Auditor’s Annual Report

Knowsley Metropolitan Borough council – years ended 31 March 2022 and 31 March 2023

March 2024

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Contents

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Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Knowsley Metropolitan Borough Council ('the Council') for the years ended 31 March 2022 and 31 March 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements

For the year ended 31 March 2022:

- Our opinion on the financial statements was unqualified and we issued our audit report on 17th August 2023 by Engagement Director Mark Dalton.
- Detailed audit findings were reported to the Governance and Audit Committee in November 2022 and August 2023.

For the year ended 31 March 2023:

- Our opinion on the financial statements was unqualified and we issued our audit report on 13th March 2024 by Engagement Director Daniel Watson. Detailed audit findings were reported to the Governance and Audit Committee in January 2024 and March 2024.

Value for Money arrangements

For the year ended 31 March 2022:

- In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.

For the year ended 31 March 2023:

- Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements. We have not identified any significant weakness in arrangements.

Wider reporting responsibilities

Since 2021/22, the threshold for completing detailed audit work on the Council's WGA return has increased. The Council is below the revised threshold, however we expect the National Audit Office to select a sample of councils where auditors will undertake detailed procedures.

We are unable to commence our work in this area until we receive the list of sampled Councils. This remains the case for both the 2021/22 and 2022/23 audits.

Once we have received confirmation from the NAO that they will not be selecting the Council as a sampled component for additional work in relation to Whole of Government Accounts (WGA) or further instructions from the NAO as to the additional procedures required to be undertaken on the Council's WGA returns, we will be able to issue our certificate for the 2021/22 audit. The same situation also applies to our 2022/23 audit.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts.

We have received no formal questions or objections in respect of Knowsley MBC's 2021/22 and 2022/23 financial statements.

Change in Engagement Lead

We made a change to your Engagement Lead with Daniel Watson replacing Mark Dalton for the 2022/23 financial year. Daniel Watson will also be responsible for overseeing both the work on VFM and WGA and issuing the certificate for the 2021/22 financial year.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinions

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and as at 31 March 2023 and of its financial performance for the years then ended.

We issued our audit report for the 2021/22 financial year on 17th August 2023 and issued our audit report for 2022/23 on 13th March 2024.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Council's accounting practices

For both the financial year ended 31 March 2022 and the financial year ended 31 March 2023 we reviewed the Council's accounting policies and disclosures and concluded they comply as applicable with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in line with the statutory deadline in both years and they were of a good quality.

Significant difficulties during the audit

During the course of both of the audits we did not encounter any significant difficulties and we had the full co-operation of management.

Reporting responsibility	Outcome
Annual Report	For both the year ended 31 March 2022 and the year ended 31 March 2023, we did not identify significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	For both the year ended 31 March 2022 and the year ended 31 March 2023, we did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

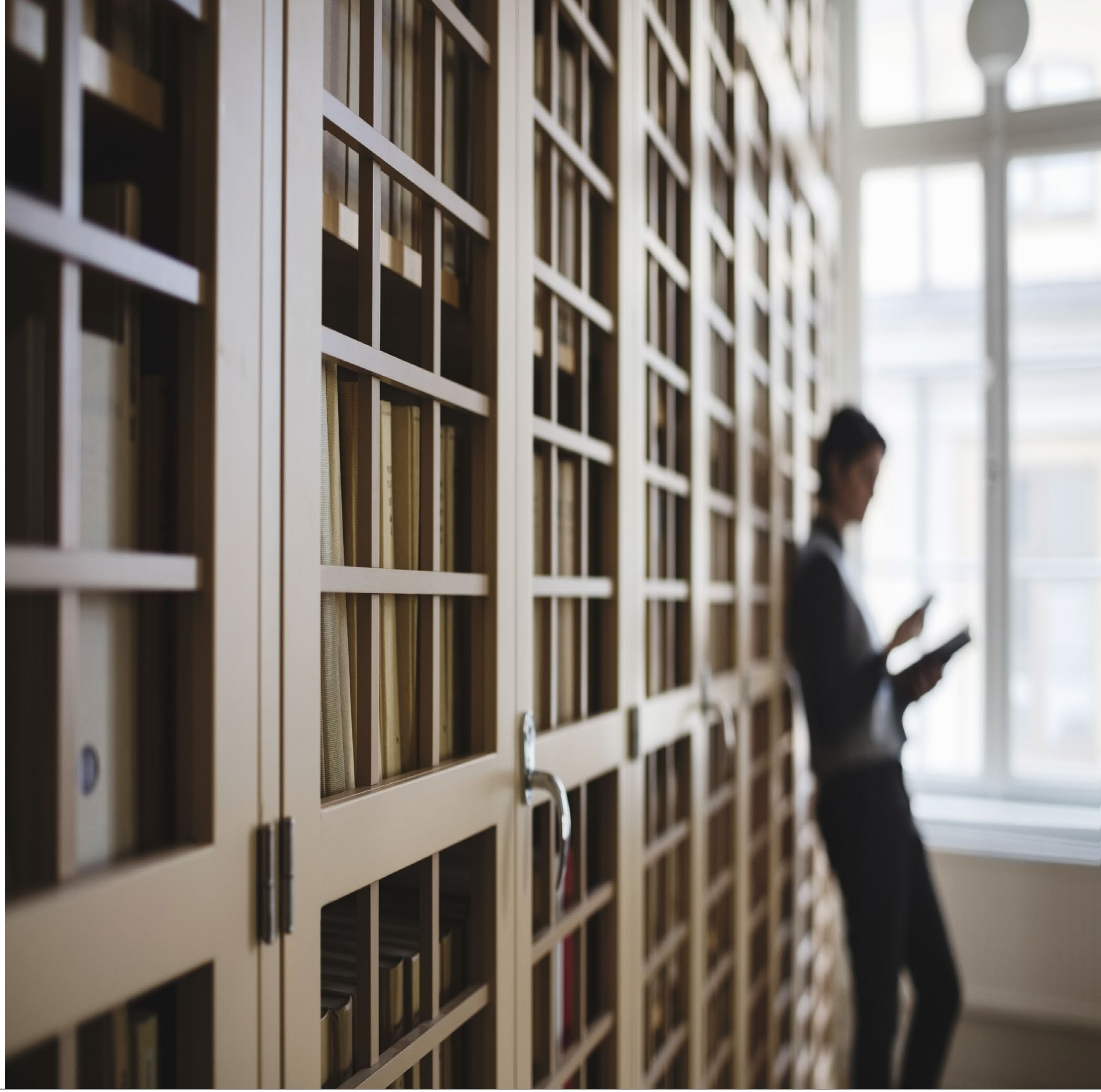
03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

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

Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment
At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation
Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks in Appendices A and B.

Phase 3 - Reporting the outcomes of our work and our recommendations
We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
  We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**
  We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria for both the year ended 31 March 2022 and the year ended 31 March 2023, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

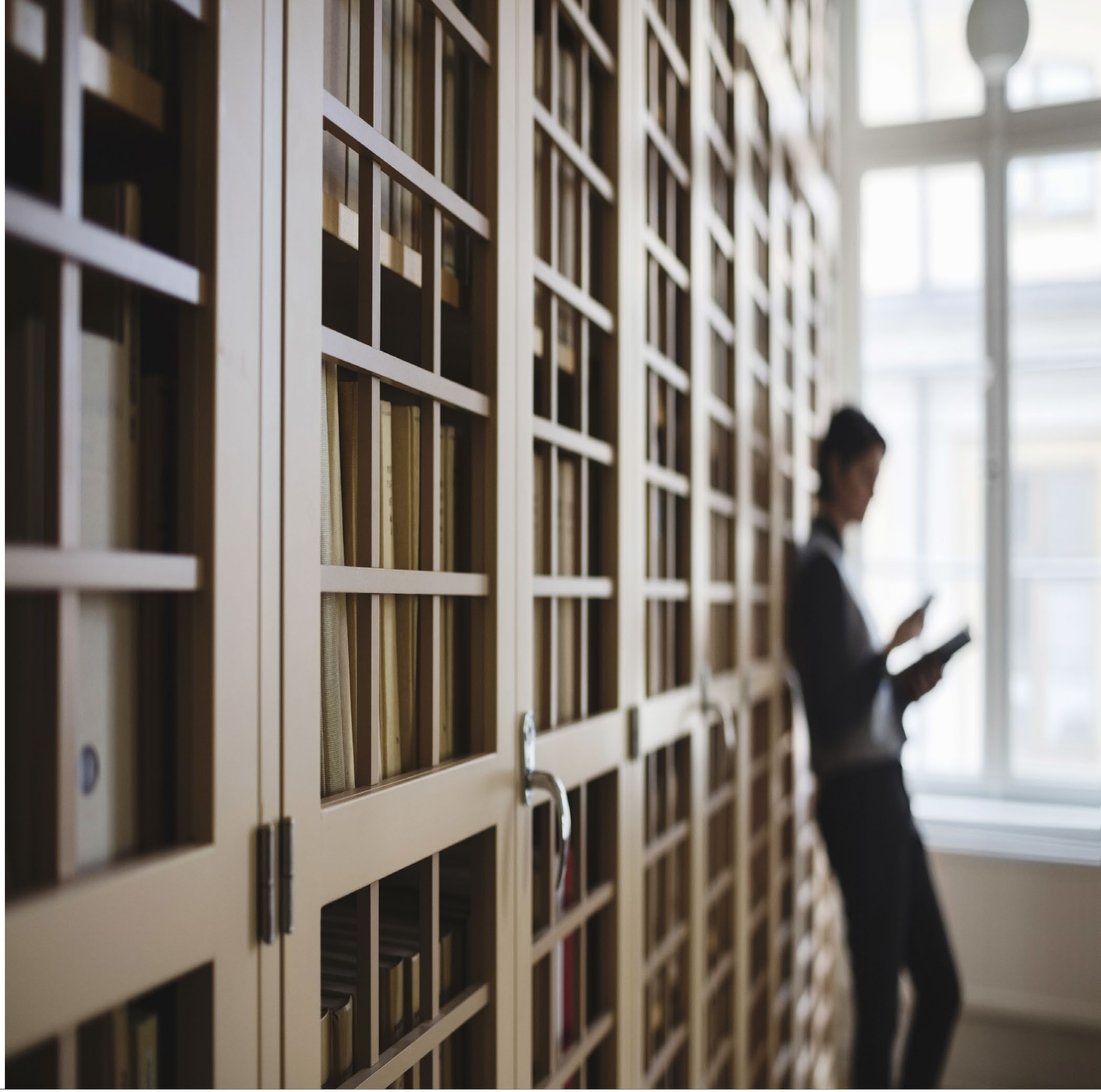
Overall summary by reporting criteria

Reporting criteria 2021/22 and 2022/23	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	11	No	No	No
Governance	14	No	No	No
Improving economy, efficiency and effectiveness	17	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

We found arrangements were consistent in 2021/22 and 2022/23.

Background to the LG financing regime in 2021/22 and 2022/23

Since March 2020 local authorities have faced a period of unprecedented challenge, both financially and economically, as they are responding to the impact of, and recovery from, the global Covid-19 pandemic. This led to significant changes in how the Council operates and delivers services to the residents and businesses of Knowsley. Throughout the past three years, the Council has adapted to new ways of working in order to ensure the continuation of service delivery and the provision of new services to support the local communities through the pandemic. More recently, the Borough moved toward recovery from the immediate impact of national restrictions and the outbreaks of new Covid variants.

The financial impact of the coronavirus pandemic on the Council has been significant. During 2022/23 the Council continued to face additional costs and a loss of income as a result of financial scarring from the pandemic. Whilst the Council has received some financial support from the Government to address these issues, it clearly recognises that this funding is one off in nature. As such has continued to work to understand the longer-term impact of the pandemic and adapt its financial plans over the medium term.

As the Council looks towards the future, the financial challenges only increase. In addition to dealing with the recovery from the Covid-19 pandemic, the war in Ukraine has had an adverse impact on the UK economy, with resulting increases in energy costs, supply chain issues and inflation rates reaching highs not seen in recent times. The subsequent increases in the cost of living, which are forecast to continue for the foreseeable future, will mean the Council needs to pay close attention to its budget position and reassess the impact at regular intervals in order to identify mitigations at the earliest opportunity.

2021/22 and 2022/23 Financial statement performance

We have undertaken a high-level analysis of the audited financial statements, including the Movement in Reserves Statement and the Balance Sheet.

The Council’s balance sheet has seen some significant movements over the last two years. Overall, the Council’s net assets have increased from £415.8m to £430.1m as at 31 March 2023. The most significant changes in the balance sheet relate to the Council’s share of the pension fund, which has seen a reduction in the overall net liability £319.9m from £350.8m as at 31 March 2021 to £30.8m as at 31 March 2023. There has also been an increase in the value of the Council’s property, plant and equipment portfolio of £16m compared across the two-year period. It is not unusual to see material movements in the net pension disclosures and this is consistent with our experience at other local authorities. The movements in property values are reflective of the Council’s capital programme and change regularly as a result of asset valuations.

The Council's useable reserves increased from £112.2m to £124.4m in 2021/22 and the during 2022/23 they have reduced to £113.2, with general fund reserves following a similar trajectory and landing at £109m as at 31 March 2023 a slight decrease from the balance at the start of the two-year period of £111.2m. These reserves provide some mitigation against future financial challenges however, the Council will need to ensure that any use of reserves to smooth the financial position over the next few years is properly planned/ the use of reserves cannot be relied upon to provide long term solutions to funding gaps.

The Council’s financial planning and monitoring arrangements

The budget for 2021/22 was set and approved in March 2021 and the budget for 2022/23 was approved in March 2022 in line with statutory requirements. The Council’s financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. Consultation with officers and members are a key part of the budgeting arrangements, and these are detailed and extensive.

For both 2021/22 and 2022/23 the Council took advantage the council tax referendum limit of 1.99% and the adult social care precept of 2%, both of which were incorporated. The budgets for each year did not identify any further savings that would be needed to be approved in order to balance the budget. The budget also identified that £8.7m and £2.3m was available for one-off investments in 2021/22 and 22/23 respectively and the budget report included options for this investment. The forecast was for a surplus of £3.8m in 21/22 and £1.5m in 2022/23.

Quarterly revenue budget monitoring reports are presented to the Cabinet which provide detailed summaries of the current revenue budget position and the year-end forecasted outturn. The reports include executive summaries that are supported by any key issues that have arisen on individual service budgets. Review of minutes from Cabinet meetings confirm comprehensive review, challenge and consideration of these reports takes place.

A Robustness Report is also presented to Council each year to support the budget that is presented. The Robustness Report sets out the overall context and approach to budget setting as part of the wider financial strategy and includes details of the main features that demonstrate the reliability of the annual budget setting process. We have reviewed these documents and underlying support for the features of the budget setting process and our review confirmed that the documents were comprehensive and detailed and the workshops and meetings were timely and delivered the intended outcomes to assist with the budget preparation

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

We found arrangements were consistent in 2021/22 and 2022/23.

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Strategy (MTFS) is a current plus two year plan that sets out the Council's commitment to provide services that meet the needs of the local electorate and that represent good value for money.

A key part of the MTFS is to highlight the budget issues that need to be addressed by the Council in each of the years covered. This includes assumptions to allow forecasting of the level of available resources from all sources together with the budget pressures relating to both capital and revenue spending. It also assesses the adequacy of reserves and provisions held for past events which may impact on the Council's resources.

The Council's budget setting process is detailed and comprehensive and there is detailed consultation and discussion with officers and members including policy study sessions. Briefings are sent to budget holders setting out the annual process to be followed, the timetable the key reports to be presented to the Cabinet and Council.

We reviewed a range of these budget preparation documents and meetings held as part of the budget setting process. Our review confirmed that the documents were comprehensive and detailed and the workshops and meetings were timely and delivered the intended outcomes to assist with the budget preparation.

Arrangements and approach to 2023/24 and beyond financial planning

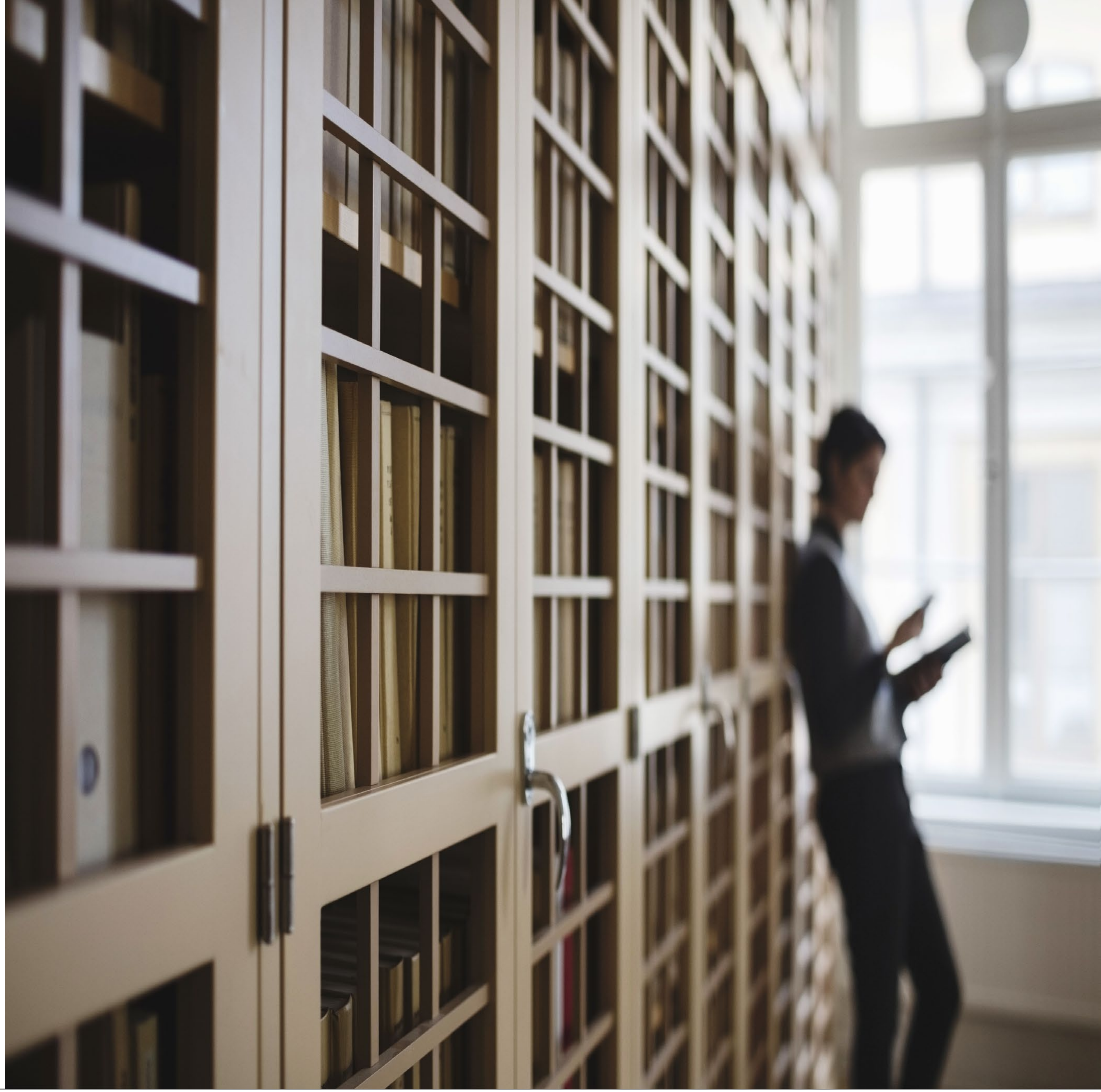
During the 2022/23 and 2023/24 financial year, the arrangements for the 2023/24 and 2024/25 budget setting processes largely followed the arrangements in place for the previous two years but with a better understanding based on the experiences during the year of the impact of the cost of living crisis and the longer impacts of the covid-19 pandemic.

The budget for 2023/24 was approved at the March 2023 Council meeting and the 2024/25 budget is going to the March 2024 Council meeting. In respect of 2024/25 the Council has identified an underlying deficit of £6m reducing to a proposed a deficit of £1.042m after taking account of a council tax increase of 4.99% and savings assumptions of £5m. Looking further ahead the MTFS identifies underlying deficits of £12.1m in 2025/26 and £13.6m in 2026/27. the Council has identified further savings that will reduce these underlying deficits to £4.2m in 2025/26 and £5m in 2026/27.

We have reviewed the budget papers and confirmed that the budget assumptions are sensible, realistic and properly applied.

Notwithstanding the financial challenges faced by the Council and wider local government sector, we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. Commentary on VFM arrangements



Governance

How the body ensures that it makes informed decisions and properly manages its risks

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

We found arrangements were consistent in 2021/22 and 2022/23.

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. The Governance and Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information. The Committee is presented with the risk register on a regular basis and provides challenge as part of the process.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council facilitates this through Internal Audit.

The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Governance and Audit Committee prior to final approval. The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2021/22 and 22/23 and confirmed they are consistent with the risk based approach.

At the end of each financial year the Head of Internal Audit provides an Annual Report on counter fraud and internal audit activity, summarising the work completed during the year. For 2021/22 the Head of Internal Audit detailed that 91% of audit reviews during the year obtained levels of assurance that gave no cause for concern and that there were no reviews during the year which obtained limited assurance and during 2022/23 the Head of Internal Audit detailed that 80% of audit reviews during the year obtained levels of assurance that gave no cause for concern and that there were no reviews during the year which obtained limited assurance.

Throughout the year we have attended Governance and Audit Committee meetings. Through attendance at these meetings we have confirmed that the committee receive regular updates on both internal audit progress and risk management. We have seen active Member engagement from the Governance and Audit Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

We have also reviewed meeting minutes from both Council and Cabinet meetings which evidence an appropriate level of member engagement and challenge.

Arrangements for budget setting and budgetary control

The 2021/22 Budget Report was approved in March 2021 and the 2022/23 Budget Report was approved in March 2022 and during both 2021/22 and 2022/23, these were updated regularly. The Council has well established budget monitoring arrangements in place.

Budget monitoring is the responsibility of budget managers with the support of the Finance Service. Detailed budget monitoring timetables are produced each year and each directorate receives a budget monitoring meetings frequency document setting out the meetings that will take place, how often and which key officers from across the council will be in attendance.

Financial reports (briefings) are produced on a regular basis and meetings are held to discuss progress against the financial forecasts We have reviewed a sample of the finance reports (briefings) which have been prepared throughout the two financial years, which evidence that an appropriate level of detail is included to keep directors, the Senior Leadership Team and members informed of any actual of potential overspends, including detail on how these areas are being managed.

We have reviewed Council minutes and confirmed there was regular reporting of the financial position during both 2021/22 and 2022/23 financial years. Budget Monitoring Reports go to Cabinet during the year, which set out forecasts for the in-year budget position. The outturn position was not significantly different to that reported to Members during the year and did not indicate a weakness in arrangements.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). The Governance Framework comprises the culture, values, systems and processes which direct the way the Council works and through which it accounts to, engages with and leads its communities. Key elements of the governance framework are set out in the Code of Corporate Governance and summarised in the AGS each year.

The Governance Framework at the Council is based fundamentally on the Constitution of the Council. The Constitution is kept under review and updated annually at the Council's Annual Meeting. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Scheme of Delegation to Officers, Budget and Policy Framework Procedure Rules, Officer code of conduct.

The Council have five Overview and Scrutiny Committees and the meetings provide an opportunity to challenge decisions. The Council operates a Governance and Audit Committee which has the appropriate status in the organisation to challenge management and obtain assurance on the operation of the internal control framework.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations

We have reviewed Council minutes in the year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The work of other regulators

There are few external regulators for metropolitan councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements for either 2021/22 or 2022/3. During the two years under review the Council had a number of inspections from various regulators including HMIP, OFSTED and the Care Quality Commission (CQC). We reviewed the regulatory reports issued in respect of the Council, including by OFSTED and the Care Quality Commission (CQC). The Council Children's Social Care service had a full inspection in October 2021. A report was issued in December 2021 and the service was graded "Requires Improvement to be Good". Following this visit a revised governance structure was introduced to oversee the improvement plan since 2021. This saw the creation of the Improvement Board and following the full inspection update reports have been presented to the Executive Management Team, and portfolio holders. The Council had further focused visits in October 2022 and January 2024 that noted that since the last inspection senior leaders have continued to prioritise children's services and noted areas of positive developments. We have reviewed the original inspection report and the Council's response to the report and do not consider this to be a significant weakness in arrangements of the Council.

The Council also had a SEND inspection in March 2022, which was a joint inspection of the local area of Knowsley to judge the effectiveness of the area in implementing the special educational needs and/or disabilities (SEND) reforms as set out in the Children and Families Act 2014. Whilst the report identified a number of positive findings the Council and the CCG were required to submit a Written Statement of Action (WSOA). A separate partnership Board was created to oversee the written statement of action response and the action plans that were created. An inclusion strategy was launched in January 2023 that was produced with stakeholders from across all key sectors including health and education. We have reviewed a sample of meeting agendas and minutes and seen iterations of the subsequent action plan that confirms the Councils joined up approach with key partners in delivering improvements for the Knowsley local area. Subsequent monitoring visits have noted improvements in all priority areas. We do not consider there to be a significant weakness in arrangements in relation to this area.

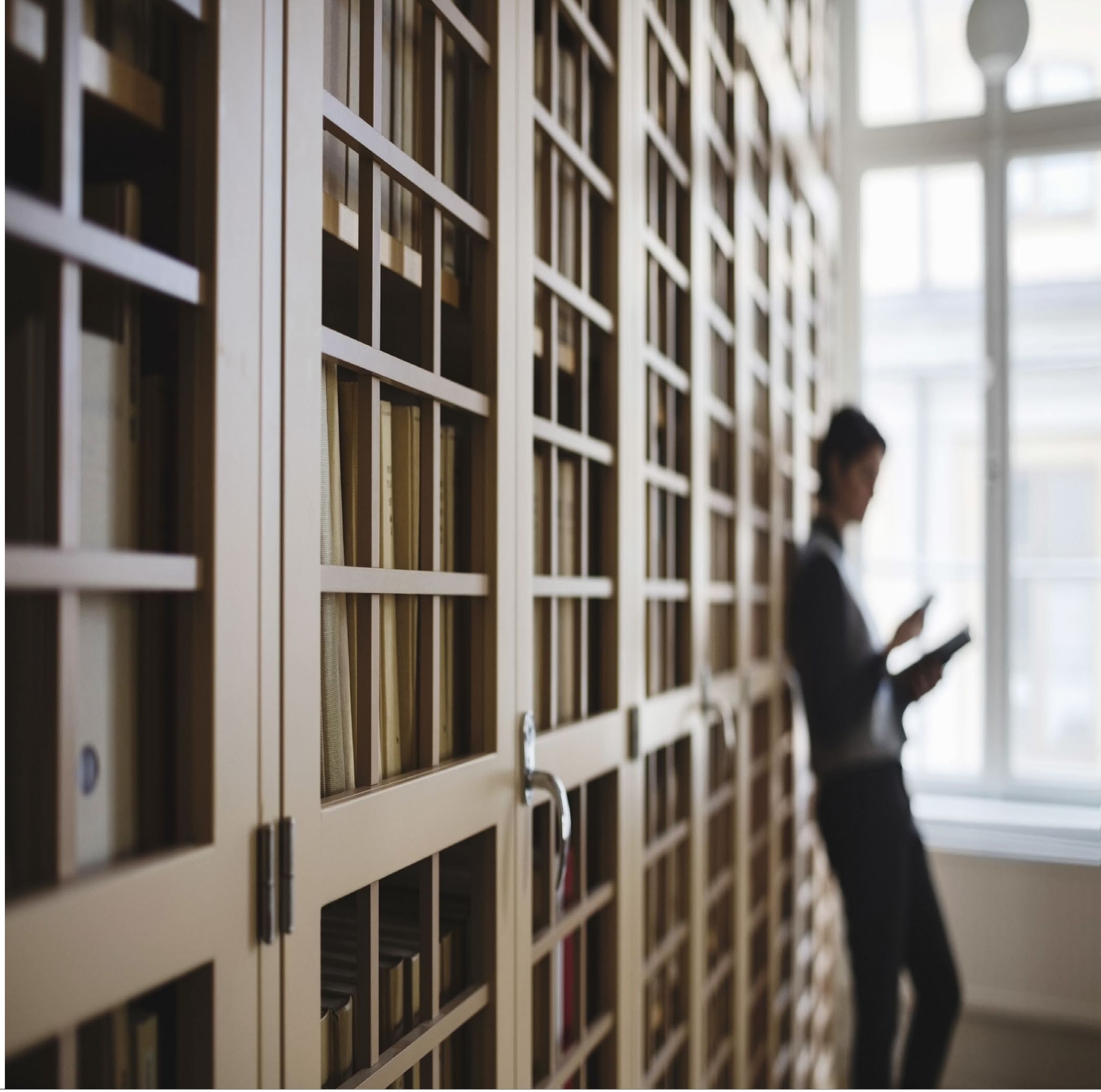
The Council also have a Children and Families Board that receive quarterly reports providing updates on the activity and impact of the Improvement Board following Children's Social Care Ofsted visits.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

We found arrangements were consistent in 2021/22 and 2022/23

The Council's arrangements for assessing performance and evaluating service delivery

The Council has a performance management framework and performance and risk are considered together in the individual service plans and key projects, performance indicators and risks are reflected in departmental plans, which are monitored quarterly.

The Council has worked closely with local strategic partners, residents, businesses and other stakeholders to co-produce the Knowsley 2030 strategy, which focuses on five strategic outcomes to be achieved by 2030. The Council produces an annual Corporate Plan, which sets out the Council's priorities and objectives for the period covered by the plan. At the start of 2020/21 it was agreed that the 2019/20 Corporate Plan would continue to remain in place to ensure that the revised Plan would align with the Knowsley 2030 Strategy and enable the Council to incorporate the impact of the covid-19 pandemic. A revised Corporate Plan was approved by Cabinet in November 2020. This proposed that the existing five priorities would remain, and that significant emphasis is given to the recovery of the borough from the covid-19 pandemic. The 2022-2025 Council Plan was approved at full Council in March 2022. and progress against this plan is monitored at Cabinet throughout the year. The progress monitoring reports set out the achievements made to date and areas of focus for the upcoming months for the Council. We have reviewed a sample of these reports, and this confirmed that they clearly articulate the Council's performance and contain appropriate and detailed information.

The Council's arrangements for effective partnership working

During 2021/22 the Council continued to work closely with the CCG to manage services with the significant impact of the Covid-19 pandemic on health and social care. The Council is party to a pooling of funds with the CCG and operates joint scrutiny arrangements to oversee the joint working arrangements. The Council had weekly finance catch up meetings took place and there was a task and finish group of council officers and CCG officers was established along with a collaboration site on Teams. This ensured that the Better Care Fund Plan and Section 75 management group reporting framework could be developed. Since the creation of the ICB in July 2022, the monthly meetings of the Section 75 Board have continued. Finance Manager attends monthly meetings with ICB Finance Manager. There are also regular meetings with the ICS management team that is attended by the Council's Executive Director of Health and Social Care.

Devolution in Merseyside continues to promote greater partnership working and the Council plays a key part in this agenda. Knowsley Council's Elected Members and officers work in close partnership with stakeholders across the Liverpool City Region on a number of key strategic issues.

The Council is part of the Knowsley Better Together initiative, in which it works together with the local community and voluntary sector for the benefit of the local area. In March 2021 the Council launched the Knowsley Better Together Hardship Fund, which aims to support residents by working in partnership with local residents and businesses to invest in areas such as food and essentials and housing support.

The Council's arrangements for procurement and commissioning services

The Council has a Procurement Strategy, which outlines how the procurement of goods, works and services works and is available to staff on the Council's intranet site. During 2021/22 the previous Strategy, which was adopted in 2016, was in the process of being updated in line with the new National Procurement Strategy for public authorities which has been framed by a Green Paper . The new Responsible Procurement Strategy and Social Value Procurement Framework 2022-26 was approved in November 2022. these documents set out the Council's procurement activity over the following four years and reflects how the Council's procurement activity aligns with the Council Plan 2022-25.

The Council's Constitution contains a chapter on the Contract Procedure Rules. This sets out the detailed process that the Council must follow at all stages of procuring goods or services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability.

We have reviewed the procedure rules, and this confirms that they are comprehensive and cover the procedures, the quotation and tender process, using frameworks, post tender evaluation and contract monitoring procedures.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers in either the year ended 31 March 2022 or the year ended 31 March 2023.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions in respect of either the year ended 31 March 2022 or the year ended 31 March 2023.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

Since 2021/22, the threshold for completing detailed audit work on the Council's WGA return has increased. The Council is below the revised threshold, however we expect the National Audit Office to select a sample of Councils where auditors will undertake detailed procedures.

We are unable to commence our work in this area until we receive the list of sampled councils. This remains the case for both the 2021/22 and 2022/23 audits.

Once we have received confirmation from the NAO that they will not be selecting the Council as a sampled component for additional work in relation to Whole of Government Accounts (WGA) or further instructions from the NAO as to the additional procedures required to be undertaken on the Council's WGA returns, we will be able to issue our certificate for the 2021/22 audit. The same situation also applies to our 2022/23 audit.

4. Other reporting responsibilities and our fees – 2021/22

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in March 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as set out below. Please note additional fees are subject to approval by Public Sector Audit Appointments Ltd (PSAA). There is a 25% increase in the PSAA agreed additional fee rate in 2021/22.

Area of work	2020/21 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£85,822	£85,822
Additional testing on Defined Benefit Pensions Schemes and Property, Plant and Equipment	£7,067	£8,834
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; and ISA570 (Revised): Going Concern	£2,000	£2,500
Additional testing arising from errors identified in the financial statements	£7,500	-
Additional testing arising from the implementation of the statutory override in respect of infrastructure assets	-	£10,000
Additional testing arising from the IAS 19 Triennial Review for LGPS		£3,500
Additional work arising from the change in the Code of Audit Practice and VFM reporting	£10,000	12,500
Total fees	**£112,389**	**£123,156**

4. Other reporting responsibilities and our fees – 2022/23

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in March 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as set out below. Please note additional fees are subject to approval by Public Sector Audit Appointments Ltd (PSAA). There is a 25% increase in the PSAA agreed additional fee rate in 2021/22.

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£85,822	£92,889
Additional testing on Defined Benefit Pensions Schemes and Property, Plant and Equipment	£8,834	£9,267*
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; and ISA570 (Revised): Going Concern	£2,500	£2,500
Implementation of ISA 315(R)	-	£10,000
Additional testing arising from the implementation of the statutory override in respect of infrastructure assets	£10,000	-
Additional testing arising from the IAS 19 Triennial Review for LGPS	£3,500	-
Additional work arising from the change in the Code of Audit Practice and VFM reporting	£12,500	12,500
Total fees	**£123,156**	**£127,156**

** includes £7,500 in respect of additional costs in relation to the use of our auditor's expert valuations team for their work on investment property valuations.*

4. Other reporting responsibilities and our fees

Fees for other work

In 2021/22 the Council engaged Mazars LLP for the following non-audit services:

- Teachers' Pension Return - £4,000 plus VAT
- Housing Benefit Return - £12,914* plus VAT

** Includes a base fee of £10,564 and additional fee under the terms of engagement of £2,350*

In 2022/23 the Council engaged Mazars LLP for the following non-audit services:

- Teachers' Pension Return - £4,500 plus VAT
- Housing Benefit Return – base fee of £12,500 plus VAT**

*** At the time of writing this report this work is still underway and a final fee will be agreed with the Council in line with the terms of engagement upon completion.*

A

Appendix A – Further information on our audit of the financial statements 2021/22

A. Further information on our audit of the financial statements

Significant risks and audit findings – 2021/22

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
1. Management Override of Controls In all organisations, management at various levels are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, auditors consider there to be a risk of material misstatement due to fraud and thus a significant risk in the audit of all organisations.	We addressed this risk through performing audit work over: • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. We completed our procedures as planned. There are no matters to bring to the Committee's attention in respect of our work on management override of controls as we identified no evidence that management override of controls was a concern.

A. Further information on our audit of the financial statements

Significant risks and audit findings – 2021/22

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
2. Net defined benefit liability valuation The net pension liability represents a material element of Knowsley Metropolitan Borough Council's balance sheet. the Council is an admitted body of the Merseyside Pension Fund (MPF).The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2021/22.Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	Our procedures included: • Critically assessing the competency, objectivity and independence of the MPF's Actuary, Mercers, including a review of the actuary by our actuarial expert PWC; • corresponding with the auditors of the Merseyside Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; • agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; and • carrying out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation. The pension fund auditors, in completing their audit work, identified an immaterial difference of £43m in the Pension Fund's reported net asset position. This is as a result of differences between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022. Based on this report we estimated the impact on the Council's asset value to be in the region of £3.6m. This is not material to the Council and therefore an updated IAS 19 Valuation Report has not been requested from the Actuary. **2022 Triennial Review** Each year employers within the Local Government Pension Scheme (LGPS) receive an actuarial accounting report prepared in accordance with IAS19 Employee Benefits (IAS19 report). The 2022 IAS19 reports received by LGPS employers for inclusion in the draft 2021-22 financial statements were prepared using data collected for the 2019 triennial valuation. The 2022 triennial revaluation of the Merseyside Pension Fund was issued in advance of the finalisation of the Council's 2021/22 financial statement audit. As part of that revaluation data and information is received in particular around the membership of the fund, which provides evidence of conditions that existed at 31 March 2022. As a result the Council obtained a restated IAS 19 actuarial valuation and has updated their financial statements to reflect the revalued asset and liability within the balance sheet. In summary the net liability has increased by £24.7m.

A. Further information on our audit of the financial statements

Significant risks and audit findings – 2021/22

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
3. Valuation of property, plant and equipment (Land and Buildings) The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle. The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.	Our audit procedures included: • obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer; • obtaining an understanding of the basis of valuation applied by the valuer in the year.; • obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2021/22 are materially fairly stated; • obtaining an understanding of the Council's approach to ensure that assets revalued through 2021/22 are materially fairly stated at the year end; • sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations; • using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2022; • testing the accuracy of how valuation movements were presented and disclosed in the financial statements. Testing a sample of items of capital expenditure in 2021/22 to confirm that the additions are appropriately valued in the financial statements; and • considering the impact of the Covid-19 pandemic on asset valuations, in particular considering the impact of any material valuation uncertainties highlighted. We also competed the work on the Council's Infrastructure asset balances following the Statutory Instrument that was passed In December 2022 and the temporary relief offered by the update to the CIPFA Code. The Council updated the relevant disclosures and updated their accounting policies within the financial statements. We were satisfied that these amendments have been made in line with the updated Code and that the depreciation charge included within the financial statements in respect of infrastructure assets is not materially misstated. Following the completion of this work we raised a number of recommendations in relation to the accounting for Infrastructure assets.

A. Further information on our audit of the financial statements

Significant risks and audit findings – 2021/22

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
4. **Valuation of Investment Properties** The CIPFA Code requires that where Investment Property assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The valuation of Investment Property involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of investment properties due to the significant judgements and number of variables involved.	Our audit procedures included: • obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer; • obtaining an understanding of the basis of valuation applied by the valuer in the year; • obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer; • sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations We completed our procedures as planned and identified one immaterial unadjusted misstatement.

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements – 2021/22

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Insurance provision			459	
	Cr: Insurance expense		459		
	A difference was identified between the Council's supporting documentation provided in support of the insurance provision and the amount included within the financial statements				
2	Dr: Investment Properties			1,873	
	Cr: FV gain/loss		1,873		
	Our testing identified that for 2 investment properties sample tested supporting documentation could not be provided or differences were noted to the valuation calculation assumptions. For a further group of industrial leases assets (total value £15.4m) the incorrect valuation report had been provided to the finance team resulting in the value reported in the financial statements having been understated by £1.5m. The total value of these differences is £1.6m. The £1,885k is the extrapolated overstatement impact of these issues identified through our testing				
3	Dr: Revenue	541			
	Cr: Short term debtors				541
	Our testing identified one balance of value £84k that had been recognised in error – the above is the extrapolated impact of that error on the overall debtors balance.				
	Total unadjusted misstatements	541	2,332	2,332	541

A. Further information on our audit of the financial statements

Internal control observations – 2021/22

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	4
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	3

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 2

1. Description of deficiency

Testing of the right and obligations of the Council's assets identified one item of value £252k within Community assets that should have been written out of the asset register when the main asset to which it was linked was sold in the prior year. The asset related to historic capital spend on changing facilities within a park that had been transferred to a third party.

Potential effects

There is a risk that the balance sheet contains assets that no longer belong to the Council and written out on disposal.

Recommendation

The Council should introduce further checks when assets are disposed and perform a review of all community assets to ensure that there are no other elements of historic spend that are currently held within the balance sheet in error.

Management response

Agreed. These checks will be implemented with immediate effect.

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 2

Description of deficiency

Our testing of the Council's infrastructure balances identified that infrastructure additions were not always apportioned to the correct subcategory of asset.

Potential effects

As the different subcategories of infrastructure balances are depreciated over different useful economic lives there is a risk that the incorrect depreciation charge is accounted for each year.

Recommendation

Management should put in place arrangements and recording mechanisms to ensure that going forward all capital additions to the infrastructure balance are appropriately apportioned to the correct subcategory of infrastructure assets.

Management Response

Agreed. Capital additions will be appropriately categorised.

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 2

Description of deficiency

Our work undertaken on the Council's infrastructure balance identified that during 2021/22 the Council had not incorporated the most appropriate useful economic lives as set out in the updated accounting policy for the subcategories of infrastructure assets.

Potential effects

Whilst we were satisfied that for 2021/22 the depreciation charge had not been materially misstated there is a risk that the current depreciation charge does not reflect the current accounting policy of the Council and that the NBV of infrastructure assets is over or understated.

Recommendation

Management should ensure that going forward the depreciation charge applied to the infrastructure balance incorporates the most appropriate UELs for the asset subcategories

Management Response

Agreed. Depreciation on new capital additions will be calculated using the revised useful lives set out in the Council's Accounting Policies.

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 2

Description of deficiency

Our work undertaken on the Council's infrastructure balance identified that Management had placed reliance on a valuation exercise that had been completed by an external expert in 2017/18 in order to perform sensitivity analysis over the current depreciation charge for infrastructure assets

Potential effects

Whilst we were satisfied that for 2021/22 the depreciation charge in respect of infrastructure assets has not been materially misstated there is a risk that going forward that asset lives are applied incorrectly to incorrect balances of subcategories of infrastructure assets, leading to the NBV of infrastructure assets being over or understated.

Recommendation

Management should consider whether further specialist input is needed to ensure the current apportionment basis proposed for the overall infrastructure balance remains appropriate.

Management response

The Council will review the need for further valuations until a longer-term solution to accounting for infrastructure is proposed.

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 3

2. IT General Controls Findings - Change Management – Segregation of Roles

Description of deficiency

During our review, it was noted that the users with 'Application Developer' access also have 'Application Administrator' access. This would enable the user to perform both development of changes and user administration. Thus, deficiencies may occur due to inappropriate segregation of duties.

Potential effects

Unauthorised changes are deployed, compromising the confidentiality, integrity and availability of information.

Recommendation

In order to avoid unauthorised changes being deployed on the entity's systems and in line with best practice, we recommend the council considers ensuring proper segregation of duties between development and user administration.
If the limitation or allocation of resources does not allow full segregation of duties, we recommend ensuring close monitoring of changes being deployed on the entity’s systems.

Management response

The roles of Application Developer and Administrator undertaken by officers in the Council’s Financial Information Systems Team, supported by an officer in IT. Whilst the recommended approach represents best practice the capacity of the Team restricts full separation of duties in this way. As a means of moving towards best practice, the Head of Finance will explore the option to develop a monitoring report which identifies access and changes made by these users.

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 3

3. IT General Controls Findings - Logical Security – Password Management

Description of deficiency

Upon inspection of Knowsley's network password rules, auditors noted the maximum password age does not conform to industry best practices.

Potential effects

Weak authentication mechanisms facilitate brute force attacks and password guessing. A brute-force attack is an attempt to discover a password by systematically trying every possible combination of letters, numbers, and symbols until you discover the one correct combination that works.

Recommendation

In order to ensure access is appropriately restricted, and avoid compromising the confidentiality and integrity of data, we recommend strengthening the application password restrictions, taking into account the best practices:

- Password minimum length: 8 characters, complexity enabled;
- First password should be randomly generated, and individually assigned to each user;
- Users should be prompted to change their password at first logon;
- Password should be renewed after a period of time (30-90 days);
- Password history should not allow the same password to be reused several times in a row;
- System session timeout should be enforced; and
- Accounts should be automatically locked after several unsuccessful logon attempts.

Management response

Users are forced to change password on first log on, user password are complex and cannot use the same password within a year, sessions are timed out after 10 minutes if inactivity, accounts are automatically locked after 5 unsuccessful attempts. Microsoft Defender, SIEM and 24/7 SOC in place to monitor unusual account activity. The Council will review the password policy in relation to renewal after 90 days alongside a review of the introduction of multi-factor authentication in accordance with NCSC multi-factor authentication and password guidances.

A. Further information on our audit of the financial statements

Other recommendations in internal control 2021/22 – Level 3

4. IT General Controls Findings - IT Operations – Automated Processes and Incidents

Description of deficiency

There is no formalised incident management procedure for automated and manual incidents to ensure failed procedures are tracked to resolution in a timely manner.

Potential effects

Incidents and problems are not timely detected, analysed or solved and thereby affect the confidentiality, integrity and availability of information.

Recommendation

In order to ensure a unitary understanding and compliance with the process, as well as proper staff commitment and responsibility, we recommend implementing an incident management procedure/policy that is regularly reviewed and updated where necessary to ensure it is validated and points relating to RACI are appropriate and up to date.

Management response

The Council has operated an ITIL compliant service desk for incident management for over 25 years. Incidents submitted by the self-service portal are uploaded to the Hornbill ITIL/ITSM compliant application and processed by the IT Service using this application.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

Following the upgrade of the new financial system during the year the Council were required to re-map the accounts within the general ledger. The running of the trial balance as part of the 2020/21 audit process identified that this mapping had not been done accurately and as a result there were a number of accounts that were double counted with the report and a number of collection fund accounts were included in error. The result was that the trial balance did not net off to zero and there were a number of reconciling differences between the trial balance and the financial statements presented to audit, included a non trivial amounts for capita receipts included in the financial statements that could not be reconciled back to the trial balance.

Potential effects

Whilst the financial statements are compiled using a tool from CIPFA, the financial statements should be derived from the underlying financial reporting system otherwise there is a risk that the financial statements are not based on complete and accurate accounting records.

Recommendation

Management should revisit the account mapping within the new financial general ledger system to ensure that it appropriately reflects the reporting requirements of the Council and ensures that the year end reporting (most notably the trial balance) reconciles t the financial statements presented for audit.

2021/22 update

The Council revisited the account mapping in year and the prior year issues experienced in reconciling the TB to the financial statements have been resolved. Recommendation Cleared.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

We reported in 2019/20 that the Council were unable to reconcile £3.371m of the £16,605m “*adjustment to surplus or deficit on the provision of services for non-cash movements*”. During 2020/21 the Council have worked to reconcile this balancing figure however as at the end of the financial year there remained £0.99m that cannot be reconciled.

Potential effects

The balance included within the cashflow statement should be reconciled to other areas of the financial statements to mitigate the risk that the financial statements are not fairly stated.

Recommendation

Management should continue to investigate the balancing figure within the cashflow statement.

2021/22 update

Officers within the Financial Management Service have introduced further checks to reduce the balancing figure. Work will continue during the year to reduce this figure further.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

Our testing of the Council's year end bank reconciliation processes identified a number of non-material reconciling items within the overall cash account, which upon investigation related back to 2014/15 and before

Potential effects

Reconciling items detected as part of the Council's monthly cash reconciliation processes should be investigated and cleared in a timely manner to ensure that any accounting errors are identified and rectified.

Recommendation

Management should work to clear the reconciling items to ensure that Management are able to identify any unusual transactions that may arise when undertaking the monthly reconciliation between the Council's bank statements and general ledger system.

2021/22 update

Management have worked to clear the reconciling items in 2021/2. Recommendation cleared.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

Testing of accruals identified that management had not revisited the annual leave accrual in 2020/21 on the basis of immateriality

Potential effects

From one year to the next the position of the Council will change for example the current pandemic has led to changes in annual leave policies and staff numbers. Therefore, without an annual review there is a risk that the accrual included in the balance sheet is over or under stated.

Recommendation

Management should revisit the accrual each year to ensure that it is accurately recorded within the financial statements and reflects the position and liability of the Council at the balance sheet date.

2021/22 update

Management revisited the accrual in year and have plans to further revisit in 2022/23 when the Council implements a new HR and payroll system. Recommendation cleared.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

Car park valuations are adjusted for operating costs to provide a final valuation figure. The Council has been unable to substantiate this reduction as it has been based on historical information no longer available.

Potential effects

There is a risk that the valuation of car parks could be over or understated.

Recommendation

Management and the Valuer should carry out a review of the operational costs involved in running the car park assets and the subsequent appropriateness of the percentage reduction applied to these assets in their valuation calculation and a full audit trail of supporting documentation should be retained to avoid similar issues arising in the future and to ensure the car park assets are appropriately valued.

2021/22 update

The operating costs have been reviewed in year. We will continue to challenge any assumptions included within land and buildings valuations.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

Testing of the rights and obligations of children's centres on the Council's fixed asset register identified a number of assets that are no longer owned by the Council and so should be removed. A number of these had nil NBVs but the gross carrying amounts are still disclosed within the Council's PPE disclosure note and asset register

Potential effects

There is a risk that Council does not hold up to date information on their asset register and that the PPE disclosure note is not correctly stated.

Recommendation

Given the Council no longer has the right to use these assets they should be removed from the asset register and management should conduct a wider review of other assets with nil NBVs to ensure that management have current information on the assets that they hold and the PPE disclosure is accurately stated.

2021/22 update

A similar issue was identified within Community Assets in year and a recommendation raised in that regard. No further issues however were identified in respect of children's centres. Recommendation cleared.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2021/22

Description of deficiency

Testing of investment properties identified that for a number of assumptions used within the valuation calculations no supporting evidence could be provided or differences were identified between the supporting evidence provided and the assumptions used within the detailed valuation calculations

Potential effects

Management may not be sufficiently informed to assess whether asset valuations are materially fairly stated at the balance sheet date.

Recommendation

Management should work with the valuer to ensure sufficient evidence can be provided to support all aspects of the investment property valuations. This will facilitate management challenge and review in addition to supporting a more efficient and effective audit process.

2021/22 update

Our testing of investment properties in 2021/22 identified further instances whereby the valuation contained arithmetic errors and rental income included in the valuations could not be substantiated. An unadjusted misstatement has been reported in section 6. We will continue to review progress against this recommendation in 2022/23.

B

Appendix B – Further information on our audit of the financial statements 2022/23

A. Further information on our audit of the financial statements

Significant risks and audit findings – 2022/23

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

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A. Further information on our audit of the financial statements

Significant risks and audit findings – 2022/23 continued

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

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A. Further information on our audit of the financial statements

Significant risks and audit findings – 2022/23 continued

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
3. Valuation of property, plant and equipment (Land and Buildings) The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle. The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.	Our audit procedures included: • obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer; • obtaining an understanding of the basis of valuation applied by the valuer in the year.; • obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2022/23 are materially fairly stated; • obtaining an understanding of the Council's approach to ensure that assets revalued through 2022/23 are materially fairly stated at the year end; • sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations; • using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023; and • testing the accuracy of how valuation movements were presented and disclosed in the financial statements. Testing a sample of items of capital expenditure in 2022/23 to confirm that the additions are appropriately valued in the financial statements. We did not identify any issues to report.

A. Further information on our audit of the financial statements

Significant risks and audit findings – 2022/23 continued

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
4. **Valuation of Investment Properties** The CIPFA Code requires that where Investment Property assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The valuation of Investment Property involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of investment properties due to the significant judgements and number of variables involved.	Our audit procedures included: • obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer; • obtaining an understanding of the basis of valuation applied by the valuer in the year; • obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer; • Engaging our internal valuations team as our auditor's expert to review a sample of valuations at Kirkby town Centre; and • sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations We have completed our final testing of the assumptions underpinning the investment property valuations. We identified one unadjusted misstatement in respect of the calculation error in one material valuation of value £1.9m and we identified that for a number of our further sample supporting documentation could not be provided or differences were noted to the valuation calculation assumptions. The actual value of the error across the sample population was an overstatement of the valuations by £760k. The extrapolated impact of the overstatement across the residual population of investment properties is £2.5m

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements – 2022/23

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Revenue	1,406			
	Cr: Short Term Debtors				(1,406)
	Our debtors testing identified two items that had been overstated by £378k. This is the extrapolated impact of these errors across the residual population of other receivables (total balance £27.5m).				
2	Dr: Pension Asset			3,911	
	Cr: Pension Reserve				(3,911)
	Per the IAS 19 Assurance letter from the auditors of MPF, the Fund obtained updated values (as at 31 March 2023) for all level 3 investments from the custodians, which confirmed the total difference at the Fund level of £47.3m which is below PM for the PF audit and so has not been adjusted for. The above is the potential impact of this error on KMBC asset values.				
3	Dr Investment Properties			1,971	
	Cr Revaluation Reserve				(1,971)
	The Council's external valuer originally reported a value of £1,201,700 for their discount store located at the KTC site. Our auditor's expert identified that the total valuation for this property had been calculated incorrectly. The valuer subsequently submitted a revised calculation worksheet with the correct value of £3,172,400. This results in an understatement of the valuation of £1,970,700.				
4	Dr Revaluation Reserve			2,526	
	Cr Investment Properties				(2,526)
	Testing of investment properties identified for a number of valuations supporting documentation could not be provided or differences were noted to the valuation calculation assumptions. The actual value of the error across the sample population was an overstatement of the valuations by £760k. The above is the extrapolated impact of the overstatement across the residual population of investment properties.				
	Total unadjusted misstatements	**1,406**	**0**	**8,408**	**(9,814)**

A. Further information on our audit of the financial statements

Internal control observations – 2022/23

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to The Audit Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

A. Further information on our audit of the financial statements

Significant deficiencies in internal control 2022/23 – Level 2

Description of deficiency

Testing of the related parties' disclosures identified that there was one officer who expressed an interest in Shakespeare North Trust which manages a key material council asset. This interest was not disclosed in the financial statements.

Potential effects

There is a risk that not all material interests would be disclosed within the financial statements.

Recommendation

The Council should ensure that all interests disclosed within the register of interest are reviewed for materiality from both parties' view-points to ensure there are no omitted disclosures within the note to the financial statements.

Management response

Agreed – the Council will ensure that all appropriate interests are declared.

A. Further information on our audit of the financial statements

Significant deficiencies in internal control 2022/23 – Level 2

Description of deficiency

Testing the design and implementation of IT general controls identified that due to the implementation of the new payroll system in April 2023 a full audit trail of when new users were added to the system, leavers removed, or changes reflected within the GL system had not been retained.

Potential effects

Whilst we were able to confirm that the correct and appropriate approval had been given, we were unable to confirm the timeliness of these approvals. Therefore, the Council have not retained records of when staff members access rights were created, removed or amended.

Recommendation

The Council should retain full audit trails in spite of the migration to the new system of all approvals to access changes.

Management response

This data has not been retained due to the migration to a new HR/Payroll system. The Council is satisfied that the new system will maintain a full audit trail of changes going forward.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

Description of deficiency

Testing of the right and obligations of the Council's assets identified one item of value £252k within Community assets that should have been written out of the asset register when the main asset to which it was linked was sold in the prior year. The asset related to historic capital spend on changing facilities within a park that had been transferred to a third party.

Potential effects

There is a risk that the balance sheet contains assets that no longer belong to the Council and written out on disposal.

Recommendation

The Council should introduce further checks when assets are disposed and perform a review of all community assets to ensure that there are no other elements of historic spend that are currently held within the balance sheet in error.

2022/23 update

Our testing in 22/23 of the rights and obligations of the Council's assets did not identify any further issues.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

IT General Controls Findings - Change Management – Segregation of Roles

Description of deficiency

During our review, it was noted that the users with 'Application Developer' access also have 'Application Administrator' access. This would enable the user to perform both development of changes and user administration. Thus, deficiencies may occur due to inappropriate segregation of duties.

Potential effects

Unauthorised changes are deployed, compromising the confidentiality, integrity and availability of information.

Recommendation

In order to avoid unauthorised changes being deployed on the entity's systems and in line with best practice, we recommend the council considers ensuring proper segregation of duties between development and user administration.
If the limitation or allocation of resources does not allow full segregation of duties, we recommend ensuring close monitoring of changes being deployed on the entity’s systems.

2022/23 update

Our work undertaken in 22/23 identified that there were 3 users that have access to both the development and production environment, which continues to be out of line with best practice.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

IT General Controls Findings - Logical Security – Password Management

Description of deficiency

Upon inspection of Knowsley's network password rules, auditors noted the maximum password age does not conform to industry best practices.

Potential effects

Weak authentication mechanisms facilitate brute force attacks and password guessing. A brute-force attack is an attempt to discover a password by systematically trying every possible combination of letters, numbers, and symbols until you discover the one correct combination that works.

Recommendation

In order to ensure access is appropriately restricted, and avoid compromising the confidentiality and integrity of data, we recommend strengthening the application password restrictions, taking into account the best practices:

- Password minimum length: 8 characters, complexity enabled;
- First password should be randomly generated, and individually assigned to each user;
- Users should be prompted to change their password at first logon;
- Password should be renewed after a period of time (30-90 days);
- Password history should not allow the same password to be reused several times in a row;
- System session timeout should be enforced; and
- Accounts should be automatically locked after several unsuccessful logon attempts.

2022/23 update

Our work in 22/23 identified that the account lockout duration still does not meet the industry standard of 30 mins before a reset is possible by an administrator and KMBC allows more password attempts than the industry standard.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

IT General Controls Findings - IT Operations – Automated Processes and Incidents

Description of deficiency

There is no formalised incident management procedure for automated and manual incidents to ensure failed procedures are tracked to resolution in a timely manner.

Potential effects

Incidents and problems are not timely detected, analysed or solved and thereby affect the confidentiality, integrity and availability of information.

Recommendation

In order to ensure a unitary understanding and compliance with the process, as well as proper staff commitment and responsibility, we recommend implementing an incident management procedure/policy that is regularly reviewed and updated where necessary to ensure it is validated and points relating to RACI are appropriate and up to date.

2022/23 update

Implemented.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

Description of deficiency

Testing of investment properties identified that for a number of assumptions used within the valuation calculations no supporting evidence could be provided or differences were identified between the supporting evidence provided and the assumptions used within the detailed valuation calculations

Potential effects

Management may not be sufficiently informed to assess whether asset valuations are materially fairly stated at the balance sheet date

Recommendation

Management should work with the valuer to ensure sufficient evidence can be provided to support all aspects of the investment property valuations. This will facilitate management challenge and review in addition to supporting a more efficient and effective audit process.

2022/23 update

As detailed in section 4 of this report our work on investment properties is still ongoing as we await the final evidence to support the underlying assumptions used in the calculation of the investment property assets.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

Description of deficiency

Our testing of the Council's infrastructure balances identified that infrastructure additions were not always apportioned to the correct subcategory of asset.

Potential effects

As the different subcategories of infrastructure balances are depreciated over different useful economic lives there is a risk that the incorrect depreciation charge is accounted for each year.

Recommendation

Management should put in place arrangements and recording mechanisms to ensure that going forward all capital additions to the infrastructure balance are appropriately apportioned to the correct subcategory of infrastructure assets.

2022/23 update

From 22/23 onwards additions are now split into appropriate categories, recommendation implemented.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

Description of deficiency

Our work undertaken on the Council's infrastructure balance identified that during 2021/22 the Council had not incorporated the most appropriate useful economic lives as set out in the updated accounting policy for the subcategories of infrastructure assets.

Potential effects

Whilst we were satisfied that for 2021/22 the depreciation charge had not been materially misstated there is a risk that the current depreciation charge does not reflect the current accounting policy of the Council and that the NBV of infrastructure assets is over or understated.

Recommendation

Management should ensure that going forward the depreciation charge applied to the infrastructure balance incorporates the most appropriate UELs for the asset subcategories

2022/23 update

Implemented – depreciation is calculated over the different useful lives of the assets.

A. Further information on our audit of the financial statements

Follow up on previous internal control points 2022/23

Description of deficiency

Our work undertaken on the Council's infrastructure balance identified that Management had placed reliance on a valuation exercise that had been completed by an external expert in 2017/18 in order to perform sensitivity analysis over the current depreciation charge for infrastructure assets

Potential effects

Whilst we were satisfied that for 2021/22 the depreciation charge in respect of infrastructure assets has not been materially misstated there is a risk that going forward that asset lives are applied incorrectly to incorrect balances of subcategories of infrastructure assets, leading to the NBV of infrastructure assets being over or understated.

Recommendation

Management should consider whether further specialist input is needed to ensure the current apportionment basis proposed for the overall infrastructure balance remains appropriate.

2022/23 update

Ongoing - The Council will consider specialist advice once long-term guidance has been issued by CIPFA. At the current time, no guidance has been issued.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars’ integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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