

Audit Findings (ISA260) Report for Knowsley Metropolitan Borough Council

Year ended 31 March 2024





**Private and
Confidential**

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25 February 2025

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Dear Members of the Governance and Audit Committee

Audit Findings for Knowsley Metropolitan Borough Council for the 31 March 2024

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Governance & Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2023.pdf](#) [grantthornton.co.uk].

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

John Farrar

Director
For Grant Thornton UK LLP

Chartered Accountants

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Knowsley Metropolitan Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2024 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed on site and remotely during September 2024 – February 2025. Our findings are summarised on pages 7 to 27. We have identified a material adjustment to the balance sheet categorisation, a significant adjustment to the comprehensive income and expenditure statement and material adjustments to Notes 12, 18, 36 and 39. These and further adjustment are set out in Appendix D. These have not resulted in adjustments to the Council's useable reserves.

Our audit work identified two assets with a combined value of £53.224m for which the Council provided valuations which were not in line the requirements of the CIPFA Code. This relates to Shakespeare North Playhouse and strategic land classified as surplus assets. See Page 12 for further details. Our opinion has been modified in respect of this.

Our work is substantially complete, subject to the following outstanding matters;

- final management review of the work completed;
- receipt of management representation letter see appendix H; and
- reviewing the final set of financial statements, AGS and Narrative report.

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the financial statements we have audited.

2023/24 was our first year of audit and as such we have reviewed the working papers from the predecessor auditor to seek to place reliance on the opening balances included in the accounts. We have subjected the draft accounts to a detailed technical review and appointed an Engagement Quality Control Reviewer. We have raised a number of recommendations as set out in Appendix B as a result of our work. We have also followed up the recommendations made by the Council's previous auditor, details are shown in Appendix C.

Our anticipated financial statements audit opinion will be modified in relation to the valuation of two assets. We anticipate signing our opinion before the statutory deadline of 28 February 2025.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our work on the Council's value for money (VFM) arrangements will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR).

We have completed our VFM work, which is summarised on page 29, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

We have identified one significant weakness in relation to securing economy, efficiency and effectiveness, following the 'inadequate' Ofsted inspection. Our audit report has been modified to reflect this.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the finalisation of our work required to issue the Whole of Government Accounts Component Assurance Statement.

Significant matters

Our audit work identified that the Council's valuation of the Shakespeare North Playhouse, which became operational in July 2022, was not in line with RICS guidelines and we can not confirm if the amount included within the Property, Plant and Equipment balance within the Balance Sheet is materially accurate.

The Council adjusted the draft accounts to include land previously classified as held for sale within surplus assets however the valuation of this land did not take into account leasehold encumbrances granted by the Council.

1. Headlines

National context – audit backlog

Government proposals around the backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution issued a statement which outlined the plans to lay secondary legislation to amend the Accounts and Audit (Amendment) Regulations 2015 to set a series of backstop dates (dates by which the accounts must be published accompanied by any report issued by the local auditor). These backstop dates are:

1. Financial year 2023/24: 28 February 2025;
2. Financial year 2024/25: 27 February 2026;
3. Financial year 2025/26: 31 January 2027;
4. Financial year 2026/27: 30 November 2027; and
5. Financial year 2027/28: 30 November 2028.

Key messages from the Minister are that:

To help councils comply with these arrangements, for financial years 2024/25 to 2027/28, the Minister states that the deadline for filing ‘draft’ (unaudited) accounts for larger authorities such as Knowsley MBC will be extended from 31 May to 30 June (allowing higher quality draft accounts). Once implemented, the hope is that the new arrangements will help to restore the robust assurance needed to underpin good governance and accountability.

The audit of Knowsley Metropolitan Borough Council has progressed in line with the planned timetable and is expected to conclude by the new backstop date. We will continue to work with management to deliver future audits to a timetable to avoid future backstop issues.

New National Audit Office Code

As part of ongoing reforms to local audit, the National Audit Office has also laid a new Code before Parliament. One of the objectives is the new Code is to ensure more timely reporting of audit work, including Value for Money. The Code requires that from 2025, auditors will issue their Annual Auditor’s Report by November each year. We have already put resource plans in place to ensure we achieve this deadline across all audited bodies.

National context – level of borrowing

All councils continue to operate in an increasingly challenging financial context. With inflationary pressures placing increasing demands on council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils’ existing resources, we have also seen some councils take excessive risks by borrowing sums in excess of their revenue affordability to finance these investment schemes. Additionally, we have also seen some authorities lending money to their subsidiary companies, which may not be in a position to repay those loans.

The impact of these huge debts on councils, the risk of potential credit losses and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Knowsley Metropolitan Borough Council has remained prudent in its borrowings and have not entered into any new long-term borrowing commitments during 2023/24.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We anticipate issuing a modified audit opinion in respect of the issues listed on page 4, as detailed in Appendix I.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in this report we have encountered a number of adjustments which has resulted in additional procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan issued in June 2024.

We set out in this table our determination of materiality for Knowsley Metropolitan Borough Council.

The Council has a wholly owned subsidiary, as the transactions are not material no group accounts are prepared. We have reviewed the Council's assessment and are satisfied this is appropriate.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£8,500,000	This is equivalent to approximately 1.45% of the Council's operating expenses for the period ended 31 March 2024. This is the level above which users of the financial statements would wish to be aware in the context of the overall expenditure. This benchmark is considered the most appropriate because we consider the users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	£6,375,000	The performance materiality has been set at 75% of financial statement materiality. This reflects our risk assessed knowledge of potential for errors occurring. Performance materiality is used for the purpose of assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. This is the amount we set at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.
Trivial matters	£425,000	Trivial threshold for matters which are clearly inconsequential individually or in aggregate. It is a standard benchmark set at 5% of financial statement materiality.
Materiality for Senior Officers Remuneration Disclosures	£10,000	Due to the public interest in senior officer remuneration disclosures and based on the code, we apply specific audit procedures to this work and set a lower materiality level for this area.



2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report financial performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the normal course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals population and determined the criteria for selecting journals we considered high risk or unusual • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness regarding corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>In performing the procedures above, we identified a population of journals to test using data analytic software to analyse journal entries and to split large batch journals into smaller sets of transactions that support targeted testing based on specific risk criteria assessed by the audit team. These criteria included:</p> <ul style="list-style-type: none"> • journals created by senior management and unexpected users • journals which impact the financial outturn • year-end adjustment journals. <p>Application of these routines and supplementary procedures identified 97 journals to test.</p> <p>Our audit work has been completed and has not identified any issues in respect of management override of controls.</p> <p>We did not identify any changes in accounting policies or estimation processes and review of key estimates has not identified any matters to bring to your attention. This is in line with our expectations.</p> <p>Our audit work has not identified any evidence of management override of controls.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

ISA240 revenue recognition risk

ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition. This presumption can be rebutted if the auditor concludes there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:

- there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Knowsley Metropolitan Council, mean that all forms of fraud are seen as unacceptable

Although the risk of fraud is rebutted, we recognise the risk of error in revenue recognition, and this is addressed through the responses to risk detailed across.

The revenue recognition risks have been rebutted.

Despite revenue recognition not being a significant risk, we have undertaken the following procedures to ensure that revenue included within the accounts is materially correct:

- evaluated the Council's accounting policy for income and expenditure recognition for appropriateness and compliance with the Code
- updated our understanding of the Council's system for accounting for income and expenditure and evaluating the design of relevant controls
- undertaken detailed substantive testing on the income and expenditure streams in 2023/24, including sample testing of material revenue and expenditure transactions
- reviewed the accounting treatment of all new income and expenditure streams to confirm that they have been accounted for appropriately in line with the Code and accounting standards.

Our substantive income testing is complete and has not identified any errors that we are required to bring to your attention.

PN10 expenditure recognition risk

In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure.

This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. Based on our assessment we consider that we can rebut the significant risk in relation to expenditure.

However, we have determined that there is a risk of error in respect of completeness of non-pay expenditure due to financial pressure and additional demands on staff across the organisation leading to a higher risk of missed/mis-recorded transactions

We have rebutted the risk of fraud in expenditure recognition. We believe that the expenditure risk relates primarily to the completeness of expenditure, therefore we have:

- evaluated the Council's accounting policy for expenditure recognition for appropriateness and compliance with the Code;
- gained an understanding of the processes and controls put in place by management to ensure that the Council's expenditure has been appropriately recognised;
- challenged key assumptions, the appropriateness of source data and the basis for calculations of expenditure accruals;
- substantively tested samples of year end payables and non-pay expenditure balances; and
- we have also designed and carried out appropriate audit procedures to ascertain the recognition of expenditure is in the correct accounting period using cut-off testing.

Our substantive expenditure testing is complete and has not identified any material issues that we are required to bring to your attention.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Land and Buildings, Surplus assets and Investment Property

The Council carries out a rolling programme that ensures that all land and buildings is revalued at least every five years in line with the Code requirements. The Council's policy is to revalue all assets at least every 3 years. Surplus assets and investment properties are valued on an annual basis. This valuation represents a significant estimate by management in the financial statements.

The valuation of land and buildings (£291.3m in the 2023/24 financial statements) is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for Local Government land and buildings is specified in detail in the CIPFA Code and the sector is highly regulated by RICS, therefore we will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration.

Surplus assets (£29.5m in the 2023/24 financial statements) and investment properties (£93m in the 2023/24 Financial Statements) should be valued and reported at fair value under relevant accounting principles. This represents a significant estimate by management in the financial statements due to the size of the numbers involved compared to Council's materiality and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of land and buildings, surplus assets and investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of management's valuation experts;
- written out to them and discussed with the valuers the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- engaged our own valuer to assess the instructions to the Council's valuers, the Council's valuation reports and the assumptions that underpin the valuations;
- evaluated the valuer's reports to identify assets that have large and unusual changes and/or approaches to the valuation – these assets were substantively tested to ensure the valuations are reasonable;
- tested a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, revaluation reserve and Statement of Comprehensive Income and Expenditure;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; and
- for all assets not formally revalued, evaluated the judgement made by management or others in the determination of current value of these assets.

Our testing identified one sample item which included a football field in the valuation in error, this resulted in the asset being overstated by £667k. This has been recorded as an unadjusted error, as this was a specific asset and our testing included all assets which met the criteria, no extrapolation was required.

We noted the internal valuer did not include a report to summarise the valuations in line with the terms of engagement and RICS standards. We have raised a recommendation in Appendix B for this to be completed.

Our auditor valuation expert provided commentary on the instruction process for the valuation of property assets by the internal valuer and Wilks Head and Eve for the investment property and a review of the resultant report. It did not involve a detailed review of individual property valuations as this aspect of work was completed by the audit team. The auditor expert identified a number of points to follow up including observations around the clarity of assumptions used by the Council valuer and the extent of investigations carried out. We challenged the Council's external valuer on all issues raised and were satisfied that the extent of investigations was sufficient, and that the assumption used were reasonable and appropriate.

As part of our overall audit work, we tested 21 Land and Building and 11 Investment property asset valuations, including individually large assets or those with unusual movements, as well as a sample across the remainder of the total population of assets. In completing our work, we examined the accounting entries, data and assumptions used, relevant asset indices and considered those assets not revalued.

2. Financial Statements: Significant risks (continued)

Risks identified in our Audit Plan

Commentary

Valuation of Land and Buildings, Surplus assets and Investment Property

Our audit work noted Shakespeare North Playhouse transferred from assets under construction to land and buildings in July 2022 and has not been revalued for either the 2022/23 or 2023/24 accounts. After receiving feedback from the auditors on the 22 January the Council instructed their internal valuation team to conduct a valuation of this asset in February 2025. However, we believe this valuation was not in accordance with the requirements of the Code and there is a risk of a material difference between the asset's carrying value and the measurement basis required by the Code. We have raised a recommendation in Appendix B in respect of this.

Our audit work also noted the revaluation for strategic land transferred from Assets Held for Sale to Surplus Assets did not take into account the leases granted by the Council to homeowners. We have raised a recommendation in Appendix B in respect of this.

Our audit work has not identified any further issues in respect of valuation of land and buildings and investment properties to bring to your attention.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation assumptions of the Pension Fund Net Liability/Asset

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£16m in the Council's 2023/24 financial statements) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14 - IAS 19 - the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

In particular the discount and inflation rates, where our consulting actuary has indicated that a +0.1(-0/1)% change in these two assumptions would have approximately -1.5(1.5)% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation.

Regarding these assumptions, we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

Commentary

We have:

- documented our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's IAS 19 valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the IAS 19 position;
- tested the consistency of the IAS 19 asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- reviewed the IFRIC 14 assessment to obtain assurance over management's calculation of the asset ceiling; and
- obtained assurances from the auditor of Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.


Our audit work has not identified any matters to bring to your attention and we have gained assurance that the IAS 19 pension net asset/liability has been appropriately accounted for and disclosed within the updated financial statements.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
<p>Data migration with new Payroll system implementation</p> <p>The Council moved to a new payroll system in April 2023. However, the implementation of this system has identified problems for the Council which has led to errors in the amounts being paid.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the testing completed by the Council’s project team supported by Namos (external implementation & support consultant) before implementation and the reconciliation completed on migrating from the old system to the new system; • documented our understanding of the processes and controls; and • completed substantive analytical review on payroll and investigated variances above a tolerable threshold. <p>Our audit work confirmed the Council completed data validation, cleansing, testing and system functionality testing prior to implementation. The functionality testing was only partially undertaken and did not cover all elements of the new payroll system. Consequently, reconciliation errors relating to statutory sick pay, statutory maternity pay and statutory paternity pay were not identified prior to the system going live. We are satisfied that these errors are not material in nature, however they have resulted in ongoing reconciliation differences between the ledger and payroll system. The Council is currently investigating these. We have raised a recommendations in respect of these issues in Appendix B.</p>

2. Financial Statements: key judgements and estimates


This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building including surplus assets valuations – £133.193m</p>	<p>Other land and buildings including surplus assets comprises £84.640m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £18.155m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Surplus Assets (£30.397m) are valued at a comparable Fair value. The Council has engaged their internal valuation experts to complete the valuation of properties as at 31/03/2024 on a three yearly cyclical basis. 41.5% of total assets were revalued during 2023/24.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31/03/2024. Management has performed a range of calculations and assessments including uplifting the assets by relevant indices to conclude whether the assets not revalued will have a material impact on the valuation. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>The Council has included disclosures in relation to estimation uncertainty at Note 2. The valuation of properties valued by the valuer has resulted in a net gain on revaluation of £5.6m.</p> <p>The total year end valuation of land and buildings including surplus assets was £133.193m.</p>	<p>The Council's accounting policy on valuation of land and buildings is included in the Accounting Policies note starting on page 34 of the financial statements.</p> <p>Key observations</p> <p>As highlighted on page 12 we have identified concerns relating to the carrying value of two assets, Shakespeare North Playhouse and strategic land assets (these assets are included in the Balance Sheet at a combined value of £53.224m). These valuations are not in line with the requirements of the Code and our opinion is modified in relation to this matter.</p> <p>For the remaining balances:</p> <p>We assessed the qualifications, skills and experience of both the internal and external valuer and determined the service to be appropriate.</p> <p>The underlying information and sensitivities used to determine the estimate was complete and accurate.</p> <p>The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</p> <p>We have reviewed management's assessment on assets not revalued and are satisfied there has been no material changes to the valuation of these assets that would require adjustment of their carrying value.</p> <p>We consider the level of disclosure in the financial statements to be appropriate.</p> <p>Conclusion</p> <p>We consider the estimate of your land and buildings valuation included in the Balance Sheet to be at risk of material misstatement.</p>	<p> Red</p>

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious


2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £93.008m	<p>The Council has a number of assets that it has determined to be investment properties.</p> <p>Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date). The fair value of the Council's investment property is measured annually at each reporting date. The valuations have been carried out by internal and external valuers, Wilks, Head and Eve LLP.</p> <p>The year end valuation of the Council's investment property was £93.008m, a net decrease of £0.475m from 2022/2023.</p>	<p>We have no concerns over the competence, capabilities and objectivity of both the external and internal valuation expert used by the Council.</p> <p>The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work</p> <p>The valuer completed a full valuation of the investment portfolio as at 31 March 2024.</p>	 Green

Assessment

- **[Red]** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **{Amber}** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **[Grey]** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<p>Net pension liability – £25.054m</p> <p>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.</p> <p>IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</p>	<p>The Council's net pension liability at 31 March 2024 is £25.054m (2022/23 £40.629m) comprising the Merseyside Local Government Pension Scheme and Teachers Pension Scheme benefit obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2022 and reported in March 2023. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The net pension liability has decreased by £15.575m during 2023/24.</p>	<p>In understanding how management has calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> assessed the use of management's expert assessed the actuary's approach taken, and confirmed the reasonableness of their approach <p>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.</p> <p>We have used the work of PwC as auditor's expert, to assess the actuary and assumptions made by the actuary – see below considerations of key assumptions in your pension fund valuation:</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.9%</td> <td>4.9%</td> <td>●</td> </tr> <tr> <td>CPI Inflation</td> <td>2.7%</td> <td>2.6% - 2.7%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.2%</td> <td>3.85% - 4.2%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21/22.2</td> <td>20.7- 22.2/ 22.0 – 23.5</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>23.4/25.2</td> <td>23.2 – 24.4/ 25.0 – 26.2</td> <td>●</td> </tr> </tbody> </table> <p>We have examined the completeness and accuracy of the underlying information used to determine the estimate.</p> <p>We have not identified any changes to the valuation method.</p> <p>We have reviewed the IFRIC 14 assessment and are satisfied it has been appropriately reflected in the accounts.</p> <p>From the work completed we are satisfied with the reasonableness of the estimate and discloser of the estimate in the financial statements.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.9%	4.9%	●	CPI Inflation	2.7%	2.6% - 2.7%	●	Salary growth	4.2%	3.85% - 4.2%	●	Life expectancy – Males currently aged 45/65	21/22.2	20.7- 22.2/ 22.0 – 23.5	●	Life expectancy – Females currently aged 45/65	23.4/25.2	23.2 – 24.4/ 25.0 – 26.2	●	 Green
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	4.9%	4.9%	●																								
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Assessment

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2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR Appeals - £1.973m	<p>The Council is liable for successful appeals against business rates charged to business in 2023/24 and earlier financial years in their proportionate share. A provision has therefore been made for the best estimate of the amount that businesses have been overcharged up to 31 March 2024.</p> <p>The Council uses data provided by the Valuation Office Agency (VOA) on historic appeals and analyses this data to estimate the likely success of outstanding appeals. The data is sense checked and a wider analysis of provision levels is undertaken across local authority groups to provide assurance that provision levels appear reasonable.</p> <p>The provision has increased by £0.571m in 2023/24</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is consistent with the requirements of the Code. Disclosure of the estimate in the financial statements is considered adequate. There have been no changes to the calculation method this year. 	 Green
Other Provisions - £9.609m	<p>The Council has a number of other provisions, namely Insurance provision, Street Lighting PFI provision and Special Guardianship Order historic payments provision.</p> <p>The Council uses data obtained from various sources of government and their own analysis to estimate the likely successful payments stemming from these provisions. The data is sense checked by senior finance officers.</p> <p>These provisions have decreased by £0.516m in 2023/24</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is consistent with the requirements of the Code. Disclosure of the estimate in the financial statements is considered adequate. There have been no changes to the calculation method this year. 	 Green

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- {Amber} We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings you can request to see our 'IT Audit Findings' report, which has been agreed by management. The recommendations raised are included in Appendix B.





IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
Oracle Fusion	ITGC assessment (design and implementation effectiveness only)	Red	Red	Green	Green	Management override of controls	<p>Our work on IT identified 3 significant recommendations in relation to access levels for this application.</p> <ul style="list-style-type: none"> - inadequate controls over privileged individual accounts - inadequate controls over self assigning roles in Oracle cloud - inappropriate segregation of duties as developers have access to the production environment <p>We have included specific routines within our focussed testing of journal entries to identify journals that would indicate specific risks from our control deficiencies identified, gaining assurance over the significant risks. These recommendations are shown in Appendix B. The Council have completed work to address some of these recommendations. Our testing has not identified any concerns arising from the security management risks noted above.</p>
CIPFA Asset Manager	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	PPE and IP revaluations	N/A

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements: Information Technology





ITGC control area rating

IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Oracle HCM	ITGC assessment (design, implementation and operating effectiveness)	 Amber	 Green	 Amber	 Green	Accuracy of employee benefit expenditure and related debtors or creditors	The contract for the previous system ended with no option to extend. The Council implemented a new system with restricted time scales which resulted in a number of payroll issues. In particular around the reconciliation to the ledger. We have performed procedures over assessing the reconciling items on payroll reconciliations and potential overpayments of employees. We are satisfied these costs are materially correct within the financial statements.

We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system implementation. We observed the following results:

IT system	Event	Result	Related significant risks/risk/observations
Oracle HCM	New system implementation	Significant deficiencies identified	Accuracy of employee benefit expenditure and related debtors or creditors We noted significant control deficiencies regarding the implementation of the HCM system. This included ongoing impacts on the general ledger as a result of issues and incomplete payroll reconciling items still appearing after implementation. We further noted overpayments of employees resulted from the issues which have been addressed by management subsequently.

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

2. Financial Statements: Digital Audit

We have invested significantly in our digital tools and our audit approach is underpinned by a suite of tools, enabling us to capture and analyse the detailed data contained within the general ledger. This supports more efficient and effective testing, with a focus on higher risk areas and unusual transactions. The ability to obtain full ledger data quickly and effectively is key to the progress of audit work, as is documentation of the Council's methodology for mapping code structures to the financial statements and use of off-ledger adjustments. Difficulties and delays in obtaining data adversely impact on the scheduling and delivery of the audit and it is important that management engage with the audit team to understand the requirements for data transfer, providing a clearly documented understanding of how financial statement entries are produced from underlying ledger and a timetable for doing so.

We requested several reports/documents from the Council to aid with this and these are summarised in the table below along with comments on delivery.

Document requested	Date requested	Date received	Comments
Closing trial balance for 2022-23	19/02/24	08/03/24	
Opening trial balance for 2023-24	19/02/24	19/02/24	
Closing trial balance for 2023-24	01/06/24	02/09/24	This was requested to be in the same format as the opening trial balance.
All general ledger transactions during 2023-24	01/06/24	25/09/24	There were delays in mapping the CIES transactions. this was due to the high volume of off ledger adjustments and manually mapping the codes to the statement of account.
Mapping between the trial balance and the financial statements for 2023-24	01/06/24	18/09/24	
Draft accounts for 2023-24	31/05/24	26/06/24	

Due to this being the first year of audit we did experience some challenges in receiving this information in the format requested. Going forward this should be resolved.

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
Significant events or transactions that occurred during the year	<p>Our testing on completeness identified a large payment of NDR which was received in 2024/25 however related to the prior financial years and was not accrued for. We challenged this with management who confirmed billing was completed in line with legislation.</p> <p>We are satisfied this is correctly stated in line with guidance although the Council should consider interim billing if similar circumstances occur again, a recommendation has been raised in Appendix B.</p>
Property, Plant and Equipment	<p>Our testing identified a significant number of assets held in the Fixed Asset Register, these were reviewed by the Council and confirmed these are not in use by the Council.</p> <p>We have agreed an amendment with the Council for the current year and the Council have been asked to consider if a prior year adjustment is required. As the impact is solely on the disclosure note and there is no impact on the Balance Sheet the Council have chosen not to amend this.</p>
Shakespeare North Playhouse	<p>Our testing identified Shakespeare North Playhouse was an asset which was reclassified from assets under construction to land and buildings in July 2022 as it became operational. The Council did not revalue the asset as at July 2022 nor as at the 31/3/23 or 31/3/24.</p> <p>The Council obtained a valuation in February 2025, however in our view this is not in accordance with the requirements of the CIPFA Code, see page 12 for further details.</p>
Assets held for Sale	<p>Our testing identified the Council had assets held for sale which did not meet the definition of an asset held for sale in line with Code.</p> <p>We have agreed an amendment with the Council for the current year, however, see page 12 where we have documented our concerns on the valuation of these assets.</p>
Cash and Cash Equivalents	<p>Our testing identified the Council had netted of the bank overdraft with the cash balance. However, there is no legal right to offset and this should therefore be amended.</p> <p>We have agreed an amendment with the Council.</p>
Prior Period Adjustments	<p>Our testing on financial instruments identified non-financial instruments were included in the accounts payable balances. These were removed in both the current and prior year disclosures.</p> <p>The Council has opted to amend the prior year cash and bank overdraft balances on the Balance Sheet.</p>

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Our testing identified a number of areas where disclosure is not required by the Code. A recommendation has been raised in this area see, Appendix B.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is set out at Appendix H.

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks and investment managers. We performed alternative procedures for three investments and positive confirmations have been received on the remaining. We have also requested five confirmations for schools of which one is outstanding.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Minor adjustments have been made these are detailed in Appendix B.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management continue to be provided.

2. Financial Statements: other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
<p>Going concern</p>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council’s financial reporting framework the Council’s system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>CIPFA guidance notes that it is important the Annual Governance Statement is kept up to date at the time of publication. During the course of the audit the Council's Children's services were subject to an Ofsted inspection in November 2024. On 20 January 2025 Ofsted published their inspection report, reporting the overall effectiveness of these services as 'inadequate'.</p> <p>Following audit challenge, the Council updated its Annual Governance Statement to refer to the Ofsted inspection and to include reference to actions planned to be taken.</p> <p>We plan to issue an unmodified opinion in this respect – refer to Appendix I.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>We will complete this work in line with the required deadlines once the guidance has been issued.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2023/24 audit of Knowsley Metropolitan Borough Council in the audit report, as detailed in Appendix I, until the National Audit Office has concluded their work in respect of WGA for the year ended 31 March 2024.</p>

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023/24

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The significant weakness we identified is detailed in the table below, along with the procedures we performed and our conclusions. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix I.

Significant weakness identified	Procedures undertaken	Conclusion	Outcome
Ofsted inspection of Children's Services	We considered Ofsted's "inadequate" judgement over the arrangements the Council has in place.	Significant Weakness has been identified	The Council should develop and deliver their Children's Services improvement plan to address the significant weaknesses identified by the November 2024 Ofsted inspection and subsequent "inadequate" assessment.

4. Independence considerations

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, there are no independence matters that we would like to report to you.

Details of fees charged are detailed in Appendix F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

4. Independence considerations

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments held.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not received or provided any gifts or hospitality to any members of the Council, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

4. Independence considerations

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £359,667 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management threat	

These services are consistent with the Council's policy on the allotment of non-audit work. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Unadjusted Items
- F. Fees and non-audit services
- G. Auditing developments
- H. Management Letter of Representation
- I. Audit opinion
- J. Audit letter in respect of delayed VFM work

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 16 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>● High</p>	<p>IT general controls - Inadequate control over privileged individual accounts within Oracle</p> <p>Administrative access to Oracle Fusion has been granted to twelve users who are not the members of IT/Systems team and perform business processes/financial reporting</p>	<p>The Council should undertake a review of all privileged accounts on Oracle to confirm the requirement for the account to be active and be assigned privileged access.</p> <p>The Council should create segregation of duty matrices and monitor how access is assigned</p> <p>Management response</p> <p>However, the Council will undertake a full review of all the Accounts to determine that they do not have system administration right and that the seeded roles do not include inappropriate access.</p> <p>The Council will also develop a matrix approach to help monitor access rights.</p> <p>Management Update</p> <p>The Council does not agree that there is a significant deficiency in the control of privileged individual accounts within Oracle.</p> <p>The roles assigned by sys implementors as “super-user roles” for Subject Matter Experts (SMEs) in relevant service areas. SMEs work closely with the oracle team to maintain and develop the system. They are not system administrators. The enhanced rights held by the SMEs are needed in order to perform their role.</p> <p>The council does not consider the rights held by the SMEs to be inappropriate and does not agree that there is a significant deficiency inherent in the SMEs holding these rights.</p> <p>Knowsley’s Oracle Team will continue to work with Namos Solutions Ltd (our Oracle Managed Services partner) to review all Oracle user accounts and subscriptions. This extensive project (known as the eNTrust project) includes a complete review of the roles assigned to users to ensure any seeded roles do not inherit any privileges that are not needed by the users. If need be, custom roles will then be developed and assigned. This will ensure that users can only do what their job requires them to do within Oracle and will also ensure that our Oracle subscriptions are within the contracted levels.</p> <p>An automated report looking at self-assignment of roles has also been developed and deployed. This report automatically sends an email to the Head of Finance if any users have self-assigned roles. The Head of Finance then challenges the Oracle Team Manager as to the validity of any such changes. Examples and evidence of such challenge are available for review.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
<p>●</p> <p>High</p>	<p>IT General Controls - Inadequate control over self-assigning roles in Oracle Cloud by privileged users</p> <p>In Oracle Fusion, users with privileged permissions can self assign roles. We identified that the whole Oracle Admin team can assign roles to themselves.</p> <p>Through further analysis, we identified that seven unique users had self-assigned a total of 43 roles during the audit period. There were no approvals for any of the self-assigned roles</p> <p>Users who self-assign roles without formally documented approvals from the line manager or equivalent, creates a risk of inappropriate access within the application or underlying database resulting in segregation of duties conflicts.</p>	<p>The Council should put processes and controls in place to restrict the ability of users to self-assign access. All amendments should be requested and approved.</p> <p>Management response</p> <p>The Council will introduce a requirement for all role changes to be approved in advance by the Oracle Manager.</p> <ul style="list-style-type: none"> • However, there may be exceptional occasions where members of the Oracle Team require the ability to self-assign roles. In such cases, self-assignment will be permissible but must be agreed retrospectively at the earliest opportunity. • A report has been developed which will inform the Oracle Manager of any such activity so that it can be monitored. • 23 of the 43 self-assignments have been undertaken by Namos consultants during the implementation of Oracle HCM. The frequency of such changes will reduce significantly in future. • We further propose that the role changes required by the Oracle Manager will also need to be approved in this way - but by an officer independent of the Oracle Team. <p>Management update</p> <p>The Council’s view is that there is no longer a significant deficiency in the controls over self-assigning of roles. This finding is out of date and the risk has been addressed.</p> <p>An automated report looking at self-assignment of roles has been developed and deployed by the Council since October 2024. This report automatically sends an email to the Head of Finance if any users have self-assigned roles. The Head of Finance then challenges the Oracle Team Manager as to the validity of any such changes. Examples and evidence of such challenge are available for review.</p>
<p>●</p> <p>High</p> <p>Controls</p> <ul style="list-style-type: none"> ● High – Significant effect on financial statements ● Medium – Limited Effect on financial statements ● Low – Best practice 	<p>Inappropriate segregation of duties as developers have access to the production environment</p> <p>We identified that there is no formal authorisation of changes prior to implementation in the production environment.</p> <p>The combination of access to develop and implement those changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/ or programs.</p>	<p>The Council should segregate a user’s ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development.</p> <p>Where the Council is unable to fully segregate access for operational reasons, alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.</p> <p>Management response</p> <ul style="list-style-type: none"> • The activity of Namos Ltd has been exceptional over the last 12 months due to the high level of involvement in implementing the Oracle HCM system. • The Council proposes that rather than removing access to the production environment for certain Users the Council should implement controls to monitor the activity of these Users. • We further propose that where this is undertaken by the Oracle Team Manager, then monitoring will be undertaken by an officer independent of the Oracle Team. <p>Management update</p> <p>The Council does not agree that this is a significant deficiency in the segregation of duties.</p> <p>The Council’s Oracle support bus model allows developers access to both the “Test” and “production” (Prod) environments. However, changes to Prod are only made after testing in a Test environment and are only implemented after independent approval from the Council’s Oracle Team Manager.</p>

B. Action Plan – Audit of Financial Statements continued

Assessment	Issue and risk	Recommendations
<p>●</p> <p>High</p>	<p>Valuation of Shakespeare North Theatre and strategic land holdings</p> <p>The Council was unable to provide appropriate valuations for two significant assets, giving rise to significant risk of material misstatement of the Balance Sheet.</p>	<p>The Council should ensure Code compliant valuations are performed to allow for accurate preparation of its 2024/25 accounts. Valuations should be assessed as at 31/3/23, 31/3/24 and 31/3/25 to enable any required PPAs to be processed.</p> <p>Management response</p> <p>The Council endeavoured to obtain valuations to address the audit concerns but was unable to procure external specialist support in the time available before the statutory backstop date of 28 February. The Council has now commissioned expert valuation support and will ensure that new valuations are reflected in the preparation of the Council's 2024/25 Accounts. The Council will work with the Auditors to ensure that in future it can address significant audit concerns as soon as possible.</p>
<p>●</p> <p>Medium</p>	<p>No monitoring of privileged user activity in Oracle Fusion</p> <p>We noted that though the audit logging were not enabled for any tables, no audit logs were available for the whole audit period. Further, we noted that there were no other monitoring controls in place. Risks</p> <p>Without appropriate audit logging and monitoring, inappropriate and anomalous activity may not be detected and resolved in a timely manner. Additionally, unauthorised system configuration and data changes made using privileged accounts will not be detected by management.</p>	<p>Considering the segregation of duties conflicts identified in in-scope applications information security events such as privileged user activities; it is recommended that security events are logged and reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel / team who are independent of those administrating the four applications and their underlying databases.</p> <p>Any issues identified within these logs should be investigated and mitigating controls should be implemented to reduce the risk of reoccurrence.</p> <p>Management response</p> <ul style="list-style-type: none"> The Head of Finance has been working with Namos to develop controls which will allow independent monitoring of the activity of "super-users" of the Oracle system. This work was originally commissioned by the Head of Finance in September 2023 as follows: To provide oversight of activity by users who have both 'Application Developer' and 'Application Administrator' access - namely officers in the Council's Oracle Team. It was recognised that best practice would be to segregate development and user administration, however capacity of the Oracle Team restricts this, so monitoring report is to be developed to identify access and changes made by these users. The work was put on hold as the Council had to focus on ensuring Oracle HCM was fully functioning. Work to produce the monitoring report was undertaken in April / May 2024. The Head of Finance will share an example of the reporting output from this work with Grant Thornton and would welcome audit advice on the adequacy of the proposed control. It would also be helpful to reflect this activity in the external audit assessment of the IT controls. <p>Management update</p> <p>An automated report looking at self-assignment of roles has also been developed and deployed. This report automatically sends an email to the Head of Finance if any users have self-assigned roles. The Head of Finance then challenges the Oracle Team Manager as to the validity of any such changes. Examples and evidence of such challenge are available for review.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements continued

Assessment	Issue and risk	Recommendations
● Medium	<p>Oracle Quarterly Patches tests scripts are to be reviewed prior to implementation into the production environment by Oracle.</p> <p>We noted that quarterly patches tests scripts had not been reviewed after testing is completed and before promoting the change into the live environment. Risks.</p> <p>Failure to adequately review the quarterly patches test scripts prior to releasing the patches into the production environment could lead to a loss of data integrity, processing integrity and/or system down-time.</p>	<p>Management should ensure that change management procedures are recommunicated to staff so that review of the quarterly test scripts is performed and approved prior to introducing a change into the live environment.</p> <p>Management response</p> <ul style="list-style-type: none"> Following the application by Oracle of quarterly updates to development environments, testing is undertaken by super users in Receivables, Payables and the GL. These super users then inform the Oracle Team with the results of the testing prior to the application of the updates in PROD. Although the super users follow their own test scripts, the Oracle Team do not check these test scripts. The Council will therefore introduce a further control of reviewing the test script each quarter prior to introducing a change into the live environment.
● Medium	<p>Payroll Functionality Testing</p> <p>Functionality testing of the new system was not completed before implementation and this was on going during change over. This led to errors that affected payroll, particularly involving sickness pay, statutory maternity pay and paternity pay.</p> <p>At year end this has led to ongoing reconciliation issues which the Council are currently investigating.</p>	<p>We recommend that the Council resolves the remaining reconciliation issues and completes functionality testing in advance of implementing new financial systems</p> <p>Management response</p> <p>Agreed</p>
● Medium	<p>Internal Valuers' schedule</p> <p>We have noted that the valuer schedule of valuations indicates the method of valuation for all the assets, however this is not consistent in all cases with the prior valuations, or with the valuation certificates for the assets confirming the valuation method used.</p> <p>There is a risk that assets are revalued using an incorrect valuation method.</p>	<p>Management should track the valuation methods applied and ensure that the appropriate valuation method is used for each type of asset valued. If valuation methods change from prior valuations, management needs to understand the reasoning for such changes and be able to support decisions reached with sufficient evidence.</p> <p>Management response</p> <p>Agreed. The method of valuation will be updated on the schedule of valuations spreadsheet.</p>
● Medium	<p>Internal Valuers' report</p> <p>Through our audit work over the internal valuation expert appointed by management to perform the revaluations work on PPE and IP, we confirmed that the internal valuer does not prepare an overall valuation report to management for the valuations undertaken as stated in the written terms of engagement. We also confirmed that a valuation certificate was not prepared for all assets revalued.</p>	<p>In the absence of an overall valuation report, we recommend that the internal valuer prepares valuation certificates for all assets revalued in line with the requirements of RICS standards.</p> <p>Management response</p> <p>Agreed – certificates for all assets will be included.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements continued

Assessment	Issue and risk	Recommendations
● Medium	<p>Internal valuation reports</p> <p>Our testing of asset valuation certificates for individual assets noted that for the depreciated replacement cost assets the assumptions regarding MEA applied by the valuer were not stated.</p>	<p>The valuation report should include all the assumptions used in line with the RICS reporting requirements.</p> <p>Management response</p> <p>Agreed – the valuation report will include the assumptions used</p>
● Medium	<p>Assets Under Construction</p> <p>Shakespeare North Playhouse was transferred from ‘Assets Under Construction’ to ‘Land and Buildings’ in June 2022 when it become operational. Operational Land & Buildings are required by the Code to be valued with sufficient frequency to ensure the material accuracy of asset balances. The Council has not valued this asset as at either 31 March 2023 or 31 March 2024 and it continues to be reported at accumulated cost.</p>	<p>Where material assets become operational the Council should ensure these are assessed and included in the Council’s valuation programme to ensure compliance with the requirements of the CIPFA Code.</p> <p>Management response</p> <p>Agreed</p>
● Medium	<p>Infrastructure Assets</p> <p>We have noted that the useful economic lives adopted by management are in general longer than the CIPFA’s guidelines, indicating possible understatement of depreciation for infrastructure assets and thereby overstating the closing NBV.</p>	<p>We recommend the Council reviews the useful economic lives adopted for depreciation of infrastructure assets to provide assurance that these remain appropriate.</p> <p>Management response</p> <p>Agreed – Useful Economic Lives will be updated to reflect CIPFA guidance.</p>
● Medium	<p>Leases</p> <p>Management have not included any leases disclosure as required by the Code. Lease expense payments have been included in the CIES.</p>	<p>Management should review its disclosures in relation to the Council’s lessee and lessor arrangements to ensure compliance with the requirements of the CIPFA Code.</p> <p>Management response</p> <p>Agreed</p>
● Low	<p>Trust funds</p> <p>The Council’s cash balance includes Trust funds of £882k which should not be included.</p>	<p>We recommend that this balance is removed from the balance sheet.</p> <p>Management response</p> <p>Agreed</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements continued

Assessment	Issue and risk	Recommendations
● Low	<p>Reconciliation</p> <p>Our work on the Council’s bank reconciliation identified a number of long-standing reconciling items, dating back to July 2015. Although these were trivial these should be reviewed and appropriately addressed.</p> <p>Our work on accounts payable also identified a trivial discrepancy which has been carried forward from previous years.</p>	<p>We recommend that reconciling items should be resolved promptly following the identification of the item.</p> <p>Management response</p> <p>Agreed</p>
● Low	<p>Related Party Transactions</p> <p>We noted a number of related party transactions which did not require disclosure under the requirements of the Code. This is important so that material disclosures are not obscured by unnecessary disclosures.</p>	<p>We recommend the Council revisits its approach to disclosure of related party transactions to ensure that only those disclosures required by the Code are included within the accounts.</p> <p>Management response</p> <p>Agreed – this disclosure will be reviewed.</p>
● Low	<p>Non-Domestic Rates billing</p> <p>Our testing identified a long delay in the valuation office returning a ratable value for a significant property in the Borough.</p>	<p>Where there are significant delays in obtaining a finalised rateable value, we recommend the Council considers raising interim bills based on estimates to manage its ultimate credit risk and improve its cash flows.</p> <p>Management response</p> <p>The Council understands the logic for this recommendation - however businesses are under no obligation to pay business rates until the demand is issued. The Council therefore does not consider that this recommendation would help with cash flow.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

The previous auditors identified the following issues in the audit of Knowsley Borough Council's 2022/23 financial statements, which resulted in 6 recommendations being reported in their 2022/23 Audit Completion Report. We can report that management have implemented 2 recommendation the remaining 4 remain in progress.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	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.	We include a recommendation in relation to related party disclosures on p39 of this report.
X	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.	A similar recommendation has been raised in the current year.
X	During the 2021/22 review, it was noted that 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. Work undertaken in 2022/23 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 similar recommendation has been raised in the current year.
✓	Upon inspection of Knowsley's network password rules, auditors noted the maximum password age does not conform to industry best practices. Work in 2022/23 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.	No issues were identified in the current year.
✓	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.	No issues were identified in the current year.
X	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. This remains outstanding in 2022/23 the Council will consider specialist advice once long-term guidance has been issued by CIPFA.	A similar recommendation has been raised in the current year.

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2024.

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000
Assets held for sale did not meet the definition of assets held for sale however these did not meet the definition.	0	17,965 Property, plant and Equipment (17,965) Assets held for sale	0	0
Reclassification of bank overdrafts from current assets to current liabilities	0	(4,805) Current Liabilities 4,805 Current Assets	0	0
Correction on the accounting for the deficit relating to the Dedicated Schools Grant	(8,093)	0	0	0
	Children's Service Expenditure 8,093			
	Children's Service Income			
Overall impact	£0	£0	£0	£0

D. Audit Adjustments (continued)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Narrative Report	An amendment was made to reflect the current pensions position. 2022/23 Long Term Borrowing amount was updated to agree with the prior year and note 29.	✓
Note 12 Property Plant and Equipment	The accumulated depreciation on assets revalued was not disclosed in the note The note should include the accumulated depreciation to be written off in relation to revalued assets of £7,558,588.	✓
	We identified nil net book value assets no longer in operation yet included in the note as these assets had not been formally disposed of in the asset register. Gross values incorrectly carried forward amounted to £41.4 million and these have now been removed from gross book values and accumulated depreciation disclosures as at 31/03/2024. Note that the 31/03/2023 disclosures have not been updated, as included in the list of unadjusted items.	✓
Note 15 - Investment Properties:	Disclosure have been assessed as "Level 2 and 3 inputs". However, the disclosure also states there are "no significant unobservable inputs". Therefore, this note has been amended to ensure the disclosure is consistent.	✓
Note 17 – Capital commitments	The note has been updated to include comparatives, in the same format as the disclosure for the current year.	✓
Note 18 - Financial Instruments	The Council has classified some elements of creditors as a financial instrument. These elements include Accumulated Absence Accrual (£5.735 million) and Taxes due to HMRC (£3.242 million), totalling £8.977 million. These are not classified as a Financial Instrument per the Code and have been removed from the disclosure. The adjustment has also been made for the prior year.	✓
Note 20 - Cash and Cash equivalents	The note has netted off the overdraft bank account balance, against other bank accounts, such as petty cash, schools bank accounts and other operational accounts which have a positive balance. As there is no agreement or legal right to net off this has been amended to report the gross positions.	✓
Note 28 – Cash flow from financing activities	The cash receipts and repayments were both overstated by £2 million this did not impact the total	✓
Note 30 - Pooled budgets	The note has been amended to remove disclosure which is no longer applicable.	✓
Note 33 - Audit Fee	The disclosure note should reflect the audit fee as communicated in the audit plan for the full financial period. A footnote added to clarify that the amount disclosed is the planned fee for the financial year, the majority of expenditure is reflected in the following year. As well as confirmation that the 'other services' amount is payable to the Council's previous external auditors.	✓

D. Audit Adjustments (continued)

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Note 35 – Grant Income	Dedicated schools grant was adjusted to remove £8,093k deficit which was included as income	✓
Note 36 Related Party Transactions	Various adjustments have been made to ensure the debtor and creditor balances disclosed in the note agree to the Council’s working papers.	✓
Note 39 -Service concession arrangements	The tables to show the movement in PFI assets has been amended to agree with the Fixed Asset Register. Payments tables within the note have been updated to include comparatives for the prior year.	✓
Note 42 – Defined benefit pension scheme	Disclosure has been enhanced to show the funded and unfunded pension benefit liability. This will ensure the asset ceiling calculation is clearer.	✓
Note 43 - Nature and extent of risks arising from financial instruments	The credit risk table included investment property, however this does not meet the definition of a financial instrument and the note has been updated. The table to show aged debt has been updated to reconcile to the outstanding sundry debtors balance.	✓
The following notes included material other items which have been broken down further to ensure that items disclosed as ‘Other’ are not material amounts. : Note 19 – Debtors, Note 27 – Cash flow from investing activities, Note 35 Grant Funding		✓
Note 6c EFA was adjusted for the amendments made in relation the Dedicated Schools Grant in the CIES.		
We noted various other minor disclosure adjustments which we have brought to the attention of management within the accounting policies, notes to the accounts and collection fund statement.		✓

E. Unadjusted items



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000	Reason for not adjusting
Operating expenditure per note 6c – this is a difference between financial statement and transaction listing	0	0	(£427)	£427	Amount is not material.
PPE revaluations – sample 6 – overstatement of valuation	£667	(£667)	0	0	Amount is not material
Assets held for sale Inventory	0	(£944) £944	0	0	Amount is not material
Overall impact	£667	(£667)	(£427)	£427	

Unadjusted disclosures

Disclosure/issue/Omission	Auditor recommendations
Note 12 – Property, Plant and Equipment	We identified a number of nil net book value assets included in the note which had not been formally disposed in the asset register. An amendment has been made in the current year, however the disclosure has not corrected for the 31 March 2023 position.
Note 20 - Cash and Cash equivalents	The Council holds Deputyship and Client Monies accounts to the value of £1.1m, in guardianship for third parties. These amounts are correctly excluded from the accounts, but a disclosure should be made in line with Code paragraph 3.4.4 para 11. The cash balance includes trust funds of £0.882m in the cash balance which should be excluded.
Note 36 - Related Parties	We noted a number of related party transactions which did not require disclosure under the requirements of the Code.

E. Unadjusted items



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the prior year financial statements.

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000	Reason for not adjusting
Correction on the accounting for the deficit relating to the Dedicated Schools Grant	(4,838)	0	0	0	Amount is not material.
Children's Service Expenditure	4,838				
Children's Service Income					
Overall impact	£0	£0	£0	£0	

Unadjusted prior year disclosures

Disclosure/issue/Omission	Auditor recommendations
Note 35 – Grant Income	Our testing in the current year identified the dedicated schools grant included the deficit as income. The prior year dedicated schools grant also included £4,838k of deficit in the income amount.

F. Fees and non-audit services

We confirm below our final fees charged for the 2023/24 audit, from the first day of the current period to date.

Audit	Proposed fee	Final fee
Knowsley Metropolitan Borough Council Audit	£296,572	£296,572
ISA 315	£12,500	£12,500
Auditor expert to support review of PPE valuations	£6,000	£9,300
Housing Benefits Testing	£8,000	£8,000
Additional work completed in respect of:	-	33,295
- additional risk in terms of the implementation of the payroll system		
- additional procedures in terms of the IT recommendations		
- material misstatement in the accounts, including assets with a nil NBC & assets held for sale		
- Review on the valuation of Shakespeare North Theatre and Strategic Land		
Total audit fees (excluding VAT)	£323,072	£359,667

Additional fee is subject to PSAA approval

F. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Teachers pension return	£12,500	£12,500
Total non-audit fees (excluding VAT)	£12,500	£12,500

Total audit and non-audit fee

(Audit Fee) £323,072 – Proposed	(Non-Audit Fee) £12,500 (estimated)
(Audit Fee) £359,667 – Final Fee subject to PSAA approval	

The proposed audit fees reconciles to the financial statements. The non audit fee was agreed in January 2025 and not included in the 2023/24 financial statements, this will be recognised in the 2024/25 financial statements. The non-audit fee of £13,000 reflected in the financial statements relate to prior year non-audit work completed by the predecessor auditor.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

G. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

H. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Date] – (TO BE DATED SAME DATE AS DATE OF AUDIT OPINION)

Dear Grant Thornton UK LLP

**Knowsley Metropolitan Borough Council
Financial Statements for the year ended 31 March 2024**

This representation letter is provided in connection with the audit of the financial statements of Knowsley Metropolitan Borough Council for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include land and building, investment property and defined pension liability valuations. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

H. Management Letter of Representation (continued)

- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions. Other than those identified in the qualification.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. The prior period adjustments disclosed in Note 18, Note 20 and Note 43 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entity to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

- xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

- xvii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

H. Management Letter of Representation (continued)

- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on 27 January 2025.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

I. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with a modified audit report

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

Report on the audit of the financial statements

Qualified opinion on financial statements

We have audited the financial statements of Knowsley Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2024, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2024 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for qualified opinion

The Accounts and Audit (Amendment) Regulations 2024 ('the Regulations') require the Authority to publish audited financial statements, for the year ended 31 March 2024 by 28 February 2025 ('the backstop date'). The backstop date has been put in law with the purpose of clearing the backlog of historical financial statements. The latest date on which unaudited accounts could be published to enable local elector rights to be met in time for the backstop was 16 January 2025. The authority published its unaudited accounts on 26 June 2024.

The Authority's Balance Sheet includes Property, Plant and Equipment assets with a carrying value of £359.431m. This amount includes two assets, with a combined carrying value of £53.224m, for which the Council was unable to provide suitable valuations as required by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 ("the Code").

The Shakespeare North Playhouse is included in the Balance Sheet at an accumulated cost of £35.259m and not at current value in accordance with the requirements of the Code. The Authority's Balance Sheet also includes land assets carried at £17.965m which are categorised as surplus assets. The valuation of this land did not take into account leasehold encumbrances granted by the Authority. As a result of the limitations imposed by the backstop date, we have been unable to obtain sufficient appropriate audit evidence over whether adjustments to the carrying value of these assets might be necessary for the years ended 31 March 2023 and 31 March 2024.

We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be material and our audit opinion on the financial statements for the year ended 31 March 2024 is modified accordingly. This enables the Authority to comply with the requirement of the Regulations to publish the financial statements for the year ended 31 March 2024 by the backstop date.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2024) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

I. Audit opinion (continued)

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officers conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer's with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon and the Annual Governance Statement. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in November 2024 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

I. Audit opinion (continued)

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Executive Director (Resources)

As explained more fully in the Statement of Responsibilities set out on [page 15](#), the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director (Resources). The Executive Director (Resources) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director (Resources) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director (Resources) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is

detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012).

We enquired of management and the Governance and Audit committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Governance and Audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risk was in relation to management override of controls.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on material manual journals, post year-end journals, journals around the year-end, journals posted by unexpected users and journals posted by senior officers,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pension liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

I. Audit opinion (continued)

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including significant accounting estimates related to property, plant and equipment, investment properties and net pension liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We have nothing to report in respect of the above matter except on the 10 February 2025 we identified a significant weakness in the Authority's arrangements for improving economy, efficiency and effectiveness. In November 2024, Ofsted undertook a focused inspection of the Authority's children's services and identified serious and widespread weaknesses. The findings from Ofsted's work indicate weaknesses in the Authority's arrangements existed in 2023/24.

We recommend the Authority should develop and deliver their Children's Services improvement plan to address the significant weakness identified by the November 2024 Ofsted inspection.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I. Audit opinion (continued)

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Knowsley Metropolitan Borough Council for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary in relation to consolidation returns, including Whole of Government Accounts (WGA), and the National Audit Office has concluded their work in respect of WGA for the year ended 31 March 2024. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2024.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

John Farrar, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

Date:

J. Audit letter in respect of delayed VFM work



Mr S Green
Chair of Governance and Audit Committee
Knowsley Metropolitan Borough Council
Municipal Buildings
Huyton L36 9UX

10 September 2024

Dear Mr Green

The original expectation under the approach to Value For Money (VFM) arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to staff leave and some minor delays in information being received from the Council, we have been unable to complete our work as quickly as would normally be expected.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure Value for Money. We expect to publish our report no later than 31 December 2024.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

John Farrar

John Farrar
Director

