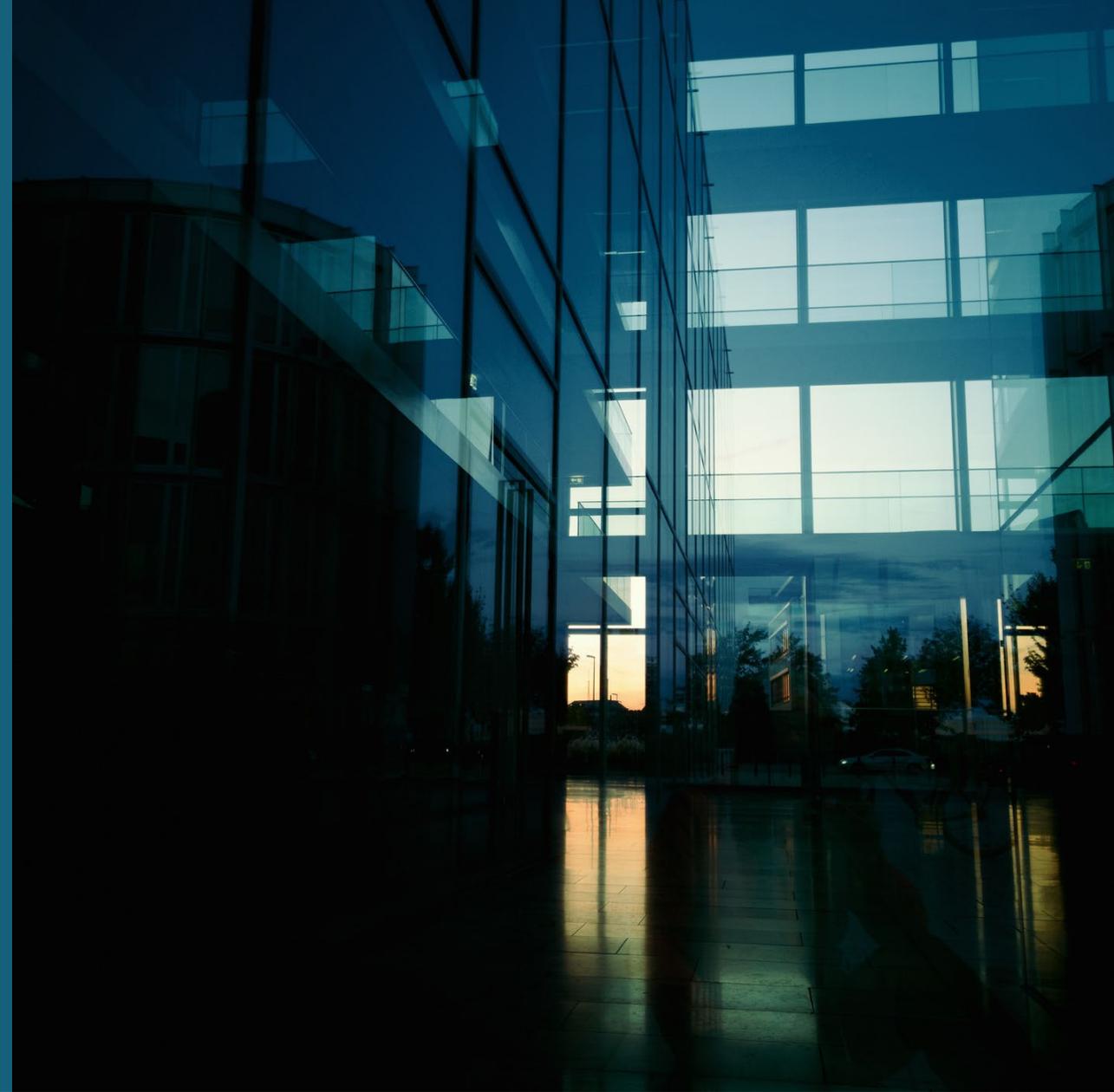


Auditor's Annual Report

Knowsley Metropolitan Borough Council
– year ended 31 March 2021

March 2022



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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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 year ended 31 March 2021. 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

We issued our audit report on the 18 November 2021. Our opinion on the financial statements was unqualified. Our audit report did however include a paragraph drawing attention to disclosures in the financial statements relating to a material uncertainty in respect of certain trade and retail investment property valuations.



Value for Money arrangements

In our audit report issued on the 18 November 2021 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.

No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

As in previous years we are required to complete work on the Council's Whole of Government Accounts (WGA) return. As at the time of writing this report the timetable for Council Officers to complete the return has yet to be finalised. Once the draft return has been submitted we will complete our review and report any findings to HM Treasury. Following completion of our work on the Council's WGA return, we will issue our Audit Certificate which formally concludes the 2020-21 audit process.

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 did not receive any questions or objections in respect of the Council's financial statements.

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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 opinion

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 2021 and of its financial performance for the year then ended. Our audit report, issued on 18 November 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021. Our audit report did however include a paragraph drawing attention to disclosures in the financial statements relating to a material uncertainty in respect of certain trade and retail investment property valuations.

Our Audit Completion Report 2020/21, presented to the Council's Governance and Audit Committee on the 20 September 2021, provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. There are no matters raised in our Audit Completion Report 2020/21 that we need to repeat in this report.

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in line with agreed timescales.

Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

Given the ongoing impact of COVID-19 the whole audit was completed remotely.

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Section 03:

Commentary on VFM arrangements

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

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. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. 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. We have identified no risks of significant weakness.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. We have identified no actual significant weaknesses in arrangements requiring reporting or recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	13	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability in 2020/21

The Council entered the 2020/21 financial year as the first national lockdown began and immediately faced a significant operational impact to respond to the range of challenges presented by the pandemic. As part of the national response to Covid-19, central government made a series of policy announcements which impacted on the Council. Consequently the Council was at the forefront of efforts to protect local residents, including the most vulnerable, and to support local businesses.

Some of the government's initiatives to respond to the covid-19 pandemic were supported by additional funding for the Council, and as a result, Knowsley received significant additional funding in the form of government grant for 2020/21. Whilst the Council has received financial support from Government to address these issues, it understands this funding is one-off in nature. The Council continues to work to understand the longer-term impact of the pandemic, and adapt its financial plans as the national and local positions develop.

2020/21 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 does not give us cause for concern relating to financial stability. Net assets have remained at a similar level in 2020/21 compared to the prior year.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £84.7m, up from £63.7m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council's useable reserves have increased from £64.9m to £112.2m as at 31st March 2021, with general Fund Reserves of £111.2m as at 31 March 2021, up from £64m in 2019/20. 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 on to provide a long term solution to funding gaps.

The Council's financial planning and monitoring arrangements

The budget for 2020/21 was set and approved in March 2020 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 20/21 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 budget did not identify any further savings that would be needed to be approved in order to balance the budget. The budget also identified that £8.1m was available for one-off investments and the budget report included options for this investment. The forecast was for a surplus of £4m.

A Robustness Report is also presented to Council 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

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 2021/22 financial planning

During the 2020/21 financial year, the arrangements for the 2021/22 budget setting process largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. There were still though a number of unavoidable uncertainties regarding likelihood and impact of any future lifting of restrictions or lockdowns, and the availability of any further government support.

The budget for 2021/22 was approved at the March 2021 Council meeting. The Council set a balanced budget, which forecast a surplus of £3.8m as part of the updated Medium Term Financial strategy.

We have reviewed the supporting evidence relating to the preparation of the 2021/22 budget and these demonstrate that the arrangements are consistent with the previous year, detailed and robust and properly applied.

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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 updated and 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 2020/21 and 2021/22 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 2020/21 the Head of Internal Audit detailed that 92% 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 2020/21 Budget Report was approved in March 2020 and during 2020/21, this was 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 2020/21 year 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 2020/21 financial year. 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 2020/21. 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". We have reviewed the report and the Council's initial response to the report and do not consider this to be a significant weakness in arrangements of the Council for 2020/21. We will consider the Council's response to the report findings as part of our work on Value For Money in 2021/22.

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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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.

During 2020/21 corporate plan updates were presented to cabinet alongside financial strategy and revenue budget update reports. 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 2020/21 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. During 2020/21 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.

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. The Strategy is 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 Council’s Constitution contains a chapter on the Contract Procedure Rules. This sets out the detailed process that the Council must follow when 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 held within the Council’s “Commissioning “wheel”.

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.

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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.

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.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. At the time of preparing this report we have not yet received instructions from the NAO on what procedures are required. As such this work is outstanding. Until this work is concluded we cannot issue our audit certificate.

4. Other reporting responsibilities and our fees

Fees for work as the Council'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 and Governance Committee in July 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£85,822	£85,822
Additional work as a result of the new Code of Audit Practice and VFM reporting	£0	£10,000*
Additional Testing on Defined Benefit Pensions Schemes and Property, Plant and Equipment	£7,067	£7,067*
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;	£0	£2,000*
Other additional costs	£,9986	£7,500*
Total fees	£102,875	£112,389

* Fee variations subject to approval and confirmation by Public Sector Appointments Ltd.

4. Other reporting responsibilities and our fees

Fees for other work

In 2020/21 the Council has engaged Mazars LLP for the following non-audit services:

- Housing Benefit Assurance - £10,564* plus VAT (£10,564 in 2019/20)
- Teachers Pension Assurance - £4,000 plus VAT (£4,000 in 2019/20)

** At the time of writing this report work on the Housing Benefit Assurance is still ongoing and fees for this work will be finalised upon completion.*

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*where permitted under applicable country laws.