valid. Where old items are identified that are valid processes should be put in place to deal with and resolve these older items.	Agreed. These items will be investigated. Implement September 2014.
<p>Investment pro forma Our testing of nine investment proformas identified two instances where a check by signature had not been received. We note that segregation of duties still exists in that the investments are authorised, and that they can be signed at the discretion of the authoriser without a checked by signature.</p>	N	Where a control exists management should ensure that the control is applied.	Agreed. Once the investment pro forma has been completed and checked, it is then authorised by a senior officer of the Council which authorises the investment to be made. It is noted that all documentation tested had been fully authorised by a senior officer. All documentation check boxes will be evidenced as checked going forward. Implement from September 2014.
<p>Heritage Assets <i>(Similar recommendation raised in 2012/13)</i></p> <p>The Heritage asset valuation was last updated in 2005.</p> <p>There has been no further update to the valuation since this date; therefore the asset value currently held in Heritage Assets on the Balance Sheet may not be reflective of the current market values of such items, although due to the nature of the assets it is not believed that a revaluation would lead to a material difference. This assumption has been made based on the fact that the insurers are continuing to use the existing valuation basis for the assets.</p>	N	The Council should ensure they update their valuation with respect to Heritage Assets for accounting and insurance purposes.	The cost of carrying out a formal valuation process is not inconsiderable. Bearing in mind the financial constraints that the Council currently finds itself in, the cost of this revaluation, for accounting purposes, is not considered appropriate. Discussions will however take place with the Council's insurers to identify whether there is a simpler, more appropriate mechanism, to review the value of such assets.
<p>Segmental reporting <i>(Similar recommendation raised in 2012/13)</i></p>	N	Management should review with Cabinet the information that Cabinet are provided with to make decisions	Noted. The Council will review current information provision and consider the most

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
<p>Our review of Segmental Reporting identified differences between the information reported to the CODM and the Segmental information included in the financial statements. This is due to the fact that the Segmental Reporting is more in line with the Monthly Management Reports utilised by Senior Leadership Team (SLT) rather than the risk based Red Amber Green (RAG) rated information that is provided to Cabinet, which provides the direction of travel of the Council against key savings targets and priorities.</p> <p>Whilst it is clear that Cabinet is the CODM for Sefton MBC as they are the only body that can approve virements. Whilst we do recognise that the Cabinet are provided with risk based information that allows them to make informed decisions, we do note an opportunity for the Authority to potentially utilise the information provided to management for opportunities to enhance existing information.</p>		<p>and to put a process in place for this to inform "Amounts reported for resource allocations decisions" disclosure in the Statement of Accounts 2013/14.</p>	<p>appropriate format of financial information to be presented to Cabinet.</p>
<p>Journal Preparation and Authorisation <i>(Similar recommendation raised in 2012/13)</i></p> <p>As part of our testing of manual journals it was noted that not all journals are prepared with a manual journal sheet.</p> <p>It was noted that this is not deemed to be required for journals prepared by the finance team (necessary for those outside the finance team wishing to post journals to the Authority's accounts).</p> <p>We note therefore that there is no segregation of duties within the process for the finance team preparing and posting journals.</p>	<p>N</p>	<p>The Council should implement a process whereby all journals require a manual journal sheet which is approved and authorised by relevant personnel ensuring appropriate segregation of duties in this area.</p>	<p>The numbers of journals processed during a year are considerable. If implemented as suggested, this would introduce a significant additional administrative burden. The Council will review its processes to assess whether different procedures for different types of journal are feasible. The introduction of changes to the Council's financial management system (e.g. by not allowing the same person to input and post a journal) will also be considered.</p>
<p>Investment property</p> <p>Through our work on Investment property we identified that the revaluation exercise had not been undertaken in line with the Councils accounting policy. Whilst the risk of material</p>	<p>Y</p>	<p>Management should ensure that all revaluation exercises are carried out in line with the Councils accounting policies.</p>	<p>Agreed. Valuations in 2013/14 were undertaken on a three year rolling programme, with an impairment review of the remaining assets. Implement for year end</p>

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
overstatement was mitigated through an impairment review.			2014/15 reporting.
<p>Infrastructure assets</p> <p>Our work on infrastructure assets, identified that there was insufficient data in the Fixed Asset Register, to link capital spend to physical assets (where relevant). This appeared to relate to assets held prior to the transfer to the Oracle system.</p> <p>We have evidenced with the finance team that the value of this is £5m. The finance team have been able to provide information from outside the Fixed Asset Register which reconciles in full to the balances on the Fixed Asset Register. However, this information was not readily available and should be included in the Fixed Asset Register.</p> <p>We are aware that these items are being depreciated in line with the Councils depreciation policy, which conforms to the CIPFA guidance.</p>	N	Management should review the information held in the fixed asset register to ensure that there is sufficient information to tie this back to physical assets.	Agreed. This detail has now been supplied for audit purposes. Details of spend by, for example, road, have now been supplied for all assets recorded as infrastructure assets with the asset register.
<p>Underlying asset data</p> <p>As part of our testing we reviewed the underlying data used in the revaluation exercise for Plant Property and Equipment ('PPE') and Investment Property. Our testing identified instances where the site area used was incorrect. Across both PPE and Investment Property.</p> <p>In relation to PPE the site area is used to value the assets held by the Council. Due to the error identified the value of one property reduced from £1.2m to £900k.</p> <p>Given the valuation technique used for investment properties this does not impact the valuation of the asset but does represent a control weakness.</p>	N	Processes should be put in place to undertake spot checks on underlying data utilised to perform valuation exercises to ensure that this is accurate and appropriate.	Agreed. A sample of 35 assets was chosen with one being incorrect. This will be taken up with relevant valuers within Investment Programmes & Infrastructure . Implement September 2014.
<p>Annual Impairment review</p> <p>The Council is required to undertake a formal annual impairment review for the assets that are</p>	Y	A formal detailed impairment review should be undertaken each year as part of the revaluation exercise and presented to the auditors and audit	Agreed. The scope will be reinforced with Investment Programmes & Infrastructure for financial year closedown

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
not revalued through the three year rolling basis. Whilst this was part of the scope of work to the valuer, the impairment review has not been undertaken in the year, meaning that the finance team have had to access the impact of local indices on the asset valuations. Our review of this work has indicated a number of errors with the indices used.		committee to provide assurance over the asset valuations.	2014/15. The indices used were the BICS General Building Cost Index as supplied by Investment Programmes & Infrastructure.
Northgate Reports Due to the nature of the Northgate system, reports cannot be run retrospectively. This means where reports are not run and maintained around the year end that management need to reconcile back to the year end position.	N	Management should ensure that all Northgate reports are run at the year end and maintained.	Agreed. Procedures will be put in place to ensure that appropriate reports are run at the year-end.
I-Proc Control Account The report used by the Council to reconcile the above account does not fully balance to Oracle.	N	Management review the processes to produce the report to ensure that this is fully reconciled	Agreed. The Council will review the processes to ensure the account is fully reconciled.
Reconciliation of FAR to the accounts There is currently an issue with reconciling the revaluation reserve as per the accounts and Oracle back to the fixed asset register. Due to the fact that the FAR is held within a spreadsheet there are numerous inherent differences that have accumulated over a number of years leading to irreconcilable differences between the two sets of data. The council should have appropriate controls in place to ensure that the FAR and the accounts are updated accurately and with the same information and any differences should be investigated. The current difference is for c.£218k and from discussions with management it is believed that the balance reflected in the financial statements is the correct balance.	Y	A full reconciliation should take place annually to ensure that the current financial year's movements are reflected correctly within both the FAR and Oracle. This will ensure that the reconciling difference does not continue to increase in value over time. This is something that should be undertaken to ensure that the data transferred to the new Agresso Finance system is accurate.	Agreed. Due to the spreadsheet based nature of the asset register, an accumulation of spreadsheet and human error has caused the asset register revaluation balance and that within the GL to be out of line. The GL balance is correct and is based upon workings that have been audited each year. The revaluation reserve in the asset register is less than the credit balance held within the balance sheet. An exercise will be undertaken during 2014/15 to identify any significant variations. A move to the new Agresso asset register is anticipated as phase 2 of the Agresso implementation. A data cleansing exercise will be required well in advance prior

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
			to the move. The asset register is expected to be implemented for year end 2015/16.

IT General Control Recommendations

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
<p>Password settings (Oracle, Northgate resource link and Northgate Revenue and Benefits)</p> <p>Strong passwords for user accounts at the application, operating system and database levels are not in line with best practice.</p> <p>It is important to set strong passwords to help prevent unauthorised access and inappropriate changes being made directly to the data held within these systems.</p> <p>Guidance can be provided to the Council in relation to best practice.</p>	N	<p>Management should perform a review of the password profiles assigned to user IDs and ensure that the password settings are appropriately configured to secure against unauthorised access.</p> <p>Additionally, management should ensure that 3rd party support providers comply with Sefton Council's security policies through ensuring that these are communicated and that appropriate oversight is in place to monitor compliance in relation to user password security.</p>	<p><i>This is the response of arvato who are responsible for the area in question:</i></p> <p>The accounts in question have all been identified, the work to resolve the issue is to be agreed with Sefton Council in conjunction with their priorities for the Financial Management System</p> <p>Additional Governance, Risk and Compliance (GRC) activity is being put into place to provide enhanced oversight.</p>
<p>Password expiry</p> <p>Password expiry was not set for all users on Oracle Financials.</p> <p>As Oracle is the primary source of financial transactions, it should be appropriately secured. In particular, appropriate password controls should be used. In our review we identified seven user accounts on the database to with non-expiring passwords on Oracle.</p> <p>If account passwords are not changed regularly there is an increased possibility that user account security could be compromised. Weak password controls increase the risk of unauthorised access to Sefton Council's systems.</p>	N	<p>Management should ensure that password expiry is set for the these accounts and that password expiry set up is included within any user account creation procedural documentation developed. However, it was noted that five of the user accounts had this setting changed while testing on site on 26/06/2014.</p>	<p><i>This is the response of arvato who are responsible for the area in question:</i></p> <p>Five out of 892 user accounts (including procurement and system default users) were found were dealt with as soon as notification was received and are now compliant.</p> <p>Those five accounts were re-enabled accounts for staff who previously had an accounting role ended and have recently moved into a procurement role.</p>

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
			<p>The accounts would have been found during the regular account audit.</p> <p>It should be noted that we are reliant on Sefton line managers notifying ICT of leavers and this does not always happen.</p>
<p>Generic user IDs</p> <p>Generic user ID's are in use on the application, OS and database level.</p> <p><i>Application level findings</i></p> <p>Generic user accounts are in use on the Oracle Financials and Northgate Revenue and Benefits application.</p> <p><i>OS level findings</i></p> <p>Generic user ID's are in use on the Unix application that supports the Oracle financials and Northgate Resource Link. Five users at Avarto have access to the passwords to these accounts while 26 users have access (at Version 1 being the 3rd party provider of Oracle support to Avarto) to two other user accounts.</p> <p><i>Database level findings</i></p> <p>Generic administrator accounts with access to make changes at a database level are in use.</p> <p>Five users within the Avarto team have access as well as 26 users at Version 1.</p>	Y	<p>Access to generic user accounts should be appropriately restricted.</p> <p>Individual user accounts on the database / OS / Application should be created and activity monitored for all users to ensure accountability.</p> <p>Management should ensure that the 3rd party support providers Northgate and Version 1 complies with Sefton's security policies through ensuring that these are communicated and that appropriate oversight is in place to monitor compliance in relation to privileged account security.</p> <p>Additionally, management should ensure that a formal policy is in place in relation to where the passwords to these powerful system accounts are stored and how they are shared as and when required</p>	<p><i>This is the response of arvato who are responsible for the area in question:</i></p> <p>Access to generic accounts is restricted, account details are stored and maintained in accordance with Sefton's security policies and all 3rd party support providers work in compliance with Sefton's security policies</p> <p>In addition, at log on, all users confirm their compliance with all of Sefton's security policies.</p> <p>Note: The use of generic accounts is predominantly by Version1 (previously known as Rocela) and is restricted to 18 named developers who require access for support purposes. This access is conducted via VPN and only one user can log on at any time.</p> <p>The Version 1 user is identified by username and could be identified by retrospective inspection of logs.</p>
<p>Audit logging and monitoring (Similar recommendation raised in 2012/13)</p> <p>Audit logging and monitoring is not performed over key system activity.</p> <p>Audit logging and monitoring is important to aid</p>	Y	<p>We recommend a review of the requirements for database logging, to include monitoring of privileged account use and key transactions be performed by management as part of standardised procedures.</p>	<p><i>This is the response of arvato who are responsible for the area in question:</i></p> <p>We propose a meeting between our Chief Security Officer and the Council. We will then undertake any recommendations resulting</p>

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
<p>detection of any suspicious or unusual activity that has occurred on the systems. It also serves as a deterrent to any deliberate misuse of privileged access.</p> <p>It is also of note that some audit logs are not kept beyond three months.</p>			<p>from the meeting. This whole exercise should be completed within 90 days.</p>
<p>Segregation of duties</p> <p>Segregation of duties between the database and operating system and application is not well controlled.</p> <p>On testing it was noted that the same users have privileged access on the Oracle database, the unix operating system and on the windows 2008 OS.</p> <p>Use of the generic accounts available at the application, database and operating system level is not monitored and the passwords to these accounts were widely known throughout the team, with no enforcement of a regular password change.</p> <p>Privileged user IDs are used to manage the database from the operating system and to manage data and configuration settings inside the database.</p>	Y	<p>Individual accounts should be assigned for privileged access with appropriate monitoring in place. Furthermore, a review of the aggregate access available to users should be performed to ensure that single users are not able to access privileged accounts at each level.</p>	<p><i>This is the response of arvato who are responsible for the area in question:</i></p> <p>A review is under way and will be completed within 90 days.</p> <p>Limited segregation of duties is already in place between application support and technical support. This is being reviewed to ascertain if further segregation is practical, given the restrictions of the current Financial Management System.</p> <p>Compliance with this may require additional resource and a re-alignment of the Council's current priorities.</p>
<p>Privileged user</p> <p>Privileged users on the OS / database/ applications are able to by pass standardised change control procedures as they have access to both the test and live environments.</p> <p>The risk associated with changes not being adequately tested is that there is an increased risk of incomplete changes being promoted to the live environment. This implies there is a possibility of changes that include errors or that could adversely affect other systems being promoted to live and causing issues with the in-scope applications.</p> <p>The risk associated with the lack of segregation of duties is that the privileged users have such a high</p>	Y	<p>Users with access to the development and live environments should be segregated where possible where this is not possible e.g due to the size of the team appropriate monitoring controls should be in place.</p>	<p><i>This is the response of arvato who are responsible for the area in question:</i></p> <p>As indicated, the size of team means segregation is not practicable.</p> <p>Privileged users have procedural controls in place detailing appropriate change process and controls.</p> <p>Technical review underway.</p>

Deficiency	Significant weakness (Y/N)	Recommendation	Management's response
level of access in the change management cycle that they can develop and promote to live changes themselves. This raises the opportunity of unauthorized changes being promoted to live.			

Appendix 3: Letter of representation

Attached below is the management representation letter we requested from the Council

PricewaterhouseCoopers LLP

101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Dear Sirs

Representation letter – audit of Sefton Metropolitan Borough Council’s (the Authority) Statement of Accounts for the year ended 31 March 2014

The Authority is responsible for preparing consolidated statement of accounts in respect of itself and its subsidiary undertakings (together “the group”).

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

Subsequent references in this letter to “the Statement of Accounts” refer to both the statement of accounts for the authority and the statement of accounts of the group.

I acknowledge my responsibilities as Chief Financial Officer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and 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 the Authority 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:

Statement of Accounts

- 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 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached to this letter.
- The Statement of Accounts disclose all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Authority's plans. The Authority also has the intent and ability to take actions necessary to continue as a going concern.

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 Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, 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 Authority 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.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

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 Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

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 conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

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 Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

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 2013/14.

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 we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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 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 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 any associated company for whose taxation liabilities the authority may be responsible.

Pension fund registered status

I confirm that the Teachers' Pension Scheme and the Local Government Pension Scheme are Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Retirement benefits

- All retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority'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:

Detail	2013/14	2012/13	Assumption change
Financial assumptions			
Duration of liabilities	18 years	25 years	-7 years
Discount rate	4.4%	4.2%	0.2%
Pension increase	2.4%	2.4%	0%
Salary increase	3.9%	3.9%	0%
Life expectancy at 65 years			
Pensioners (Men)	22.3	21.8	0.5
Pensioners (Women)	25.2	24.7	0.5
Non-pensioners (Men)	24.7	23.7	1.0
Non-pensioners (Women)	28.0	26.6	1.4
Return on assets			
Equity investments	7.0%	7.0%	0%
Government bonds	3.4%	2.8%	0.6%

Detail	2013/14	2012/13	Assumption change
Other bonds	4.3%	3.9%	0.4%
Property	6.2%	5.7%	0.5%
Cash/liquidity	0.5%	0.5%	0%

The above actuarial assumptions regarding the valuation of liabilities and assets for the Local Government Pension Scheme defined benefit scheme are set out in Mercers *report Actuarial Valuation as at 31 March 2014 for the purpose of IAS19*. We have relied on the actuary as our external expert in formulating these assumptions to give the best estimate of future cash flows that will arise under the scheme of liabilities.

- All pension assets and liabilities have been accounted for in line with the information received from Mercers.
- 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.

Valuation of Property, Plant and Equipment

Regarding provisions and the valuation of Property, Plant and Equipment, accounting estimates that were disclosed in the financial statements:

- We used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in line with professional standards of the Royal Institution of Chartered Surveyors. Measurement processes have been consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures.
- Disclosures relating to accounting estimates are complete and appropriate. No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.
- We also confirm that we consider the write-offs in relation to the asset revalued identified as part of the valuation exercise are more akin to valuation adjustments rather than the consumption of the assets.
- Based on our impairment reviews of assets not valued in the year as part of the rolling programme, we believe that there is no impairment risk regarding these assets that would impact the treatment within the financial statements.
- Based on our review of investment property we believe that the assets have been held correctly in line with our accounting policies.

Using the work of experts

We agree with the findings of Mr K Shutter (MRICS) and all other in-house experts in evaluating the valuation of Property, Plant and Equipment and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in preparation of the financial statements and underlying accounting records. We did not give or cause and instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have an impact on the objectivity of the experts.

Presentation of the “Amounts Reported for Resource Allocation Decisions” disclosure within the Statement of Accounts”

We confirm that the information that has been used to inform the segmental reporting as included in Note 6 “Amounts Reported for Resource Allocations Decisions” to the financial statements is from a source consistent with that used to provide the RAG information that is presented to Cabinet to inform its decisions as the Chief Operating Decision Maker.

Contaminated land reserve

Regarding contaminated land reserve of £1.5m as at 31 March 2014, an accounting estimate that was recognised in the statement of accounts and the contingent liability in relation to the contaminated land reserve that has also been disclosed in the statement of accounts:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority and group, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the statement of accounts.

Infrastructure assets

We are aware that whilst there is insufficient information in the Fixed Asset Register (FAR) for a number of infrastructure assets valued at £5m, there is sufficient information outside the FAR to agree to individual assets or schemes. We have

accounted for infrastructure assets including depreciation inline with our accounting policies and guidance issued in CIPFA/LASAAC Code of Practice on Local Government Accounting in the UK 2013/14.

Heritage assets

Regarding heritage assets of £11.1m as at 31 March 2014 that has been recognised in the statement of accounts and the contingent liability in relation to the contaminated land reserve that has also been disclosed in the statement of accounts:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority and group, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the statement of accounts.

As minuted by the Committee at its meeting on 10 September 2014

.....

Chief Financial Officer

For and on behalf of

Date

Letter of Representation Appendix 1 - Related parties and related party transactions

Merseytravel
Farnborough Road Junior School
Imagine Independence Charity
Liverpool City Region Transport Committee
Sefton CVS
Waterloo Community Association
Formby Parish Council
Formby Christmas Lights
Maghull Community Enterprise
Woodvale & Ainsdale Community Association
Peter Halsall Removals and Storage
The Pride of Sefton Narrowboat Committee
One Vision Housing
Maghull Hornby Trust
John Gooke's Charity Lydiate
Merseytravel
Merseyside Fire and Rescue
Maghull Town Council
National Institute for Health Research
Kingfield Park Steering Group
Maghull Town Council
GMCP
Maghull Town Council
Greenbank High School

Southport Football Club Stadium
Crossens Community Association
Tallview Property Management Ltd
North Meols Library Association
National Fire Services Member Committee
Reserve forces and cadets association NW
Property Ctty
Sefton Training and Enterprise Projects
Knowsley MBC
5 Boroughs NHS Partnership
Mersey and Cheshire Commissioning Support Unit
Knowsley Housing Trust
Liverpool City Council
Sefton Security
Frank Hornby Trust
Bedford Road Community Centre
Merseyside Police and Crime Commissioner
Parish Councils
Merseyside Integrated Transport Authority
Merseyside Recycling and Waste Authority
Merseyside Pensions Authority - Employers' Contributions
Sefton New Directions Ltd

Letter of Representation Appendix 2 – Unadjusted items

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	<p>Reconciling difference between the Fixed Asset Register ('FAR') and the Financial statements of £218k.</p> <p>Our review has challenged this difference with management and it is felt that this is built up of a number of smaller items rather than the net effect of material balances. Given the fact that the balance is immaterial and unlikely to represent a material risk to the financial statements, we have raised a control recommendation for management to reconcile the FAR.</p>				
2	<p>Equal Pay Provision</p> <p>We have reviewed the equal pay provision. The provision included within the financial statements was based on the best available information at that time. However, after the year end further information has been presented that indicates that the Council have over provided by £125k. Given the judgemental nature of the provision and the immaterial nature the Council has decided not to amend the financial statements for this balance.</p>	-	125	125	-
Total uncorrected misstatements		-	125	125	-



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.

This document has been prepared only for Sefton Metropolitan Borough Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2014 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

130610-142627-JA-UK