

# The Audit Findings for Lichfield District Council

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**Year ended 31 March 2014**

September 2014

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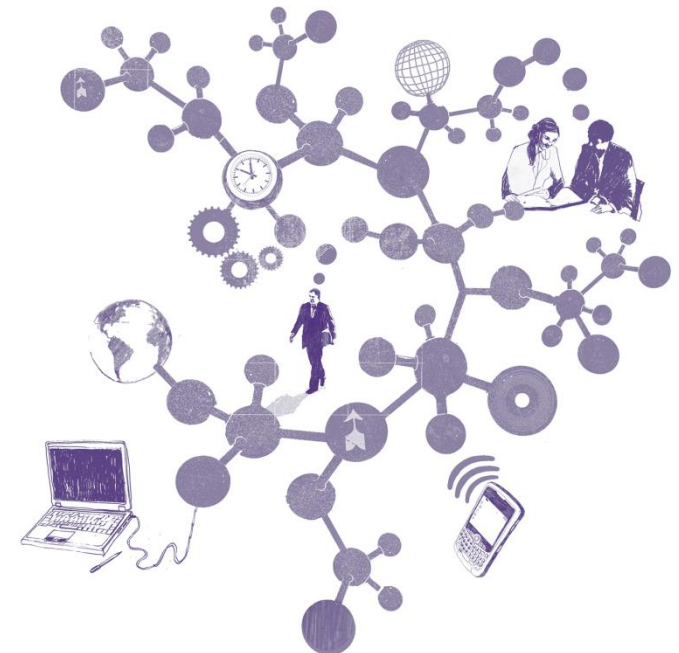
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Lichfield District Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to the Audit Committee in our Audit Plan on 29 April 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of welfare benefit expenditure
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of the final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of the Council's Whole of Government Accounts submission.

## Key issues arising from our audit

### Financial statements opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

As at 23 September 2014, and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the financial statements.

We have identified a number of adjustments as a result of the Council not correctly stating its pension disclosures as required by the changes to the International Accounting Standard IAS19- Employee Benefits. The Council had also not correctly restated its accounts for the prior period adjustments also required by IAS19. However, these adjustments have not affected the Council's reported financial position, with the draft and audited financial statements recording net expenditure of £15,084k (further details of the amendments are recorded in section 2 of this report).

The other key messages arising from our audit of the Council's financial statements are:

- We are satisfied that the overall approach taken by the Council to assessing provisions in respect of National Domestic Rates (NDR) is reasonable. The Council has made disclosures within the Contingent Liabilities note on appeals not yet lodged. We are seeking confirmations in the Letter of Representation (LoR) to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.

- The Council carries out a rolling programme of asset valuations which ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. We are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014 and will be seeking confirmation on the assumptions through the LoR. In our view, however, this rolling programme does not fully meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.
- We identified a small error in the calculation of the new local council tax discounts for 32 properties above Band D due to incorrect parameters being set on the Council's systems and have also identified a small number of adjustments to improve the presentation of the financial statements.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Our work has identified one control weakness in respect of the Council's payroll SLA which we wish to highlight for your attention. Further details can be found in section two of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance, Revenues and Benefits.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance, Revenues and Benefits and the finance team.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 29 April 2014

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p><b>Completeness</b> Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• a review of the accruals process</li> <li>• substantively tested creditors and accruals by reviewing significant transactions and a sample of other items to supporting documents.</li> <li>• tested payments made after the year end to ensure that they have been included in the appropriate period</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p>	<p><b>Completeness</b> Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• review of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements</li> <li>• review of monthly trend analysis of total payroll</li> <li>• sampled payroll expenditure to ensure people were paid at the correct rate and deductions were calculated correctly</li> <li>• agreed employee remuneration disclosures in the accounts to supporting evidence</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare expenditure</b></p>	<p><b>Completeness</b> Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• testing of benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements</li> <li>• tested the benefit expenditure in the accounts through our work on the HB COUNT methodology which involves completing detailed calculation testing on a sample of housing benefit cases</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Property, plant &amp; equipment</b></p>	<p><b>Valuation gross</b> Revaluation measurement not correct</p>	<ul style="list-style-type: none"> <li>• We have discussed with officers the approach to valuing assets in light of changes to the CIPFA code.</li> <li>• We have tested the revaluations included in the accounts to ensure that the carrying value of assets is not materially different to the fair value.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We have reported on the Council's accounting policies for PPE valuations on page 13.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates - general</b></p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>- useful life of capital equipment</li> <li>- pension fund valuations and settlements</li> <li>- revaluations</li> <li>- impairments</li> <li>- accruals and bad debt provision</li> </ul>	<p>We have placed reliance on the work of the pension fund actuary for estimates relating to pension fund valuations and settlements.</p> <p>The business rate appeals provision is a new requirement for 2013/14 and we have reviewed the Council's approach and methodology to this. We are satisfied that the approach is reasonable and the provision is reliably estimated and is compliant with the accounting framework.</p> <p>The Councils' judgments for revaluation and impairment of the asset base is taken from the work of the professional valuer.</p> <p>We consider the disclosure policies around useful economic lives of assets, accruals and the bad debt policy to be appropriate under the relevant accounting framework.</p>	<p style="text-align: center;">● <b>Green</b></p>
<p><b>Judgements and estimates - PPE</b></p>	<p>Page 31 of the accounts sets out the authority's rolling programme of revaluations.. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</p> <ul style="list-style-type: none"> <li>• This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:             <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date</li> </ul> </li> </ul>	<p>The Council has included disclosure in the accounts on the approach taken and has been able to demonstrate that the carrying amount of assets does not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view the approach taken is not fully in line with the requirements of the Code and of IAS16 which requires the revaluation of each class of assets to be completed within a 'short period'.</p> <p>In our view, however, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p style="text-align: center;">● <b>Amber</b></p>

**Assessment**




● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates - NDR</b>	<ul style="list-style-type: none"> <li>Local authorities are liable for successful appeals against business rates and should recognise a provision for their share of the best estimate of the amount that businesses have been overcharged up to 31 March 2014. This is disclosed on pages 79 and 80 of the financial statements.</li> <li>Both IAS 37 (para 25) and the Code (para 8.2.2.20) refer to the fact that it is only in extremely rare cases that a reliable estimate cannot be made. However, there are some practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:                             <ul style="list-style-type: none"> <li>the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA</li> <li>some businesses may have been overcharged but not yet made an appeal.</li> </ul> </li> <li>The Council has not included any provision for potential future appeals. In such an instance, the rationale should be supported both in terms of disclosures and the Council providing appropriate evidence to those charged with governance and auditors.</li> </ul>	<p>Local knowledge of the major businesses in the area and a review of national appeals statistics has been used to inform the provision included in the accounts.</p> <p>The Council has not included any provision for potential future appeals, but has used its detailed knowledge of the local business profile and appeals received to date to inform its assessment. It has concluded that it cannot arrive at a reliable estimate for the value of appeals not lodged at 31/3/14 and has disclosed NDR appeals as an area of estimation uncertainty in the accounts.</p> <p>Overall, we are satisfied that the approach taken by the Council and the disclosures in the accounts, including those under contingent liabilities are reasonable. However, we are seeking confirmations in the Letter of Representation to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.</p>	 <b>Green</b>
<b>Revenue recognition</b>	The revenue recognition policy has been included in the accruals of income and expenditure section of the accounting policies. There are also separate policies for the recognition of Council Tax and NDR income.	Our review of the revenue recognition policies have not highlighted any issues that we wish to bring to your attention. The policies are appropriate under the relevant accounting framework.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>Green</b>

## Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Financing and Investment income has reduced from £4,884k to £2,437k as a result of adjustments to IAS19 disclosures. The original entries had not complied with the disclosure changes implemented for 2013-14.	-2,447	0	0
2 Remeasurement of the net defined benefit liability has increased from (£1,622k) to £827k as a result of adjustments to IAS19 disclosures. The original entries had not complied with the disclosure changes implemented for 2013-14.	2,447	0	0
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	N/A	Contingent Assets- note 40	The statements included a contingent asset for a 50% share of any profit in excess £1.5m made on the development of the Friary Outer project. From discussions with officers it is apparent that this level of profit is never expected to occur. Therefore this does not meet the definition of a contingent asset and has been removed from the accounts.
2 Disclosure	2,447	Cashflow statement	<p>The figures included in the cashflow statement were correct and balanced to the opening and closing positions. However, the negatives and positives representing cash outflows and inflows were disclosed incorrectly. This has now been reversed and shown correctly, there is no impact on the opening or closing balances.</p> <p>The net deficit on the provision of services figure, and adjustments to the deficit for non cash movements lines within the cashflow have been amended for IAS 19 adjustments made elsewhere in the accounts. The 2012-13 comparator figures have also been adjusted.</p>
3 Disclosure	2,447	Explanatory foreword	The explanatory foreword has been amended to show revised IAS 19 disclosures due to changes in the disclosure requirements for 2013-14. Figures affected were the Deficit on the Provision of Services in the CIES, and Adjustments between accounting and funding basis.
4 Disclosure	2,447	MIRS	Two adjustments have been made to the movement on the General Fund within the MIRS due to changes in the IAS 19 disclosure requirements for 2013-14. These are the Surplus/(deficit) on provision of services, and Adjustments between accounting and funding basis. The comparative figures for 2012-13 have also been adjusted.

## Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
5 Disclosure	2,447	Note 7	The reversal of items relating to retirement benefits debited or credited to the CIES line in note 7 has been adjusted due to changes in the IAS 19 disclosure requirements. The 2012-13 comparator figures have also been amended.
6 Disclosure	2,447	Note 10	Pensions interest cost and expected return on pensions assets figure has been revised. This is due to changes in the IAS 19 disclosure requirements. The 2012-13 comparator figures have also been amended.
7 Disclosure	2,447	Note 21- Pensions reserve	There have been three adjustments to the entries in this reserve as a result of the changes to IAS 19 disclosure requirements. The entries affected are Actuarial Gains or Losses on Pensions Assets and Liabilities, Return on plan assets and Reversal of items relating to retirement benefits debited or credited to the deficit on the provision of services in the CIES. The 2012-13 comparator figures have also been amended.
8 Disclosure	2,447	Note 25	The movement in pension liability figure has been amended is due to changes in the IAS 19 disclosure requirements. The 2012-13 comparator figures have also been amended.
9 Disclosure	2,447	Note 27	The corporate amount for Pension interest and expected return on Assets has been revised by £2,447k due to changes in the IAS 19 disclosure requirements. The 2012-13 comparator figures have also been amended.



## Misclassifications & 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.


	Adjustment type	Value £'000	Account balance	Impact on the financial statements
10	Disclosure		Note 38	There have been a number of changes made to the disclosures within note 38 due to the changes in disclosure requirements for IAS 19 not being included in the draft accounts correctly. These have been amended along with the 2012-13 comparator figures.
11	Disclosure		Note 42	There have been a number of changes made to the disclosures within note 42 due to the changes in disclosure requirements for IAS 19 not being included in the draft accounts correctly. These have been amended along with the 2012-13 comparator figures.

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		The SLA agreement between the Council and Stafford Borough Council (SBC) for the provision of the payroll service for the period 1 April 2013- 31 March 2014 had not been signed by SBC before the commencement of the year. This was also identified as being the case for the 2014/15 SLA.	The Council should ensure that there is a signed SLA for the payroll service in place before the financial year commences. This is good practice and would ensure that an agreement was in place should there be any disputes with SBC regarding the service provided.



# Other reporting issues

We identified one other reporting issue and one matter which we wish to draw to the Audit Committee’s attention.

We noted that incorrect parameters had been set up within the Council's Benefits systems for the calculation of local council tax scheme discounts for Properties above Band D where the resident is also receiving single person discount . The adjustment was trivial at £6,560 however it is important that the Council ensures correct parameters are set for changes in the future.

The Independent Remuneration Panel requested that we meet with it in respect of the ICT Allowance for Members. Concerns were raised with us in respect of its clarity over whether it was an allowance or reimbursement of expenses. We are satisfied that the policy has been appropriately approved by the Council and that payments under the have been appropriately recorded. This policy is currently under review and we determined that no further formal action was required under our statutory audit role but we have made management aware of our discussions.

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of. 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.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, as noted earlier, representations have been requested from management in respect of the significant assumptions used in making accounting estimates in relation to the valuation of Property, Plant &amp; Equipment and the approach taken for the calculation of the provision for NDR appeals.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that:

- Portfolio expenditure in 2013/14 was £493k lower than the budget (£243k lower in 2012/13). We continue to be satisfied that the underspends have been due to the impact of the Fit for Future (F4F) Programme and volatility in the economy and one-off items rather than an indicator of weaknesses in the Council's financial planning arrangements.
- The Council continues to face considerable challenges around its medium term financial resilience but has responded effectively through the development and agreement of its updated Medium Term Financial Plan in February 2014. The Council achieved savings of £498k in 2013/14 and further savings of £805k have been achieved for 2014/15, totalling permanent savings to date of £1.3m. The F4F programme aims to secure the levels of savings required to achieve a balanced financial position to 2016/17.

The Council has adequate arrangements in place to meet its funding shortfalls and manage associated risk. However we recognise that whilst the Council has made good progress against achieving the desired efficiency savings, there are still significant savings to be made and performance against these needs to be closely monitored.

# Value for Money

## **Challenging economy, efficiency and effectiveness**

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council's Fit for the Future programme has been focused around prioritising spend in all areas of the Council and making operations more efficient. The programme is committed to making sustainable recurring savings which will enable the Council to meet funding shortfalls.

## **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council monitors its financial performance on a regular basis and has not had to sell any assets to improve its cash flow. The VFM profile tools collated by the Audit Commission show that the Council is performing in line with other district councils with regard to financial performance and spending on its residents.	<b>Green</b>
<b>Strategic financial planning</b>	We found that the Council has a focused Medium Term Financial Strategy in place and there are plans to address future budget shortfalls through the Fit for Future programme. The Council is not focusing on short term 'quick wins' but is thinking in the long term for sustainable savings.	<b>Green</b>
<b>Financial governance</b>	Reports presented to members have shown that there is a great level of understanding by the leadership team and members around the financial challenges that the Council faces and the level of savings that are required. There is an understanding that the savings the Council needs to make should be sustainable and may lead to changes in service provision.	<b>Green</b>
<b>Financial control</b>	The Council has not relied on short term fixes such as the sale of assets to improve its cash position. The Council has good monitoring arrangements in place and is aware of the reasons for any revenue and capital over or underspends. These are reported on a timely basis to Cabinet. The treasury management policy is robust and addresses associated risks.	<b>Green</b>
<b>Prioritising resources</b>	The Council has made good use of shared services and joint working as a way of prioritising spend in certain areas. The programme of Fit for the Future service reviews, and staff input into this exercise, shows that there is a willingness to think more widely about where the Council should invest its resources.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The Council participates in the CIPFA benchmarking club and is in line with other district councils on spend per head of resident. The Council is streamlining the way it provides services as part of Fit for the Future and is looking to extend joint working arrangements with neighbouring councils.	<b>Green</b>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters



# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit	60,420	60,420
Business rates fee variation <sup>1</sup>	0	900
Grant certification <sup>2</sup>	7,800	TBC
<b>Total audit fees</b>	<b>68,220</b>	<b>TBC</b>

### In respect of the fee:

<sup>1</sup>There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims, from which we were able to gain certain assurances in prior years. The Audit Commission has therefore given approval in principle for a fee variation for the additional work required. The additional fee will be applied nationally and is 50% of the average fee previously charged for NDR3 certifications for district councils. We will bill this once formal agreement from the Audit Commission has been received.

<sup>2</sup> The grant certification fee is indicative and may vary dependent upon the final levels of audit required. We are still completing our grant certification work and will report upon the fee once it is completed.

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

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. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should ensure that there is a signed SLA for the payroll service in place before the financial year commences. This is good practice and would ensure that an agreement was in place should there be any disputes with SBC regarding the service provided.	Medium	The Council now has in place a Service Level Agreement with Stafford Borough Council covering the period April 2013 to March 2018.	Personnel Manager April 2014

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LICHFIELD DISTRICT COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Lichfield District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of Lichfield District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

### **Respective responsibilities of the Director of Finance, Revenues and Benefits and auditor**

As explained more fully in the Statement of the Director of Finance, Revenues and Benefits Responsibilities, the Director of Finance, Revenues and Benefits 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance, Revenues and Benefits; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited

financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Lichfield District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Lichfield District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of Lichfield District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Grant Patterson  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
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West Midlands  
B4 6AT

30 September 2014



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