

Private & Confidential

Members of the Governance & Audit Committee
Knowsley Metropolitan Borough Council
Municipal Buildings, Huyton
Liverpool
L36 9UX

Direct line: +44 (0) 113 394 5316
Email: mark.dalton@mazars.co.uk
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Dear Members

Conclusion of pending matters– Audit completion report

Following on from the discussions held at the recent meeting of the Audit and Governance Committee on 20th September 2021 and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit Completion Report dated 13 September 2021.

The outstanding matters and the conclusions reached are detailed below:

Matter	Conclusion reached
Pension Liability	We received the requested assurances from the auditor of the Merseyside Pension Fund on 7 th October 2021. The pension fund auditors, in completing their work, identified a material increase of £136m in the Pension Fund's reported net asset position. This is as a result of updated values for the Fund's level 3 investments. Given the highly material nature of the Council's pension asset the Council requested an updated IAS 19 valuation report from the fund Actuary Mercers. Based on this revised report, the Council made a material amendment of £12.968m to their financial statements in respect of their pension asset balance as at the 31 March 2021 and related disclosures. Further detail is provided in Appendix 2 (item 4) below.
Property Plant and Equipment (PP&E) valuations	We have completed our work in relation to our review of a sample of PPE asset valuations undertaken by the Council's valuer. In completing our testing, we identified that the car park valuations are adjusted for operating costs (a percentage of 48%) to provide a final valuation figure. The Council, however, were unable to substantiate the percentage applied to the valuation calculation in respect of these operational costs. Management undertook a review and analysis of all

	<p>car-park assets held by the Council. The analysis performed identified an undervaluation ranging from £742k (if a percentage of 10% was applied to the valuations) and £350k (if a 30% percentage was applied). Whilst we were able to confirm that there is no material impact of this uncertainty however we have not been able to fully quantify the value or potential impact on the Council's carpark asset valuations.</p> <p>We have included a recommendation in appendix 3 in relation to this issue.</p> <p>As highlighted previously a 'material valuation uncertainty' has been disclosed by the Council's valuer in respect of certain retail and trading assets held by the Council as investment properties. This has subsequently been disclosed in the Council's financial statements within Note 4. As the value of these assets as recorded on the balance sheet is material, this requires us to include an 'emphasis of matter' paragraph in our Auditor's Report. The wording of our emphasis of matter paragraph is set out below.</p>
<p>Investment Properties (IP) valuations</p>	<p>We have completed our work in relation to our review of a sample of investment property asset valuations undertaken by the Council's valuer.</p> <p>We have completed our work in this area and have noted one immaterial unadjusted error, as noted in Appendix 1 (item 5) below. We have also raised an associated recommendation in Appendix 3 (item 5) below.</p>
<p>Assets Held for Sale</p>	<p>We have now completed our work on assets held for sale and identified one asset that had been incorrectly classified within the Council's balance sheet and should have been classified as a surplus asset. The extrapolated impact of the misstatement whilst immaterial has been included in appendix 1 (item 4) below.</p>
<p>Sample Testing</p>	<p>We have now completed the outstanding sample testing on the Council's financial statements. We have identified one further error in relation to creditors' balance that had been overstated at the year end. The extrapolated £955k impact of this has been included in appendix 1 (item 6).</p> <p>We also identified that the Council had not updated their holiday pay accrual in 2020/21 on the basis of immateriality. A review of the average salaries and updated employee numbers and annual leave policy did not identify a material change from 2019/20. However, as the Council should revisit this accrual annually and performed a detailed calculation and</p>

	<p>review to quantify the exact value of the accrual required each year, we have raised a recommendation in appendix 3 (item 2) below.</p> <p>Testing of the Council's rights and obligations over their PPE asset base identified an issue with a Children's Centre, which had been included on the Council's asset register in error as the Council no longer had ownership of this asset. Whilst there was no impact on the balance sheet of the Council, as the asset had a nil net book value, the Council were still holding historic capital expenditure within their gross costs and accumulated depreciation balances disclosed within the PPE note of the financial statements. We extended our testing to cover all the Council's Children's Centres and found similar Issues with an additional 7 children's centres. Appendix 1 (item 7) contains details of the value of the immaterial misstatement in the disclosure and we have raised a recommendation within Appendix 3 (item 4) below.</p>
Capital Commitments	Our work on capital commitments is now complete. There are no issues to report to the Committee.
Cash and Cash Equivalents	<p>We have received the bank confirmation for one school that was outstanding and have completed our outstanding work on cash and cash equivalents.</p> <p>In relation to the Council's bank account reconciliations we have raised a recommendation in appendix 3 (recommendation 1) in relation to reconciling items that relate back to 2014/15 that the Council have yet to fully resolve.</p>
Journals	Our work on journals is now complete. There are no issues to report to the Committee.
PFI Schemes	Our work on the Council's PFI schemes is now complete. Minor presentational amendments were required (and made) to the disclosure note within the financial statements.
Whole of Government Accounts	Our work on the Council's WGA consolidation pack remains outstanding and will be completed in due course. We will issue our audit completion certificate when this work is complete.
Final versions of the Annual Governance Statement and amended financial statements	We have completed our final review and closure procedures, including review of the final version of the financial statements and Annual Governance Statement. There are no issues to report to the Committee.

<p>Completion of audit closure procedures and final manager and partner review including receipt of signed financial statements and letter of representation.</p>	<p>Our audit procedures are now complete, and we have received the signed financial statements and letter of representation.</p>
<p>Post Balance Sheet Events</p>	<p>Our post balance sheet events review is now complete. There are no issues to report to the Committee.</p>

Emphasis of Matter Paragraph

As described in the table above, due to the material valuation uncertainty disclosed in respect of certain retail and trading investment property assets of the Council we are required to include within our Auditor’s Report an ‘emphasis of matter’ paragraph. We set out below our wording in this respect:

Emphasis of Matter – the valuation of investment properties

We draw your attention to note 4 of the financial statements, which describes the ongoing uncertainty in relation to the valuation of certain investment properties owned by the Council due, in part, to the effects of the Covid-19 pandemic. As disclosed in note 4 of the financial statements the Council’s external valuer included a ‘material valuation uncertainty’ declaration within their valuation report. Our opinion is not modified in respect of this matter.

We have provided at Appendix 1, the final schedule of unadjusted misstatements, which is an updated version of the schedule included in our Audit Completion Report dated 13 September 2021.

Appendix 2 sets out the further amendments that have been made to the financial statements since our Audit Completion Report dated 13 September 2021 and Appendix 3 details the additional recommendations we have raised for your attention since the previous report.

If you wish to discuss these or any other points discussed at the meeting, then please do not hesitate to contact me.

Yours faithfully,



Mark Dalton

Director

Appendix 1 – Unadjusted Misstatements

The table below outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and has not therefore adjusted the financial statements.

Items 1 to 3 were reported to the Committee in our Audit Completion Report dated 13 September 2021. Items 4-7 have arisen in completing those matters that were marked as outstanding within the Audit Completion Report dated 13 September 2021.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Vehicles, Insurance Provision Cr: Insurance Expense	659	659	
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: PPE Land and Buildings Cr: Revaluation Reserve		400	400
The incorrect site works value had been included within the valuation of a leisure centre resulting in the understatement of the asset value by £399.8k.				
3	Dr: PPE Land and Buildings Cr: Revaluation Reserve		968	968
The incorrect BCIS rate has been used on a library asset resulting in an understatement of the valuation by £380k. This is the extrapolated impact of this misstatement above is the extrapolated understatement of the PPE balance due to this error in the calculation.				
4	Dr PPE Surplus Assets Cr PPE Assets Held For Sale		497	497
Our testing identified one surplus asset that had been incorrectly classified as assets held for sale. The value of the asset is £72.5k and this is the extrapolated impact of this misstatements on the surplus assets and assets held for sale balances within the financial statements.				
5	Dr FV gains/loss Cr Investment properties	1,912		1,912
Our testing identified that for 14 investment properties sample tested supporting documentation could not be provided or differences were noted to the valuation calculation assumptions. The value of these differences is £319k. £1,912k is the extrapolated overstatement impact of these issues identified through our testing.				
6	Dr Creditors Cr Expenditure		955	955
Errors of total value £19.9k were identified in 3 items tested as part of our sample testing that concluded that the creditors balance had been overstated at 31 March 2021. This represents the extrapolated impact of these errors across the creditors balance in the financial statements.				

7	Dr Accumulated Depreciation – PPE land and buildings	1,453	
	Cr Gross Cost – PPE Land and buildings		1,453

Errors were identified in 8 Children’s centres in respect of the Council’s ownership of these assets and the holding of historic capital expenditure within gross cost and accumulated depreciation balances within the PPE disclosure note in the financial statements.

Appendix 2 – Corrected Misstatements

This table outlines the misstatements that have been adjusted by management during the course of the audit.

We reported to the Committee in our Audit Completion Report dated 13 September 2021 a total of 3 misstatements that had been corrected by management.

Item 4 detailed below has arisen in completing those matters that were marked as outstanding within the Audit Completion Report dated 13 September 2021

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr Pensions Assets			12,968	
	Cr Pensions Reserve				12,968
	Dr MiRS				
	Cr Other Comprehensive Income		12,968		
<p>Following a material adjustment to the MPF accounts the council actuary re-produced the IAS19 valuation report. This resulted in an increase to the council's asset values of £12.968m (and subsequent reduction in the net pension liability)</p>					

In addition to the above following the finalisation of our quality control procedures a number of presentational adjustments were made to the financial statements to ensure compliance with the 2020/21 Code of Practice.

Appendix 3 – Control Deficiencies

We reported to the Committee in our Audit Completion Report dated 13 September 2021 two level 3 internal control recommendation.

Since our previous report we have now raised a further 5 internal control recommendations as follows;

1 Description of deficiency – level 3

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.

Management response

Agreed. The individual bank accounts are reconciled monthly and any unidentified items addressed. Therefore, there are no fraud or risk issues. These outstanding items are historic items which relate to the overall consolidated cash account and will be addressed during 2021/22.

2 Description of deficiency – level 3

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.

Management response

Agreed. The accrual will be recalculated for the 2021/22 accounts.

3 Description of deficiency – level 2

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.

Management response

Agreed. Officers within the Financial Management Service and Asset Management Teams will review the operational costs prior to any 2012/22 valuations.

4 Description of deficiency – level 2

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.

Management response

Agreed. These assets will be written out of the 2021/22 accounts.

5 Description of deficiency – level 2

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.

Management response

Agreed. Sufficient evidence will be documented during the 2021/22 valuation process.
