

Sefton Metropolitan Borough Council

Audit Results Report - ISA (UK and Ireland) 260 for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Key Findings
Status of the audit	<p>We have substantially completed our audit of the financial statements of Sefton Metropolitan Borough Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified audit opinion on your financial statements:</p> <ul style="list-style-type: none"> ▶ Completion of WGA assessment and submission; ▶ Review and casting of the final financial statements; ▶ Completion of our review procedures; ▶ Audit completion steps including our subsequent events review; and ▶ Receipt of the signed management representation letter. <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's group financial statements.</p> <p>We have substantially completed our planned work to support the value for money conclusion. We currently need to undertake additional work on the Council's procurement processes in order to reach a conclusion. We will provide an update to the Audit Committee upon completion of our review.</p> <p>We are completing the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We currently have no issues to report.</p>
Objections	<p>We have not received any objections to the 2015/16 accounts from members of the public.</p>
Audit differences	<p>There are no unadjusted audit differences.</p> <p>A number of audit adjustments were made during the course of our work. None of these were material or impacted the Council's overall reported financial position. All relate to technical accounting adjustments or narrative disclosures. Further details are set out at Appendix A.</p>
Scope and materiality	<p>In our audit plan presented at the March Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £13.8 million based on 2% of the Council's estimated gross revenue expenditure for 2015/16. We have reassessed this based on the actual results for the financial year and revised this materiality level to £13 million.</p> <p>The threshold for reporting audit differences which impact the financial statements, has been revised from £0.69 million to £0.65 million.</p> <p>Through our audit, the following areas are where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas:</p> <ul style="list-style-type: none"> ▶ Remuneration disclosures including payment to the highest paid employees and directors. ▶ Related party disclosures <p>We carried out our work in accordance with our Audit Plan.</p>

Area of Work	Key Findings
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> ▶ Risk of management override. ▶ Revenue and expenditure recognition. <p>In addition, we identified two 'other' risks in regards to the</p> <ul style="list-style-type: none"> ▶ Calculation of Minimum revenue provision; and ▶ Valuation of property, plant and equipment. <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.</p>
Other reporting issues	<p>We have no significant other matters we wish to report.</p>
Control observations	<p>We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, we did identify scope to improve controls on the verification of fixed assets and the retention of payroll records. Following an internal review the Council identified a significant weakness in controls in procurement process. Our findings are set out in section 3.3 and 3.4.</p>
Value for Money conclusion	<p>As set out in our Audit Plan, we identified two significant risks in regards to:</p> <ul style="list-style-type: none"> ▶ Sustainable resource deployment – the medium term financial health of the Council; and ▶ Working with partners and other third parties - The Councils arrangements in regards to the pooled budget to manage £24 million of Health CCG resources and local authority adult social care funding. <p>In addition we reviewed:</p> <ul style="list-style-type: none"> ▶ The work and reports of regulators, such as the Care Quality Commission and OFSTED. ▶ The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion. <p>We are in the process of completing our review of the Council's procurement processes. We will provide an update to the Audit Committee upon completion of our review.</p>

We would like to take this opportunity to thank the Council's staff, in particular Stephan Van Arensden, Jeff Kenah and Paul Reilly for their assistance during the course of our work.

Hassan Rohimun
 Executive Director
 For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

2.1 The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.2 Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- ▶ Report on an exception basis on the Annual Governance Statement;
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- ▶ Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

3.1 Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant financial statements risk	EY's audit response	Assurance gained and issues arising
Risk of management override		
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> ▶ Made inquiries of management about risks of fraud and the controls put in place to address those risks. ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewed accounting estimates for evidence of management bias. ▶ Developed a testing approach to journal entries. ▶ Assessed accounting estimates, particularly provisions, for evidence of management bias. ▶ Remained sceptical for the existence of any significant unusual transactions. ▶ Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In particular, our testing of journal entries has not identified any significant issues.</p>
Revenue and expenditure recognition		
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure</p>	<ul style="list-style-type: none"> ▶ Developed a testing strategy to test material revenue and expenditure streams; ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of 	<p>Our audit work has not identified any significant issues in respect of revenue and expenditure recognition.</p>

Significant financial statements risk	EY's audit response	Assurance gained and issues arising
recognition.	<p>management bias;</p> <ul style="list-style-type: none"> ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Reviewed and tested revenue cut-off at the period end date. 	

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other financial statement risk	EY's audit response	Assurance gained and issues arising
Minimum Revenue Provision		
<p>The scheme of Minimum Revenue Provision (MRP) was set out in former regulations 27, 28 and 29 of the 'Local Authorities (Capital Finance and Accounting) (England) Regulations 2003'. This system has now been revised by the amended Statutory Instrument 2008 no. 414 s4 which lays down that:</p> <p>"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."</p> <p>The operative date of the change was 31 March 2008, and applies to the financial year 2007/8 and subsequent years. Guidance was issued suggesting a number of ways Authorities could approach the calculation of this provision.</p> <p>Sefton is in the process of reviewing their approach to the MRP calculation in particular in respect of supported borrowing pre 2008 to decide which alternative approach is will adopt.</p>	<p>We have involved our technical experts to:</p> <ul style="list-style-type: none"> ▶ Review the revised MRP Policy ▶ Review the MRP calculation for the current year of audit incorporating any change in approach ▶ Evaluate the justification that approach meets the definition of "prudent" ▶ Test the detailed supporting documentation to MRP calculations. 	<p>Initial review of the revised calculation and discussion with management identified issues around the calculation, relating to:</p> <ul style="list-style-type: none"> ▶ Duplication of charges regarding transferred debt and payments to MRB; ▶ Lease and PFI calculations being based on PPE value rather than outstanding liability; ▶ Treatment of LT loans; ▶ Consideration that MRP constituted an IAS 37 provision; and ▶ Differing CFR calculations in elements of the annuity calculation. <p>Management adjusted their calculations following the above findings.</p> <p>Our review of the revised MRP policy did not identify any areas of non-compliance, and we have concluded that the policy meets the definition of 'prudent'.</p> <p>Our final review concluded that the proposed credit to GF for excess MRP charges made in error of £2.88 million is reasonably stated.</p>

3.2 Opening balances

We have performed relevant audit procedures on the Council's opening balances.

Whilst we have identified a small number of errors in the prior year which have been corrected in 2015/16, we have no further observations or matters to report relating to the opening financial position as at 1 April 2015.

3.3 Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We have encountered the following matters that we wish to communicate to you. We have raised recommendations for these findings in Appendix G.

- Over and above the rolling programme of valuations the Council does not have in place formal arrangements to periodically verify the existence of significant moveable assets. Based on the verification testing we have undertaken and the application of our materiality level, we gained assurance regarding the existence of assets. The lack of periodic verification does represent a weakness in central controls to ensure the propriety of assets. The Council should design an appropriate procedure to confirm the existence of assets.
- Our testing of payroll identified 7 instances where contracts were not signed by employees, and 2 further contracts could not be located. We recommend that the Council ensures that it retains contracts for all employees that are signed and dated.
- The draft statements dated 13 June 2016 excluded two disclosures and the Annual Governance Statement. These were included in an updated set of accounts on 20 June 2016. However, the Council did not have comprehensive working papers in place to support the statements at the outset; this resulted in significant delays and inefficiencies in the audit process. The Council should ensure all supporting working papers to the financial statements are available at the beginning of the audit.

3.4 Control themes and observations

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, we would like to highlight the following issue for the attention of the audit committee:

- An investigation by the Council has identified significant weaknesses in the internal control processes associated with procurement. This issue has been reviewed by the Council and an action plan to improve controls has been agreed. The Audit Committee should ensure that planned actions for improvement are implemented and consider whether a further review of procurement services is required.

3.5 Annual Governance Statement

We have reviewed the Annual Governance Statement and suggested a small number of narrative improvements. We can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

3.6 Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

3.6.1 Whole of Government Accounts

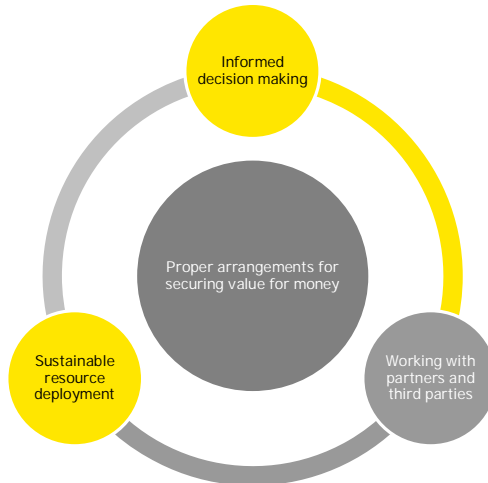
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

4. Value for money

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money (VFM) conclusion.

For 2015/16 this is based on the overall evaluation criterion: “In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.”



Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

4.1 Risks

As communicated in our Audit Plan, we identified two significant risks, as set out in the table below.

Significant value for money risks

Our audit approach

Sustainable Resource Deployment

Medium Term Financial Planning

The Council approved a two year financial plan for 2015/16 to 2016/17 which requires delivery of savings amounting to £55 million over the two years.

As at the 31 December 2015 £7.6 million of the £31.2 million target, was rated as either at risk or unlikely to be fully achieved. Whilst the Council are reporting that any non-achievement will be met by surpluses elsewhere in the budget, the scale of the challenge facing the Council does represent a risk to the medium term financial health of the Council.

The Council has identified in the three year financial plan for the period 2017 to 2019 that significant change is needed to create a financially sustainable Council. This is in the context of increased risks through the further reduction in grant funding and greater reliance on income from Business Rates and new commercial opportunities.

- ▶ Review of the MTFP, including the major assumptions in the plan.
- ▶ Review and consider the additional available resources, to include review of the general fund balance and adequacy of this.
- ▶ Obtain an understanding of the budget setting and monitoring process, including assessment of risk and focus on key areas of service.
- ▶ Understand the future financial risk of the Council.

Working with partners and other third parties

Pooled budget agreement

In 2015 PWC reported that there was no formal agreement in place between Sefton MBC and the CCG's.

A lack of formal agreement exposes the Council to an increased risk of partners not agreeing on the share of

- ▶ Review the monitoring and performance of the contact to assess the effectiveness of the partnership.
- ▶ Review of the arrangement in place and progress against putting a formal agreement in place.

assets and liabilities associated with the pooled budget.

The Council have identified that the introduction of the pooled budget to manage £24m of Health CCG resources and local authority adult social care funding is a key risk, and that the progression towards greater value for money through the integration of service commissioning will be an important opportunity to ensure effective use of resources but the successful delivery of synergised integration remains a challenge and a risk.

4.1.1 Significant Risk – medium term financial planning

The Council has a track record of delivering identified savings and this performance has continued in 2015/16 with savings of £34.8 million, enabling a balanced budget at year end.

In looking forward to 2016/17, the challenges remain just as acute with savings of £37 million in 2016/17 in year needed to be implemented in order to achieve a balanced budget. The position as at the end of June 2016 for the achievement of savings is that £28.1million (75%) of the total required savings in 2016/17 of £37.4 million have been delivered or are on plan; with £1million at some risk of not being fully achieved. A further £8.2 million of savings have been identified at “Red” risk of not being delivered. The Council are in the process of challenging services to review all areas of expenditure in order to contribute to a year end balanced position, to ensure the outturn position remains within the savings required. It is notable that the budget and forecast outturn includes £6 million of revenue expected from partners in regards to the Better Care Fund, which the Council believed they will not receive. This has been taken into account when assessing the outturn position.

The forecast financial position for 2017/18 – 2019/20 indicates a budget gap of £64 million. The Council is currently developing a transformational change programme in order to create a sustainable future for the Council. When put into context with the significant savings achieved already, continued savings of this size require a fundamental change to the services provided by the Council and how those services are delivered. This work is well underway. The Council has started to develop a three year programme and financial plan to address the medium term challenges.

Despite the scale of the challenges ahead, the Council continues to be ambitious for Sefton and are in the process of developing a ‘2030 vision’ for the Borough of Sefton. They have engaged with local residents, inviting them to share their aspirations for the Borough and what they want and need now and into the future. The vision for Sefton 2030 is shared across residents, businesses, investors, visitors and workforces, and has clear priorities.

Delivering these plans will be a significant challenge for the Council. Given the scale of the transformational programme the Council needs to ensure that programmes are properly scrutinised, managed and delivered. In doing so Members will need to ensure there are robust plans and performance management processes in place to track the progress and delivery of actions, including the formulation of mitigating plans in the event of non-delivery.

Summary of procedures performed and conclusions reached

Planned procedures	Work performed	Conclusions reached
Review of the MTFP, including the major assumptions in the plan.	We reviewed the Council’s process in developing the MTFP for 2015/16 and for 2016/17 and beyond. We have discussed with management the progress against the vision 2030 and the preparation of the 2017 – 2020 budget and reviewed initial proposals to evaluate financial resilience.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.

Planned procedures	Work performed	Conclusions reached
Review and consider the additional available resources, to include review of the general fund balance and adequacy of this.	We have carried out an analysis of the Councils financial resilience by comparing the reserves against identified saving identified in the MTFP to assess the Councils going concern in the event of savings not being delivered.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.
Obtain an understanding of the budget setting and monitoring process, including assessment of risk and focus on key areas of service.	We met with management and reviewed key reports and minutes of meetings to obtain a clear understanding of the Council's arrangements to develop specific savings, and the ongoing monitoring and reporting of these savings.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.
Understand the future financial risk of the Council.	We have discussed with management the progress against the vision 2030 and the preparation of the 2017 – 2020 budget and reviewed initial proposals to evaluate financial resilience.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.

4.1.2 Significant risk - Pooled Budget Agreement

We identified in our audit plan that the s.75 agreement in place for the Better Care Fund did not fully reflect the expected income, which was exposing the Council to potential shortfalls in expected income due to disagreements on financial obligations with its partners.

In year we held a number of meetings with management to review the performance of the Better Care Fund in 2015/16, supported by a review of reports and minutes of meetings, we discussed the arrangements put in place to establish governance over the Better Care Fund and also during the year and the Council's response to escalate report and recover from the budget gap.

Sefton contends that an additional £3 million were due to the Council in 2015/16 followed by £6 million in 2016/17. The sums were included in the revenue budget for each respective year, but the liability was disputed by the CCG. Following an arbitration panel meeting, it was determined that the Council would not receive the sums expected and as such this will impact the Council's Medium Term Financial Plan (MTFP). In mitigation the Council sought remedial measures and assumed the worst case scenario for financial planning purposes once they were aware of the CCGs position.

Following the arbitration meeting a BCF plan for 2016/17 has been agreed and submitted to NHS England. The Council recognises that delivery of its objectives will not be fully achieved without the co-ordinated input of all partners within the health and social care system.

Moving in to the second year of the Better Care Fund we are noting, nationally, that many partners have developed their plans for collaborative working, by:

- ▶ Reviewing care pathways to deliver improved patient outcomes and genuine system wide efficiencies;
- ▶ Revisiting governance arrangements after a year's experience;
- ▶ Working towards fully integrating commissioning;
- ▶ Further honing arrangements for reporting financial and non-financial information; and
- ▶ Delivering fair risk share arrangements between partners.

Across the country health and local government bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area. In the context of Sefton Council it is important that following the disagreement on funding, partners now work together to deliver on the Better Care Fund objectives. We would also recommend there is formal agreement of all aspects before the start of the financial year.

4.1.3 Other areas of VFM focus

OFSTED: Children in need to help inspection

In June 2016 OFSTED, published a report on the Services for Children in Need of Help. The service was rated as 'Requiring improvement to be good' across all areas inspected.

The report highlights that:

- *Children's services in Sefton require improvement to be good. Services for children in need of help and protection have not made progress since they were last inspected in 2011 and services for children looked after have deteriorated. Some areas of improvement identified then, such as ensuring that effective management oversight is clearly recorded in case notes, have not been sufficiently addressed.*
- *No children have been found in situations of unassessed or unacceptable risk through this inspection.*

The report further highlights that heads of service, which are relatively new to the post, have made good progress in introducing measures to support effective practice. However, more improvements need to be done as elements of the service remain inconsistent.

The Council has responded positively by identifying specific area for improvement against each of the recommendations raised. Whilst the report identifies areas of improvement, we are satisfied that, as reported by Ofsted, the Council had started to take action to make these improvements.

Procurement

In June 2016, the Council engaged an independent review to investigate a specific element of a procurement process. The review identified "*an environment that lacks clearly defined responsibilities and accountability*". The report highlighted general weaknesses including:

- ▶ The roles of the Procurement team and the responsibilities of the Service are not clearly documented.
- ▶ There is no formal approval process for agreeing the final versions of the PQQ or ITT or any subsequent changes to documentation.
- ▶ Issues identified with the procurement guidance include:
 - The procedure was last updated in April 2014 prior to the Public Sector Contract Regulations 2015;
 - The contract procedure rules do not refer specifically to the use of Chest or include procedural guidance about how to use the 'electronic tendering method';
 - The rules do not clearly allocate the responsibility for managing the procurement including the split between procurement and the service line ;

- The rules do not clarify the conditions for communication with suppliers during a tender process;
- The rules do not clarify the process for approving an ITT; and
- The rules do not clarify the process for managing ITT variations.

The above issues are significant weaknesses in the internal control for the procurement of services. We are undertaking additional work on the Council's procurement processes to assess if the issues identified are isolated to the case investigated.

The Council have responded positively to the findings of the investigation and have as a matter of urgency developed an action plan to respond to the recommendations made. The Internal Audit programme for the 2016/17 audit year is being enhanced to place additional focus on procurement activity.

4.2 Overall conclusion

We have substantially completed our planned work to support the VFM conclusion. We currently need to undertake additional work on the Council's procurement processes in order to reach a conclusion. We will provide an update to the Audit Committee upon completion of our review.

Appendix A – Detailed audit findings

Unadjusted misstatements

There are no audit findings that have not been adjusted for by management.

Corrected audit differences

We set out below the corrected audit differences above £651,000 that were identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

No adjustment impacts on the Council's general fund or reported financial position.

Balances effected	Amount £'m	Explanation	Impact
IMPACTING MAIN STATEMENTS			
<ul style="list-style-type: none"> ▶ Comprehensive Income and Expenditure Statement (Housing Services Expenditure) & Movement in Reserves ▶ Balance Sheet Short-Term Payables (Other Entities and Individuals) & Capital Adjustment Account -REFCUS 	4.1	Non-accrual of capital invoices relating to 2015/16 expenditure.	No impact on the Council's net assets or on the general fund.
<ul style="list-style-type: none"> ▶ Balance Sheet <ul style="list-style-type: none"> · Short-Term Payables - NHS Bodies to · Short-Term Receivables - NHS Bodies 	2.3	Better Care Fund - Incorrect accounting for de recognition of transactions on the Balance Sheet	No impact on the Council's net assets or on the general fund.
<ul style="list-style-type: none"> ▶ Comprehensive Income and Expenditure Statement & Movement on Reserves Statement ▶ Balance Sheet - Other Land & Buildings Accumulated Depreciation written out on Impairment & Capital Adjustment Account - Revaluation of non-current assets 	1.5	Correction to reflect the revaluation of revaluation of Ainsdale Hope High School site not applied in draft statements	No impact on the Council's net assets or on the general fund.
IMPACTING DISCLOSURE NOTES ONLY			
<ul style="list-style-type: none"> ▶ Note 31: Short-Term Receivables. <ul style="list-style-type: none"> · Other Entities and Individuals; from · Government Departments 	5.8	Incorrect classification of debtors relating to housing benefits	No impact on the Council's net assets or on the general fund.
<ul style="list-style-type: none"> ▶ Note 4- Adjustments between Accounting Basis and Funding Basis Under Regulations ▶ Note 19 - Grant Income ▶ Note 39 - Capital Grants and Contributions Unapplied 	0.96	Correction relating to de recognition of previously accounted for Capital Grants and Contribution	No impact on the Council's net assets or on the general fund.
<ul style="list-style-type: none"> ▶ Note 6 - Amounts Reported for Resource Allocation Decisions 	5.6	Incorrect classification of Refcus in Note 6	No impact on the Council's net

Balances effected	Amount £'m	Explanation	Impact
<ul style="list-style-type: none"> · Other operating income; from · Gain/loss on disposal of asset 			assets or on the general fund.
<ul style="list-style-type: none"> ▶ Note 6 - Amounts Reported for Resource Allocation Decisions <ul style="list-style-type: none"> · Depreciation; from · Other Service Expenditure 	1.8	Incorrect classification of Depreciation / Amortisation re. Crosby PFI, Arvato & Leased In Properties in Note 6	No impact on the Council's net assets or on the general fund.
<ul style="list-style-type: none"> ▶ Note 6 - Amounts Reported for Resource Allocation Decisions <ul style="list-style-type: none"> · Employee expenses, from · Other operating expenses 	0.68	Incorrect classification of employee expenses	No impact on the Council's net assets or on the general fund.
<ul style="list-style-type: none"> ▶ Note 20 - Property Plant and Equipment <ul style="list-style-type: none"> · Other Land & Buildings Revaluations, from · Other Land & Buildings - Depreciation 	3.9	Incorrect classification of movements in PPE values	No impact on the Council's net assets or on the general fund.

Disclosures

In addition to the above, we have also requested a small number of other narrative adjustments to disclosures. These are:

- ▶ Enhancement to the Annual Governance Statement to reflect control weaknesses identified in year.
- ▶ Additional disclosures in Related Party Transaction note to reflect transactions with the Formby Trust.

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee in September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of February 2016.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

	Predecessor auditor fee	EY planned fee	EY forecast fee
Financial statements and VFM conclusion	169,196	126,897	148,397*

*The additional fee is in regards to:

- £7,500 additional work for Minimum Revenue Provision
- Expected £14,000 for additional audit resource required as a result of additional procedures to for the value for money conclusion, delays in provision of adequate working papers, and additional time spent following up from the issues and outstanding queries following the initial planned site work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix D – Draft audit report

Independent auditor's report to the members of Sefton Metropolitan Borough Council

To follow

Appendix E – Management representation letter

DATE

Ernst & Young
Manchester

This letter of representations is provided in connection with your audit of the financial statements of Sefton Metropolitan Borough Council (“the Council”) for the year ended 31/03/2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Sefton Metropolitan Borough Council as of 31/03/2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 3. We have made available to you all minutes of the meetings of the Council and Cabinet and Audit committees held through the Financial Year to the most recent meeting on the following date: 01 September 2016
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the Financial Year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
 7. With the exception of matters reported to you we believe that there is an effective system of internal control in operation in regards to procurement of goods and services within the Council.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Accounting Policies to the financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Use of the Work of a Specialist

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

Yours faithfully,

(Director of Finance & Resources)

(Chair of the Audit Committee)

Appendix F – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Sefton Metropolitan Borough Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have not matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Annual Audit Letter/Audit Results Report
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan and Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan <p>Breakdown of fee information at the completion of the audit</p>	Audit Plan Audit Results Report Annual Audit Letter (if considered necessary)
<p>Certification work</p> <p>Summary of certification work undertaken</p>	Certification Report

Appendix G Action Plan

No:	Finding	Recommendation	Management response	Priority (H/M/L)	Implementation date/responsibility
1	<p>Procurement</p> <p>An investigation by the Council has identified significant weaknesses in the internal control processes associated with the central procurement function. This issue is being reviewed by the Council and an action plan being implemented.</p>	<p>The Audit Committee should ensure that planned actions for improvement are implemented and ensure a review of overall processes is undertaken.</p>		H	
2	<p>Closedown process</p> <p>The draft statements dated 13 June 2016 were superseded by a revised set of statements on 20 June 2016. However, the Council did not have comprehensive working papers in place to support the statements at the outset; this resulted in significant delays and inefficiencies in the audit process.</p>	<p>The Council needs to ensure that its controls and closedown procedures are robust enabling an effective and efficient closedown and production of the accounts within the agreed timescale, supported by a comprehensive set of working papers.</p>	<p>The 2015/2016 accounts were the first ones to be completed using the Council's new financial management system, Agresso. In addition it was the first year of the Council's new auditors, EY. Whilst there were some delays in producing some supporting working papers because of the new system the main issues related to the different requirements and approach of EY compared to our previous auditors, PwC. This led to a difference of expectations as to what would be available at the commencement of the audit. Whilst these issues were resolved during the audit, the Council will work with EY to ensure that for 2016/2017 comprehensive working papers are provided within the agreed timescale.</p>	H	In advance of the 2016/17 closure of accounts process.

No:	Finding	Recommendation	Management response	Priority (H/M/L)	Implementation date/ responsibility
3	<p>Pooled Budgets</p> <p>We identified in our audit plan that the s.75 agreement in place for the Better Care Fund did not fully reflect the expected income, which was exposing them to potential shortfalls in expected income due to disagreements on financial obligations with its financial partners. There was an expectation that savings of £3m in 2015/16 which would be achieved between the CCGs and Sefton to contribute to the pressures being experienced by Adult Social Care. This was not achieved leaving a shortfall.</p>	<p>Formal agreements should be implemented before the start of the financial year which reflect the agreed savings targets.</p>	<p>The BCF plan for 2016/17 has been agreed and submitted to NHS England. The revised S75 agreement is to be taken to the Health & Wellbeing Board before the October 2016 deadline.</p>	H	<p>Before October 2016</p>
4	<p>Asset verification</p> <p>Over and above the rolling programme of valuations the Council does not have in place formal arrangements to periodically verify the existence of significant moveable assets. Based on the verification testing we have undertaken and the application of our materiality level, we gained assurance regarding the existence of assets. The lack of periodic verification does represent a weakness in central controls and highlights safeguarding issues. The Council should design an appropriate procedure to confirm the existence of assets.</p>	<p>The Council should design an appropriate procedure to confirm the existence of assets.</p>	<p>Moveable assets include of vehicle / equipment assets plus paintings / artefacts within the works of art collection. A process will be introduced where by a sample list of significant assets taken from the asset register will be sent to relevant departments to ensure that the assets still exist. Regular sample checks will be made during the year.</p>	M	<p>To be confirmed</p>
5	<p>Payroll</p> <p>Our testing of payroll identified 7 instances where contracts were not signed by employees, and 2 further contracts could not be located.</p>	<p>The Council should ensure that it retains contracts for all employees that are signed and dated.</p>	<p>A protocol in place with Arvato which requires them to chase employees who have not returned / signed their employment contracts, with subsequent escalation to the line manager. An amended process will be implemented which will require Arvato to escalate non-compliance through to the Personnel Team within Sefton who can then pursue the individual and or manager.</p>	M	<p>October 2016</p>

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

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