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11 March 2020

Dear Sir/Madam

AUDIT AND MEMBER STANDARDS COMMITTEE

A meeting of the Audit and Member Standards Committee has been arranged to take place on **THURSDAY, 19TH MARCH, 2020 at 6.00 PM IN THE COMMITTEE ROOM** District Council House, Lichfield to consider the following business.

Access to the Committee Room is via the Members' Entrance.

Yours faithfully

Christie Tims
Head of Corporate Services and Monitoring Officer

To: Members of Audit and Member Standards Committee

Councillors Greatorex (Chairman), Ho (Vice-Chair), Checkland, Grange, A Little, Norman, Robertson, Spruce and White

AGENDA

AUDIT AND MEMBER STANDARDS COMMITTEE

5 FEBRUARY 2020

PRESENT:

Councillors Greatorex (Chairman), Checkland, Grange, A Little, Norman, Robertson and White

26 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Ho and Councillor Spruce

27 DECLARATIONS OF INTEREST

There were no declarations of interest

28 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 14 November 2019, as printed and previously circulated, were taken as read and approved as a correct record subject to a couple of amendments made during the meeting.

29 TREASURY MANAGEMENT STATEMENT AND PRUDENTIAL INDICATORS

The Committee received a report on the Treasury Management Strategy Statement (TMSS) 2020/21 from Mr Anthony Thomas (Head of Finance & Procurement).

Anthony Thomas outlined the financing and investment strategy for the forthcoming financial year including the Capital Programme which incorporates the previous Property Investment Strategy.

Concerns were raised at the meeting in relation to the incorporation of the Property Investment Strategy into the Capital Strategy within the MTFS. It was highlighted that the change reflected that the desired outcomes such as establishment of Governance Structures and processes were now complete and the outstanding areas could be incorporated into existing processes. The concern is that it would be more difficult to scrutinise the Property Investment Strategy because it had already been considered by the Strategic (Overview and Scrutiny) Committee as part of the MTFS. It was noted that the CIPFA guidance required the Council to approve a Capital Strategy that set out the framework for managing the Capital Programme and the current version included the relevant areas of the Property Investment Strategy.

The Committee did not believe it appropriate to duplicate the work of another Committee and therefore this would need to be considered by the Overview and Scrutiny Co-ordinating Group. Assurance was provided that the Audit and Member Standards had overall responsibility for Governance and Risk Management and could therefore still scrutinise the relevant systems and processes related to Investment in Property.

There were some questions raised in relation to the mechanism for responding to situations where financial markets are impacted, such as bank mergers. Anthony Thomas confirmed that any increases in limits would have to be reviewed by the Committee prior to approval by Council.

Anthony Thomas stated any restrictions on the limit for employee car loans could have a negative impact on staff retention and therefore the £100,000 limit took this into consideration.

RESOLVED:- Members considered the Treasury Management Strategy Statement and did not highlight any changes or recommendations to Cabinet. It was agreed by the Committee that Cabinet take into account the potential ethical considerations of investment in Real Estate Investment Trusts (REITs).

30 INTERNAL AUDIT PROGRESS REPORT

Rebecca Neill (Internal Audit Manager) presented the Internal Audit Progress Report for the period to 30 December 2019 (Quarter 3) and proposals for a new approach to audit follow up and assurance opinions.

Members discussed the limitations to the customer satisfaction survey results due to the limited number of responses and suggested that this KPI include the annual to date results, as opposed to the quarter's outturn. Rebecca Neill agreed and explained that going forward an increased proactive approach would be taken to ensure a higher response rate was received.

The Committee discussed the proposed approach to audit follow up and endorsed the increased visibility in implementation of recommendations.

In discussing the audit plan progress, the Committee requested greater detail where a decision is taken to postpone an internal audit.

Rebecca Neill agreed to incorporate these into the work programme going forward.

With regard to consultancy work undertaken by the audit team, the Committee queried how potential conflicts of interest were managed in not subsequently auditing areas where advice had previously been given, within a small team. Rebecca Neill explained that this was a challenge, but assured the Committee that where an auditor has provided advice they will not be part of the audit. There is an additional safeguard against this Rebecca Neill has oversight of all audit reports.

In terms of the proposal to sample test managers' confirmation of implementation of medium and low recommendations, the Committee asked for the results of this to be fed back in the internal audit progress reports. Rebecca Neill agreed that this was a good idea.

RESOLVED: The Committee considered the Internal Audit Progress Report September 2019 to December 2019 and endorsed the proposals for the new approach to follow up and assurance opinions.

31 RISK MANAGEMENT UPDATE

Rebecca Neill introduced the Risk Management Update which updated the committee on the management of the Corporate risk Register.

The Committee requested assurances that there have been risk handovers in line with the recent changes to the management structure.

Christie Tims (Head of Corporate Services and Monitoring Officer) provided assurances that appropriate handovers had taken place and Pentana was being used to manage these risks.

The Committee raised a number of areas for consideration; a greater level of information in relation with risks and climate, Brexit as a stand-alone risk, climate change emergency as a stand-alone risk.

Rebecca Neill confirmed that these considerations would be taken back to Leadership Team for review.

> **RESOLVED:-** Members noted the work being undertaken to ensure the risk Management Policy is adhered to and the actions taking place to manage the Council's most significant risks.

32 ANNUAL REPORT ON EXCEPTIONS AND EXEMPTIONS TO PROCEDURE RULES

Members received a report from Christie Tims on the Annual Report on Exceptions and Exemptions (Waivers) to Procedure Rules which is part of the Contract Procedure Rules and applicable for the 2018/2019 financial year. The level of exceptions and exemptions (waivers) granted during this period are shown in the report.

The Committee have requested a rationale for each waiver in future reports.

> **RESOLVED:-** The Committee noted the Exceptions (Waivers) set out within Appendix A of the report.

33 REVIEW OF THE EFFECTIVENESS OF THE AUDIT & MEMBER STANDARDS COMMITTEE

Rebecca Neill introduced the Risk Management Update which updated the committee on the management of the Corporate risk Register.

The Committee requested assurances that there have been risk handovers in line with the recent changes to the management structure. Christie Tims (Head of Corporate Services and Monitoring Officer) provided assurances that appropriate handovers had taken place and Pentana was being used to manage these risks.

The Committee raised a number of areas for consideration;

- Greater clarification on corporate risk 'a failure to respond to changing demographics' in terms of the ageing population.
- That the current risk score on governance and statutory obligations be reviewed by the risk owner.

The current flu pandemic and mitigations in place were also discussed by the Committee.

Rebecca Neill confirmed that these considerations would be taken back to Leadership Team for review.

> **RESOLVED:** Members noted the work being undertaken to ensure the risk Management Policy is adhered to and the actions taking place to manage the Council's most significant risks.

34 AUDIT COMMITTE LDC PROGRESS REPORT AND UPDATE - YEAR ENDED 31 MARCH 2020

Mr John Gregory from Grant Thornton presented the Audit Progress Report and Sector Update Lichfield District Council year ending 31 March 2020 which provided the Committee with a report on progress in delivering our responsibilities as External Auditors.

The Committee questioned whether it would be prudent for Cllr Greatorex as the Chair of the Committee to have a greater level of involvement in the process of completing the Statement of Accounts prior to approval by the Committee.

The Head of Finance and Procurement agreed to provide regular updates to the Chair of the Committee on the progress of completing the Statement of Accounts prior to approval by the Committee.

RESOLVED:- The Committee noted the contents of the Audit Progress Report and Sector Update.

35 WORK PROGRAMME

Members noted the Work Programme and the Chairman requested any additions/alterations to the programme.

(The Meeting closed at 7.46 pm)

CHAIRMAN

PROPOSED ACCOUNTING POLICIES FOR THE 2019/20 STATEMENT OF ACCOUNTS

Cabinet Member for Finance and Democracy

Date:	19 March 2020
Agenda Item:	4
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	anthony.thomas@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	All wards.

Lichfield district council
www.lichfielddc.gov.uk

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 Best practice recommends that the proposed Accounting Policies to be used to prepare the Council's Statement of Accounts, should be approved by Audit and Member Standards Committee.

1.2 This report, therefore, sets out the Council's proposed Accounting Policies to be adopted in completing the 2019/20 Statement of Accounts.

1.3 The report also details any changes that have been made to the Council's 2018/19 Accounting Policies to ensure that they are relevant to the preparation of the Council's 2019/20 Statement of Accounts.

2. Recommendations

2.1 It is recommended that the Audit and Member Standards Committee approves the Council's proposed Accounting Policies that will form part of the 2019/20 Statement of Accounts.

3. Background

3.1 The preparation of the Statement of Accounts is governed by the Accounts and Audit Regulations 2015. The format of the Accounts reflects the requirements of the Code of Practice in Local Authority Accounting in the United Kingdom 2019/20 published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is supported by the International Financial Reporting Standards (IFRS), which is a set of evolving accounting rules used internationally to guide the formation of financial statements in the public and private sector. The evolving state means that new accounting standards are formed on a regular basis along with reinterpretations of existing standards. The Accounting Policies are therefore reviewed annually to ensure that they remain current and relevant

3.2 Under Section 151 of the Local Government Act 1972, the appointed Chief Finance Officer is charged with the proper administration of the Council's financial affairs and as such must select suitable Accounting Policies and make judgements and estimates that are reasonable and prudent. However, it is considered good practice for the Audit and Member Standards Committee to have a chance to consider these Accounting Policies that are going to be applied to the Accounts in advance of their use.

3.3 The Council's Accounting Policies are the specific principles, conventions, rules and practices that that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed by way of a note to the Accounts. Only those policies that are directly relevant and material to the Council have been included.

3.4 The full list of Accounting Policies as produced in the Code of Practice for 2019/20 is shown in a table at Appendix A. For those Policies that are not adopted by the Council, a reason is provided within that table.

3.5 The Council's proposed Accounting Policies list for the 2019/20 Statement of Accounts is shown at Appendix B.

3.6 The Council has reviewed these Accounting Policies in line with the 2019/20 Code of Practice and the following change has been made:

- From 1 April 2019, under IFRS 9, the Council will apply Fair Value through Profit and Loss to financial assets such as the Property Fund. The impact of this change on the revenue account will be mitigated by the Statutory Override from 1 April 2019 until 31 March 2023. This approach was approved by this Committee in November 2019 as part of the 'Mid-Year Treasury Management Report'.

3.7 All other changes from 2018/19 are highlighted in blue.

Strategic Plan 2020-24

3.8 The new Strategic Plan was adopted by Cabinet on 18 February 2020. The Statement of Accounts will reflect the four strands within the Plan (within the Comprehensive Income and Expenditure Accounts (CIES)) for both 2019/20 and the comparative figures for 2018/19. However, as the four stands are not materially different to those within the Strategic Plan 2016-20, a Prior Year Adjustment for 2018/19 will not be required.

International Financial Reporting Standard (IFRS) 16 - Leases

3.9 The new Standard is applicable from 1 April 2020 and will require more arrangements, where there is a right to use an asset, to be included on the Council's Balance Sheet. The level of non-current assets is likely to increase and these will be matched by a liability to reflect the lease payments to be made.

3.10 A review of the finance system and the list of leases used to compile the Statement of Accounts has identified a small number of assets where the arrangements are currently classified as operating leases that are therefore potentially in scope. However a number of these arrangements are for periods of less than 12 months or the asset value is likely to be less than £10,000 and therefore these can be excluded.

3.11 In addition, there is also the arrangement being negotiated with Staffordshire County Council for Friary Grange leisure Centre for the 5 year extended opening that could be in scope depending on the Head of Terms.

3.12 However it is likely the value (excluding Friary Grange Leisure Centre) of the assets and matching liabilities will not be significant.

Alternative Options	The alternative options that the Audit and Member Standards Committee may consider are either not to approve any of the proposed Accounting Policies or not to approve some of the proposed Accounting Policies.

Consultation	Consultation has taken place with the Council's external auditors, Grant Thornton.

Financial Implications	The adoption of relevant Accounting Policies ensures that the Statement of Accounts is fit for purpose and is underpinned by sound financial management that helps us to spend wisely, attract financial funding and become more efficient. This in turn contributes to the Fit for the Future transformation programme designed to help us achieve our financial challenges.

Contribution to the Delivery of the Strategic Plan	By achieving our financial challenges we are able to target our resources to the priorities set out in the Strategic Plan 2016-20.

Equality, Diversity and Human Rights Implications	There are no equality, diversity and human rights implications.

Crime & Safety Issues	There are no crime and safety issues.

Environmental Impact	There are no environmental impact.

GDPR/Privacy Impact Assessment	It has not been necessary to undertake a Privacy Impact Assessment.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	The Accounting Policies are not produced in line with best practice, the CIPFA code and IFRS.	The Accounting Policies form part of the Statement of Accounts that is audited by our external auditors.	Green

Background documents
Code of Practice on Local Authority Accounting 2019/20.

Relevant web links

Accounting Policies Listed in the Code of Practice for Local Authorities 2019/20

Accounting Policy	Adopted by the Council	Explanation if not Adopted
General Principles	Yes	
Accruals of Income and Expenditure	Yes	
Acquisitions and Discontinued Operations	No	No such transactions have taken place
Cash and Cash Equivalents	Yes	
Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors	No	No such transactions have taken place
Charges to Revenue for Non-current Assets	Yes	
Council Tax and Non-Domestic Rates	Yes	
Employee Benefits	Yes	
Events After the Reporting Period	Yes	
Financial Instruments	Yes	
Foreign Currency Translation	No	No foreign currency transactions
Government Grants and Contributions	Yes	
Heritage Assets	Yes	
Intangible Assets	No	Intangible assets are immaterial
Interests in Companies and Other Entities	No	No such interests
Inventories and Long-term Contracts	Yes	Inventories only
Investment Property	Yes	
Joint Operations	Yes	
Leases	Yes	
Overheads and Support Services	Yes	
Property, Plant and Equipment	Yes	
Highways Network Asset	No	Not relevant for district councils
Private Finance Initiatives (PFI) and Similar Contracts	No	No such contracts
Provisions, Contingent Liabilities and Contingent Assets	Yes	Provisions and contingent liabilities only
Reserves	Yes	
Revenue Expenditure Funded from Capital Under Statute	Yes	
Vat	Yes	
Fair Value Measurement	Yes	

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS) and Statutory guidance issued under Section 12 of the 2003 Local Government Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as Expenditure when the services are received rather than when payments are made.
- Interest receivable on Investments and payable on Borrowings is accounted for respectively as Income and Expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where Revenue and Expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Therefore, our policy is to treat all instant access bank accounts and money market funds as cash equivalents and all other investments for less than one year (including any investments with notice periods) are treated as short term investments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from Revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance known as the Minimum Revenue Provision (MRP). Our MRP policy is:

- For finance leases, the MRP will match the annual principal repayment for the lease, and;
- For all other assets, the MRP is based on the initial estimated life of the asset.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund by way of an adjusting transaction between the General Fund and the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Council Tax and Non-Domestic Rates

Accounting for Council Tax
While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year, plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from Council Tax payers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non-Domestic Rates (NDR)
The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from NDR payers belongs proportionately to all the major preceptors and Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate for the 2005 and 2010 valuation lists have been calculated using the Valuation Office (VO) ratings list of appeals and the analysis of successful appeals to date. The appeals for the 2017 valuation list under the new Check, Challenge and Appeal process are based on the Government's allowance for appeals included in the multiplier of 2.1p.

Employee Benefits

Benefits Payable during Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, eg. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits
Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Staffordshire County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of **3.2%** (based on the indicative rate of return on high quality corporate bonds).

- The assets of Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

  - Quoted securities professional estimate.
  - Unquoted securities current bid price.
  - Unitised securities current bid price.
  - Property market value.

- The change in the net pensions liability is analysed into the following components:

  Service cost comprising:

  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

  - Net interest on the net defined benefit liability (asset), ie the net interest cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by apply the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

  Re-measurements comprising:

  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Actuarial gains or losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Staffordshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;

- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Fair Value Measurement

The Authority measures some of its non-financial assets such as investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The Authority measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, for example, the Authority's loans borrowed, the Authority measures the fair value of the liability from that party's perspective.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are derecognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost, using the effective interest rate method. The effective interest rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

The Code allows for three classes of financial assets:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI).

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in the Code, and is determined at the time of initial recognition. In addition, the Council has elected to classify as FVOCI certain equity investments held for strategic purposes.

Financial Assets Measured at Amortised Cost
Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments (bank deposits and Certificates of Deposit).

After initial recognition, these financial assets ae measured at amortised cost using the effective interest method, less an impairment loss allowance. Annual credits to the Financing Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

The Council has made loans, as part of its policy of homelessness prevention, at less than market rates (soft loans). When such loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in al lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

Financial Assets at Fair Value through Other Comprehensive Income
Financial assets measured at FVOCI are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest. Annual credits to the Financing Income and Expenditure line in the CIES for interest receivable are the same as if the asset was classified at amortised cost, but the asset is held on the balance sheet at fair value; the resulting difference is taken to the Financial Instruments Revaluation Reserve.

Financial Assets at Fair Value through Profit and Loss
All other financial assets are measured at FVPL. They are held on the balance sheet and their fair value and all gains and losses, whether realised or unrealised at taken to the Financing Income and Expenditure line in the CIES.

Impairment
For all financial assets measured at amortised cost or at FVOCI, other than those elected as FVOCI, the Council recognises a loss allowance representing expected credit losses on the financial instrument. The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the other party is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12 month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The Grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

<u>Heritage Assets</u>

The Council's Heritage Assets are located at various Council properties. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's Heritage Assets are accounted for as follows:

Statues:

- These statues are located in various parks and open spaces and a library within the District. These items are reported in the Balance Sheet at insurance valuation and estimated market value. Insurance valuations are updated on an annual basis.
- The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost.

Art Collection:

- The art collection includes paintings and is reported in the Balance Sheet at estimated market value. The art collection is deemed to have indeterminate lives and hence the Council does not consider it appropriate to charge depreciation.
- Acquisitions are made by purchase or donation. Acquisitions initially are recognised at cost and any donations are recognised at valuation with valuations provided by external Valuer's and with reference to the appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

Other Items:

- The Council has a number of items of civic regalia and trophies and these are reported in the Balance Sheet at insurance valuation. Insurance valuations are updated on an annual basis. The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost.
- The Council has a grand piano and this is reported in the Balance Sheet at insurance valuation. Insurance valuations are updated on an annual basis.

<u>Heritage Assets - General</u>

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets eg where an item has suffered physical deterioration of breakage or where doubts arise over its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment - see page 108 (Impairment) and pages 81 to 84 (Property, Plant and Equipment) in this Summary of Accounting Policies. Any disposals are accounted for in accordance with the general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see pages 81 to 84 (Property, Plant and Equipment) in this Summary of Accounting Policies).

<u>Inventories</u>

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than **£10,000**) the Capital Receipts Reserve.

Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operations. In relation to its interest in a joint operation the Authority as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- Any charge for services (charged to the relevant service line of the Comprehensive Income and Expenditure Statement). Where this charge cannot be separately identified, it is assumed to be the difference between the lease payment and the total of the charges for acquisition of the interest in the property, plant and equipment and the finance charge.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements (known as Minimum Revenue Provision or MRP). Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement and also as part of the gain or loss on disposal (ie netted off against the

carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2019/20 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie. repairs and maintenance) is charged as an expense when it is incurred.

De Minimis Level

Expenditure below **£10,000** is not capitalised and therefore is charged to the Comprehensive Income and Expenditure Statement.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.
Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost.
- All other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.
Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Component Accounting Policy for Property, Plant and Equipment

International Accounting Standard 16 (IAS 16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and de-recognition of parts of assets (referred to as componentisation). Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1 April 2010.

All historical cost based assets with short lives, land and investment properties will be excluded from our Component Accounting Policy.

Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and method of depreciation.

Policy for Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- Where there is more than one significant component part of the same asset with the same useful life, such component parts will be grouped together for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a carrying value of **£500,000** and over will be considered for componentisation.
- Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of **15%** in relation to the overall value of the asset or over **£500,000** will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

To enable a structured approach to component accounting the following principles are applied:

To be considered for componentisation an individual asset (or a group of similar assets) must:

(i) Have a carrying value of at least **£500,000**, or
(ii) Have been acquired, or
(iii) Have undergone revaluation, or
(iv) Undergo a change in category classification

A component must:

(v) Have a cost of at least **£100,000**, or
(vi) Cost at least **15%** of the overall asset (whichever is higher), and
(vii) Have a useful life which is at least **plus or minus five years** from other components of the overall asset.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

Valuation

The five year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio in excess of the **£500,000** threshold.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be considered in terms of this component accounting policy and enhancement spend (at cost) will be

added to the relevant assets. These assets will then be subject to revaluation as part of our normal revaluation cycle.
Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Where a revaluation takes place all accumulated depreciation and impairment is eliminated because these are accounting estimates of changes in value whose value is confirmed by a formal valuation reflecting the actual condition of the property at the valuation date.

<u>Impairment</u>

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement up to the amount of the original loss adjusted for depreciation that would have been charged if the loss had not been recognised. With our valuer we will continue to complete a desktop Impairment review on an annual basis.

<u>Depreciation</u>

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie. freehold land and certain Community Assets) and assets that are not yet available for use (ie. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life as estimated by Managers.
- Infrastructure – straight-line allocation over the useful life as estimated by Managers.
- A full year's charge is made in the year of acquisition and no charge is made in the year of disposal or decommissioning.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of **£10,000** are categorised as capital receipts.

Receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

Contingent liabilities arise when an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute (REFCuS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Lichfield District Council is in a VAT receivable position at year end; the balance outstanding is included in **Note 16** Short Term Debtors.

INTERNAL AUDIT PLAN, CHARTER & PROTOCOL 2020/21

Cabinet Member Finance & Democratic

Date:	19 March 2020
Agenda Item:	
Contact Officer:	Rebecca Neill
Tel Number:	01543 308030
Email:	rebecca.neill@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	If any Wards are particularly affected insert the name of the Ward Members and their Ward. Ensure that the Ward Members have been consulted.

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To consider the 2020/21 proposed internal audit plan, charter and protocol (**Appendix 1**).

2. Recommendations

2.1 To approve the 2020/21 proposed internal audit plan, charter and protocol (Appendix 1).

2.2 To endorse in principal the proposal to extend the shared arrangements with Tamworth Borough Council (TBC) as set out within section 4 of Appendix 1 for a one year trial basis.

3. Background

3.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Public Sector Internal Audit Standards (PSIAS)).

3.2 The Audit & Member Standards Committee's consideration and approval of an effective audit plan, charter and protocol is an important element in providing assurance to the organisation that arrangements are in place to provide an independent and objective opinion on the adequacy of the internal control environment.

Alternative Options	1. Alternative options are set out in section 4 of Appendix 1.
Consultation	1. Leadership team, which includes the Council's Section 151 Officer, have been consulted on the plan and proposal to extend shared arrangements on a one year trial basis. The Portfolio holder and external auditor have also been consulted. 2. TBC's Corporate Management Team have been consulted and endorsed the proposal to extend shared arrangements. TBC's Audit & Governance Committee are due to consider the proposal at their meeting on 26 March 2020.

Financial Implications	1. The plan is able to be delivered within budget. 2. The proposal to extend shared arrangements on a one year trial basis is estimated to save the Council between £20k-£25k.

Contribution to the Delivery of the Strategic Plan	1. Delivery of the audit plan contributes to all aspects of the District Council's Strategic Plan 2016 -20 but most noticeably, the objective of being 'a good Council that is financially sound, transparent and accountable; responsive and customer focused'.

Equality, Diversity and Human Rights Implications	1. None arsing

Crime & Safety Issues	1. None arising
Environmental Impact	1. Climate change has been included within the draft internal audit plan. This means that the Council will receive assurance against the Council's arrangements for implementing its climate change commitments.

GDPR/Privacy Impact Assessment	1. None required.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Significant / high risk systems of internal control fail and go un-addressed.	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk.	Green (tolerable).
B	The audit plan is unachievable.	Available resources have been considered and optimised; and there is a continuous review process in place to monitor plan delivery. Regular updates are provided to Audit & Member Standards Committee.	Green (tolerable)
C			
D			
E			

Background documents

Accounts and Audit Regulations 2015
Financial Procedures Rules

Relevant web links

Appendix 1

Internal Audit
Draft Audit Plan, Charter & Protocol 2020/21

www.lichfielddc.gov.uk

Contents

If you have any questions about this report, please contact Rebecca Neill, Head of Audit rebecca.neill@lichfielddc.gov.uk

01 INTRODUCTION

BACKGROUND

This report sets out the Draft Internal Audit operational plan for Lichfield District Council (LDC) for discussion and approval by the Audit & Member Standards Committee. The purpose of this plan is to identify the work required to achieve a reasonable level of assurance to be provided by Internal Audit in compliance with the Code of Practice for Internal Audit.

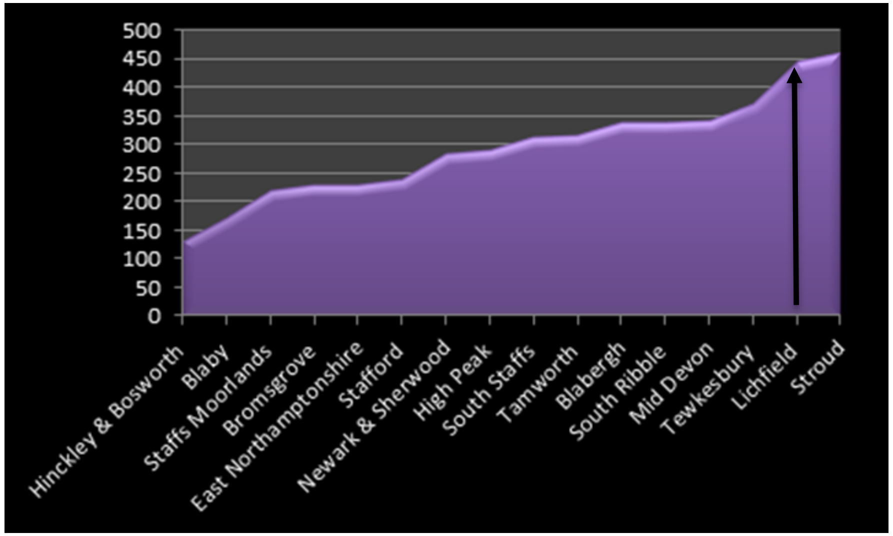
The fundamental role of Internal Audit is to provide senior management and the Audit Committee with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work in accordance with an annual operational plan as approved by the Audit Committee.

02 Audit Planning

As part of the planning for 2020/21, the proposed plan of work has been developed based on:

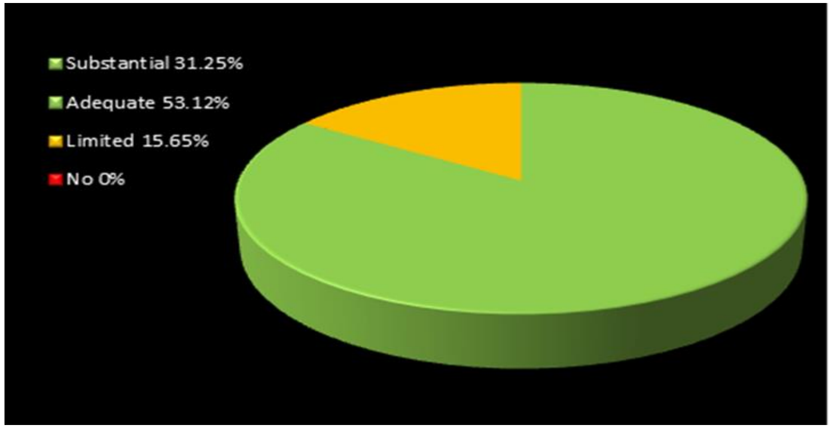
- **Key risks and priorities** – the plan for 2020/21 is based on an analysis of strategic and operational risks; strategic objectives; internal control and governance processes and other factors which may affect the year ahead, including any changes within the external environment and the sector.
- **Reference to previous assurance work –** a review of the outcome of previous audit and assurance work undertaken and where assurance is now required again.
- **Level of resources** – the level of resource required to deliver an assurance opinion have been reviewed via benchmarking with similar council's. This review (table 1) currently identifies the Council as a relative outlier, out-turning at 447 audit days in 2019/20 (average of the group is 296 days). All peers where information was available, were reporting either a reasonable / substantial/ satisfactory / generally sound overall assurance opinion.

Table 1: Peer Comparison 2019/20 Audit Days



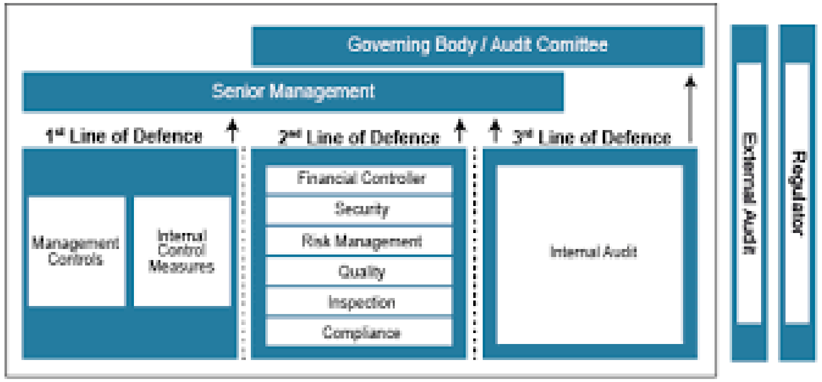
The Council's internal control environment is stable (an adequate assurance opinion has been given for the last 2 years) and the fraud / irregularity incidence and risk has been low. The 2020/21 draft plan has therefore been produced based on a level of resources that maximises effectiveness by directing audit resources to the highest risk areas and one which is competitive with peers.

Table 2: LDC's Audit Assurance 2018-2020



- **Agile approach** – our approach to the plan is one where we will respond to the changing assurance need, by having a level of contingency, enabling us to change the focus of the audits should the Council's organisational priorities or strategic risks change.

Internal audit's strategy is based upon a three lines of defence model of assurance:

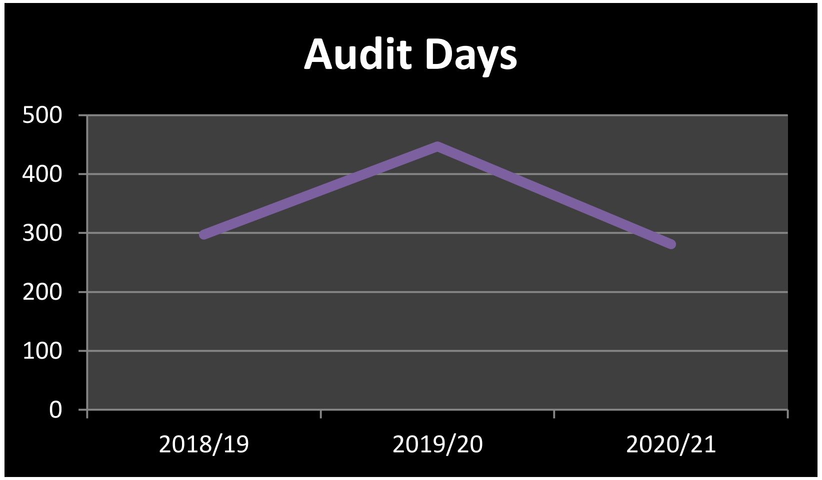


Internal Audit seeks to identify assurances provided through the first and second lines of defence and selects the most appropriate method for obtaining assurance to support the Head of Internal Audit's opinion and the Council's governance requirements.

03 Internal Audit Plan

The detailed audit plan at **Appendix 01** sets out the assurance requirement in terms of core financial systems; strategic and operational risk; ICT; governance, fraud and other assurance. The draft plan is for a total of 286 days and in particular seeks to provide assurance over areas of higher risk.

While it is noted that the overall number of days has reduced when compared to the 2019/20 plan, the 2020/21 plan is more in line with the 2018/19 plan and comparable with peers in similar organisations. A renewed focus on strategic risk and what matters most, makes the reduction possible without diluting the assurance that the Council receives from Internal Audit.



04 Joint Working

LDC and Tamworth Borough Council (TBC) currently operate under a shared agreement which shares the management of the service (the provision of TBC's Head of Audit & Governance). This is in line with the Memorandum of Understanding between both Council's which sets out each other as a preference when considering shared services.

Auditors remain separate to this agreement, operating within their legacy organisations.

The outcome of the audit planning process this year has led to a reduction in audit days at both Councils. For LDC, the reduction in audit days required has resulted in an excess of auditor resources. For TBC, they have needed to bring in auditor resources during 2019/20 due to difficulties in recruiting internal audit staff.

Under the current draft plan resource requirements, the additional days at LDC could be utilised by TBC, under an extension to the existing shared arrangement with TBC. This would have the following benefits:

- ☺ Better staff learning and development, with exposure to peer sharing of good practice.
- ☺ Synergies across both Council's in terms of audit practice.
- ☺ Greater resilience across both Councils to address demand.
- ☺ Potential cost savings to both organisations (initial figures suggest LDC could save @ £20-£25k).

The Audit & Governance Committee are requested to endorse in principal, the proposal to extend the shared arrangements to include internal audit staff while the respective audit plans are considered (TBC's Audit & Governance Committee are due to consider their draft audit plan on 26 March 2020). This would be on a one year trial basis, with a review at the year end. Success would be measured against feedback from key stakeholders (including respective managers, leadership teams and Audit Committees) and delivery against KPI's.

TBC and LDC's leadership teams as well as the external auditor have endorsed the proposal. LDC's audit staff have been informally consulted and have indicated a willingness to undertake shared duties.

If the proof of concept is not endorsed then the options are:

- Additional audit days would need to be added to the plan (from operational, lower risk areas).
- Auditor resources within the team would need to be reviewed.

05 Charter

The refreshed charter is at **Appendix 2.** Changes, which have been highlighted, are mainly to account for the change in the audit follow up process.

06 Protocol

The refreshed protocol is at **Appendix 3.** Changes, which have been tracked, are mainly to account for the changes to assurance opinions and recommendation ratings (agreed at the last Audit & Member Standards Committee) and a refreshed suite of KPI's.

APPENDIX 01: DETAILED AUDIT PLAN 2020/21

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Creditors	Risk based review covering the adequacy and effectiveness of controls around creditor payments, including supplier set up / amendment, requisitioning / ordering, receipting and approvals.	10		Q4
	Capital Accounting	Risk based review of the capital accounting systems focusing on completeness, accuracy and compliance with appropriate accounting standards.	5		Q3
	Payroll	Risk based review of payroll, including adequacy and effectiveness of controls around the systems for starters, leavers, amendments, deductions, overtime and expenses.	10		Q3
	Procurement	Risk based review of procurement, including strategy, targets and testing a sample of recent material procurements to ensure compliance with contract procedure rules / OJEU etc.	10		Q2
	NNDR	Risk based review of NNDR controls, including review of taxable properties; billing; discounts, exemptions, disregards and reliefs; income is correctly accounted for and recorded; arrears are promptly and efficiently pursued; refunds and write-offs are controlled.	10		Q3
	Housing & Council Tax Benefits	Standard risk based review of housing and council tax benefit systems using CIPFA	12		Q4

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
		control matrices. To include a review of the adequacy and effectiveness of the application of the Citizens Access System at management's request.			
	Capital Strategy	Risk based review of delivery of the Council's capital strategy and associated programme management delivery controls.	10		Q2
	Income Management	Risk based review of the Council's income streams and systems of internal control governing completeness and accuracy of accounting.	10	77	Q2
Strategic & Operational Risks	Strategic Risk Register *Under Review TBC*	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks. This is to be confirmed following the production of the new strategic risk register based on the new corporate plan.	25		Q1-Q2
	Risk Management	Review of the adequacy of the Council's risk management systems.	10		Q1
	Governance & Strategy	Review of implementation of the Council's new strategic plan, focus on delivery and outcomes, golden thread into the Council's business planning processes.	10		Q3
	Climate Change	Risk based review looking at the developing plans in place to achieve the Council's commitment to becoming carbon neutral.	5		Q3
	Project Management	Review of the Council's project management arrangements at strategic and sub-strategic levels in terms of the adequacy and effectiveness of project management controls in place (e.g. application of Prince 2).	15		Q1
	Management of	Risk based review of the Council's controls in	5		Q2

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
	Property (LA Trading Company)	place for managing property and the Council's assurance regarding the operation and risks surrounding the LA Trading Company.		80	
	Development Control (Planning)	Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee management.	10		Q1
ICT	ICT Backup and Recovery	A review of how data and applications are backed up. This areas has not been previously audited in any detail.	10	20	Q2
	Office 365 Security	A review of the security configuration of Office 365 as it is used for SharePoint and Email and will also have Teams and OneDrive.	10		Q3
Governance, Fraud & Other Assurance	Pensions	Assurance statements to Staffordshire County Council	5		Q3
	Disabled Facilities Grant		5		Q1
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	4		Q3
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.	10		Q1-Q4
	Annual Audit Opinion	Production of the Annual Audit Opinion.	3		Q2
	Follow Up of Recommendations	To follow up all no and limited assurance reports and all high priority recommendations.	30		Q1-Q4
	Management and Planning	Management, planning and assurance reporting to Leadership Team and Audit & Governance Committee.	30		Q1-Q4
	Ad hoc / Consultancy /	Contingency allocation to be utilised upon	10		Q1-Q4

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
	Contingency	agreement of the Chief Finance Officer.		109	
	Risk Management	Supporting the Council's risk management systems.	12		Q1-Q4
				286	

APPENDIX 2

INTERNAL AUDIT CHARTER

March 2020

Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1st draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2019	1.01.04	Annual review
12/02/2020	1.01.05	Annual review

Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Diane Tilley	Leadership Team Approval	19.2.20
Anthony Thomas	Head of Finance & Procurement	19.2.20
Rebecca Neill	Head of Internal Audit	12.2.20

Document Review Plans

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Distribution

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CONTENTS PAGE

1 Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA – UK & Ireland).

The internal audit service will comply with the Public Sector Internal Auditing Standards (PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:
- Demonstrate integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, ad risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

This Charter will be periodically reviewed in consultation with senior management and the board. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The following posts will be designated as shown below in order to comply with the PSIAS.

Post	Designation
Audit & Member Standards Committee	Board
Leadership Team	Senior Management
Chief Executive	Head of Paid Service
Head of Internal Audit	Chief Audit Executive

The Chief Audit Executive will report conformance to the PSIAS in the annual report to the Board.

2 Mission Statement of Internal Audit

To enhance and protect the authority's values by providing risk-based and objective assurance, advice and insight.

3 Purpose and Statutory Requirements

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.
The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the board, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Head of Finance & Procurement to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective Internal Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

4 Objectives

The Chief Audit Executive's responsibility is to report to the Board on its assessment of the adequacy of the entire control environment.

It does this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).
- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.

5 Role and Scope of Work

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;

- Monitoring the degree of coordination of internal audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluating specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.

With regard to Risk Management, internal audit will carry out individual risk based engagements to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.

Internal audit operate in an advisory capacity to:

- Report upon the level of risk maturity and scope for improvement;
- Facilitate the identification and assessment of risks;
- Coach management in responding to risks.

The CAE is responsible for:

- Developing the corporate risk management strategy in liaison with the Leadership Teams and Service Units;
- Promoting support and oversee its implementation across the Council;
- Monitoring and review the effectiveness of the risk management strategy;
- Assisting with the identification and communicate risk management issues to Units;
- Advising Corporate and Unit management teams on strategic and operational implications of risk management decisions;
- Supporting Corporate and Unit management teams in their liaison with any external partners when identifying and managing risk in joint projects.

With regard to Counter fraud activity, internal audit will carry out the following activities:

- Provide assurance on the adequacy of counter fraud arrangements
- Evaluate counter fraud reporting
- Review the implementation of the counter fraud strategy
- Evaluate preventative and detective controls
- Review control weaknesses that led to the fraud
- Review of the fraud risk assessment
- Provide support in the ethical and anti-fraud and corruption culture
- Share learning

- Champion the development of counter fraud capability
- Receive whistleblowing referrals
- Use data analytics to identify fraud
- Review of NFI matches
- Lead on a fraud and corruption risk assessment
- Develop the counter fraud and corruption strategy
- Undertake investigations

6 Proficiency and Due Professional Care

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Lichfield District Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the formation of internal audit plans, the CAE can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.

7 Authority

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Lichfield District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

8 Organisation

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Head of Finance & Procurement.

The Board will receive performance reports on the internal audit function on a quarterly basis.

9 Independence and Objectivity

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of Internal Audit team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Head of Paid Service and the Board.

The Chief Audit Executive will confirm to the Board, at least annually, the organisational independence of the internal audit activity.

10 Internal Audit Plan

At least annually, the Chief Audit Executive will submit to Senior Management and the Board an internal audit plan for review and approval.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built in to the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Board.

Approval will be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits required are deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

11 Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued in accordance with the Internal Audit Protocol.

The final internal audit report will include management’s response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up all high priority recommendations and those arising from overall no and limited assurance reports to ensure that management have implemented them in the agreed timescales. It is management's responsibility to ensure that the agreed actions for medium and low priority actions are implemented. All outstanding recommendations will be monitored.

Results of audit follow up will be communicated as appropriate and a summary of the results will be reported to Senior Management and the Board.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Board.

12 Quality Assurance and Improvement Programme

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will periodically report to the Board on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

In addition, the Chief Audit Executive will communicate to Senior Management and the Board on the internal audit service's quality assurance and improvement programme, including results of ongoing internal assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Board.

Signed by

Chief Audit Executive (Head of Internal Audit)

Chairman of the Board (Chair of the Audit & Member Standards Committee)

APPENDIX 3

Lichfield district council

www.lichfielddc.gov.uk

INTERNAL AUDIT PROTOCOL

March 2020

Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1st draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2019	1.01.04	Annual review
12/02/2020	1.01.05	Annual review

Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Diane Tilley	Leadership Team Approval	19.2.20
Anthony Thomas	Head of Finance & Procurement	19.2.20
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LICHFIELD DISTRICT COUNCIL

INTERNAL AUDIT PROTOCOL

TABLE OF CONTENTS

INTERNAL AUDIT PROTOCOL

Introduction

The purpose of this protocol is to:

- Ensure a consistent approach is adopted to undertaking audit work;
- Establish a guide for management on timescales and responsibilities for dealing with internal audit reports issued;
- Ensure a consistent approach is adopted when dealing with internal audit reports within the Authority;
- Document the way in which reports are discussed with managers and the action required when replies are not received;
- Demonstrate to the Authority's external auditors that managers deal with Internal Audit work in an appropriate manner; and
- Ensure all necessary monitoring and reporting of Internal Audit work against the Annual Audit Plan is carried out.

The responsibilities of Officers and Members mentioned in this protocol are detailed in Appendix A.

Planning an Audit

Each year an annual audit plan ~~Audit Work Programme~~ is produced based on a~~n~~ ~~Internal Audit R~~risk a~~A~~ssessment detailing the audit areas to be reviewed during the year. The ~~Audit Work Programme~~audit plan, including timings, will be discussed and agreed with the relevant Head of Service~~/Director~~ at the commencement of the new financial year.

For each audit, a brief should be prepared, discussed and agreed with relevant manager. This will normally require discussion with the relevant Head of Service, unless otherwise instructed, to ensure attention is focussed on areas of greatest risk or concern. Managers are encouraged to raise areas of concern/additional areas with the Auditor, but cannot dictate which areas will or will not be reviewed, as this responsibility lies with the ~~Audit Manager.~~Head of Internal Audit.

The brief should establish the objectives, scope and timing of the assignment and its resource and reporting requirement and agreed with the relevant manager~~/director.~~.

Where agreement cannot be reached, the ~~Audit Manager~~Head of Internal Audit shall decide whether this should be pursued at a more senior level including raising the matter with the relevant ~~Director~~Head of Service, the Chief Executive or the S151 Officer.

If agreement is still not forthcoming, the matter will be raised with the Audit & Member Standards Committee Chairman.

Audit Approach

Audit work should be undertaken using a risk-based audit approach.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to support an independent and objective audit opinion.

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the reporting stage.

All audit work will be subject to an appropriate internal quality review process.

Interim Reports

Interim reports are sent at the discretion of the ~~Audit Manager~~Head of Internal Audit.

An interim report on an assignment may be sent where appropriate, for example:-

a) where a matter arises which requires immediate action by management (e.g. serious weakness in control, evidence of fraud);

b) where an assignment is unusually lengthy or extends over a long time period.

Any interim report made verbally to management shall be confirmed as soon as possible ~~by a written report/memo.~~in writing.

Report Presentation

All assignments will be reported as a formal report with an executive summary.

Report Content

The Public Sector Internal Audit Standards (PSIAS) state that:

"The basic aims of every internal audit report should be to:

- *Give an opinion on the risk and controls of the area under review, building up to the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;*
- *Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance: and*
- *Provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales."*

The final internal audit report includes the agreed a~~A~~ction p~~P~~lan, which details the audit recommendations, priority, management response, officer responsible and timescale for implementation.

All reports will contain a scope and objectives and the internal audit observations of the assignment, together with the overall opinion on the adequacy of the internal control environment.

For each audit carried out Internal Audit arrives at a conclusion that assesses the level of assurance that can be placed on the system of internal control being reviewed in one of four categories. The category reflects the assessment of the robustness of the internal control environment with an opinion on whether the actual controls in place are being consistently applied. The categories of assurance are detailed in the table below.

Category	Category Description
Substantial Assurance	~~Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.~~ There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
~~Adequate~~ Reasonable Assurance	~~Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.~~ While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited Assurance	~~It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.~~ Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No Assurance	~~It is with some concern that Audit has to report no assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are not in place or are failing.~~ Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

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In addition, the recommendations made in internal audit reports (action plans) have been placed into one of three categories, namely, high, medium and low. The definitions are as below:

Recommendation Priority	Definition
High	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
Medium	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation's exposure to risk.

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~~High (Red) priority recommendations will be made if one of the following criteria is met:~~

~~1. Adversely affects the Annual Governance Statement;~~

~~2. Results in significant loss of funds or assets;~~

~~3. May lead to service delivery failures which could adversely affect the Council's reputation;~~

~~4. Shows non-compliance with statutory requirements, the Council's Constitution, Codes or Policies and or any Cabinet approved initiatives;~~

~~5. Changes the effectiveness of key controls;~~

~~6. Significant opportunity exists for real gains in processing efficiency;~~

~~7. Poor cost controls or potential for significant savings and/or revenue generation;~~

~~8. Significant impact environmentally, socially or economically.~~

~~All other recommendations that do not meet the above criteria will be classed as Medium (amber) priority recommendations unless they are low risk (green). Low risk recommendations will be included as discussion points in the draft report but excluded from the final report.~~

~~In this context 'risk' may be viewed as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that might arise, and to the potential failure to realise desired outcomes.~~

Consultations

Findings may be discussed 'informally' with managers, during the course of the audit, where it is appropriate to do so. Although alterations to procedures may be made as a result of these discussions, the finding and recommendation will still be included in the internal audit report.

When an audit assignment has been carried out, the auditor shall draft a report showing the matters arising. Draft reports should be reviewed and their findings discussed with the ~~Audit Manager/~~Principal Auditor / Head of Internal Audit.

Following conclusion of the ~~Audit Managerial Review~~quality review, the draft report will be submitted to the relevant Head of Service and Manager of the Service.

A meeting will be arranged between the Auditor and the Manager. (The relevant Head of Service will be notified of the exit meeting date and they may attend if they so require).

The purpose of such meetings is to discuss the report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations and management actions.

NB Recommendations made will not be amended unless further information has been provided which satisfies the auditor that this is appropriate.

The final decision regarding the content of the report lies with the ~~Audit Manager~~Head of Internal Audit.

The a~~A~~ction p~~P~~lan should be updated with the results of the manager meeting (i.e. timescale for implementation, management response and officer responsible).

Any areas of disagreement between the Auditor and Management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those areas giving rise to significant risks that are not agreed should be brought to the attention of the relevant ~~Director~~Head of Service, the Chief Executive or the S151 Officer, and if necessary with Audit & Member Standards Committee.

Finalisation of Report

The final report shall be prepared after management consultation and a final Managerial review will be undertaken.

Management Sign Off Of Report

It must be stressed that no amendments to the detail of the report will be made at this point, as it is assumed that these would have been identified at the consultation stage. The exception to this would be amendments to the management responses.

If management require any amendments to the management responses included in the audit report, then they are required to notify the Auditor within one week of the report being issued.

If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.

In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all audit reports.

The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the following timetable:

No response after 1 week	Written reminder to Manager by auditor
No response after 2 weeks	Final written reminder to Manager by the Principal Auditor / ~~Audit Manager~~ Head of Internal Audit, (copy to relevant Head of Service~~Director~~)

Where management responses are not forthcoming after a further week, despite reminders having been issued, the ~~Audit Manager~~Head of Internal Audit shall decide whether this should be pursued at a more senior level including raising the matter with the relevant ~~Director~~Head of Service, the Chief Executive or the S151 Officer.

If a response is still not forthcoming after a further week, the matter will be raised with the Audit & Member Standards Committee Chairman.

Customer Satisfaction Questionnaire

The purpose of the Customer Satisfaction Questionnaire (CSQ) is to seek the Manager's view/perceptions of the quality of audit work carried out.

~~A CSQ shall be sent by the Audit Manager to Managers for all planned audit work~~

The CSQ will be sent electronically, following the issue of the final audit report, to the Manager.

The CSQ should be completed and returned to the ~~Audit Manager~~Principal Auditor.

The Head of Internal Audit ~~Audit Manager~~ shall review all completed CSQs received and shall arrange for any appropriate action to be taken following liaison, as necessary, with the auditor and/or manager.

Any CSQ which are not returned will be followed up and verbal feedback obtained if necessary.

Report Distribution

Reports will be distributed electronically as follows:

- the relevant Manager
- the appropriate Head of Service
- ~~the appropriate Director~~
- the Chief Executive

the S151 Officer – executive brief only unless there are financial implications or limited/no assurance, then the whole report

the appropriate Cabinet member

the Audit & Member Standards Committee

the External Auditor

The ~~Audit Manager~~Head of Internal Audit is copied into the e-mail of all final reports issued to ensure that performance information is recorded.

Where it is felt, by the ~~Audit Manager~~Head of Internal Audit, that the findings pose significant risks to the Council, the covering email to the Audit & Member Standards would indicate a potential need for Audit & Member Standards Committee involvement.

Occasionally, Internal Audit is required to undertake investigations of fraud or corruption within the Council or other work commissioned by the Chief Executive as Head of Paid Service. In these instances the distribution of reports, as detailed above will not apply. Instead, only the Chief Executive, the Monitoring Officer, the S151 Officer and the HR Manager will receive a copy of the report.

Risk Registers

Any findings/recommendations identified as 'high risk' should be added to the relevant ~~service/departmental~~ risk register. This is the responsibility of the risk register owner.

Follow Up Reviews

Follow up reviews ~~ordinarily~~ will be carried out by audit staff for all no and limited overall assurance reviews and for all high priority audit recommendations. ~~approximately 6 months after the final audit report was issued.~~ The purpose of this work is to establish the implementation of key recommendations ~~(high and medium risk) as per the final audit report/action plan~~. The follow up will deal with those items expected to have been implemented in-line with proposed timescales indicated by the Auditee when the report was originally finalised.

On the basis of this work, auditors may conclude that ~~it is planned to provide management with a short report on the action taken since the final report was issued. It will also provide a summary of the action taken based on the following~~ recommendations have been:

- Fully Implemented
- Partially Implemented
- Not Implemented
- On-going
- Recommendation Superseded

A monthly routine report will be produced for Heads of Service detailing the status of all outstanding audit recommendations and a summary will be reported to the

Audit & Member Standards Committee as part of Internal Audit's routine performance report. ~~draft report will be issued to the Manager and Head of Service detailing the outcome of the follow up review together with an updated action plan and a revised overall audit opinion.~~

~~If management require any amendments to the management responses included in the follow up, then they are required to notify the Auditor within one week of the report being issued.~~

~~If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.~~

~~In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all follow ups.~~

~~The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the final report timetable for responses.~~

~~Implementation review reports will be distributed as per the finalised audit reports.~~

Where it is found that the recommendations in overall no and limited assurance reports have not been satisfactorily implemented or there ~~there~~ are h~~H~~igh p~~P~~riority recommendations still outstanding ~~at the first follow up (6 months),~~ this will~~may~~ be pursued at a more senior level including raising the matter with the relevant Head of Service~~Director~~, Chief Executive or the S151 Officer, and ~~if necessary with~~ the Audit & Member Standards Committee. ~~In addition these issues will be reported in the quarterly progress report of Internal Audit, which will be presented to the Audit & Member Standards Committee. A report of high risk recommendations not implemented will be reported to the Leadership Team on a quarterly basis.~~

~~Where it is found that some recommendations are outstanding, a second and final follow up review will be undertaken in 3 months time. Management will be expected to accept the risk of any outstanding recommendations at this time. Any recommendations still outstanding will be included in the quarterly progress report of Internal Audit, which will be presented to the Audit Committee.~~

Progress Report to the Chief Executive, S151 Officer and Audit & Member Standards Committee

The ~~Audit Manager~~Head of Internal Audit shall produce a progress report on the work of Internal Audit, as a whole, which will tie in with the Audit~~-~~ & Member Standards Committee meeting cycle. This will be a summary of performance against annual audit plan objectives.

The purpose of the report is to highlight variations from the agreed a~~A~~nnual p~~P~~lan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.

Performance indicators shall be calculated and noted in the report. These are:

~~a) % of plan achieved:~~

~~b) % of recommendations made in audit reports that have been agreed:~~

~~c) % of recommendations implemented at the time of follow up:~~

~~d) Customer Satisfaction on Customer Satisfaction Questionnaires;~~

KPI	Description
a) Achieve the annual audit plan	90% of audits in the annual plan to be completed to draft report stage within 15 working days of the 31 March of each year.
b) Effective completion of audit work	i) 100% of draft reports are issued within 6 weeks of commencement of work. ii) 100% of closure meetings conducted within 5 days of completion of audit work. iii) 100% draft reports to be issued within 10 working days of closure meeting.
c) Recommendations implemented	i) 100% of all high priority actions are implemented at follow up. ii) All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up.
d) Customer satisfaction	Achieve an average score of 4 or more.
e) Add value	Quantify added value by actual / estimated valuations of system improvement recommendations.

Regular meetings will be held between the Chief Executive, S151 Officer and the ~~Audit Manager~~Head of Internal Audit to discuss the progress report, corporate audit matters arising and significant areas of risk.

Annual Report to the Audit & Member Standards Committee

The ~~Audit Manager~~Head of Internal Audit shall prepare a written report to those charged with governance timed to support the Annual Governance Statement.

The ~~Audit Manager~~Head of Internal Audit's Annual Report to the Audit & Member Standards Committee must: -

a) include an opinion on the overall adequacy and effectiveness of the Council's control environment;
b) disclose any qualifications to that opinion, together with the reasons for the qualification;
c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
d) draw attention to any issues the ~~Audit Manager~~Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and

f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

A copy of the Annual Audit Report will be sent to the External Auditor and Leadership Team for information.

APPENDIX A

RESPONSIBILITIES OF OFFICERS AND MEMBERS IN RELATION TO THE INTERNAL AUDIT PROTOCOL

Managers

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations/management actions.
- Confirm agreement to the action plan, which details management's response and timescales for recommendations to be implemented within a week~~5 working days~~.
- Receive final internal audit report.
- Ensure recommendations are implemented in line with the agreed action plan~~ and where appropriate, updated on Pentana.~~.
- Complete and return the Customer Satisfaction Questionnaire to the Principal Auditor ~~Audit Manager detailing~~ their view/perception of the quality of audit work carried out.
- Update service/departmental risk registers with high risk recommendations.
- Receive Limited and No Assurance Follow Up Review reports detailing the progress made towards implementation of recommendations made in ~~the~~ agreed action plans.

Heads of Service

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor and manager, if they deem it necessary, to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.
- Receive notification from ~~Audit Manager~~Head of Internal Audit if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive final internal audit report
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification, during the year, of any major service issues arising. Examples of such issues are those, which the ~~Audit Manager~~Head of Internal Audit considers to be significant, i.e. frauds, irregularities or fundamental problems in their service area.
- Attend annual audit meeting with ~~Audit Manager~~the Head of Internal Audit, if required. The purpose of these meetings is to discuss the audit work carried out, to ascertain client satisfaction with the audit service and maintain good relations between the service area and audit.

- To attend the Audit & Member Standards Committee where finalised audit reports are followed up and reported as being ~~reported where the assurance levels~~ limited or below, or where high priority recommendations have not been implemented in order for the Committee to ask any questions it may deem appropriate.

Chief Executive~~/ Directors~~

- Receive copy of the relevant final internal audit reports.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from ~~Audit Manager~~the Head of Internal Audit if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up~~ review.~~.
- Receive progress reports, which highlight variations from the agreed a~~A~~nnual p~~P~~lan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out. The report should be received within one month of the end of the quarter.
- Attend regular meetings with the ~~Audit Manage~~Head of Internal Audit~~r~~.
- Receive the annual audit report.

S151 Officer

- Receive copy of final internal audit reports – executive brief only unless there are financial implications or limited/no assurance, then the whole report.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from ~~Audit Manager~~the Head of Internal Audit if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at ~~the first~~ follow up~~ review~~.
- Receive progress reports, which highlight variations from the agreed a~~A~~nnual p~~P~~lan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.
- Attend regular meetings with the ~~Audit Manager~~Head of Internal Audit.
- Receive the annual audit report.

Monitoring Officer

- Receive copy of the final internal audit report where it is felt that the findings pose significant governance risks to the Council.

HR Manager

- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service which involve employees.

External Auditor

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Limited and No Assurance Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive the annual audit report.

Leader

- Receive copy of the final internal audit report where it is felt that the findings pose significant risks to the Council, or where findings relate to more than one service.

Cabinet Members

- Receive copy of final internal audit reports relating to their portfolio.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Audit & Member Standards Committee

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification if management do not respond to internal audit reports.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement ~~any~~ high priority recommendations at ~~the first~~ follow up or where a no or limited overall assurance opinion review has not been assessed as being substantial or reasonable on follow up. ~~review and the second follow up review~~.
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Director/designated officer would attend in order to answer any questions that may be raised.
- Opportunity to use the audit report as a catalyst to a specific piece of work to be undertaken

- Receive progress reports, based on the individual audit reports issued within the period.
- Receive the annual audit report.

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Grant Thornton

Indicative External Audit Plan

Year ending 31 March 2020

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

Lichfield District Council
January 2020

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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 Authority 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.

1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lichfield District Council ('the Authority') for those charged with governance. It is subject to the completion of our planning work.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lichfield District Council. We draw your attention to both of these documents on the PSAA website. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Member Standards committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Member Standards Committee of your responsibilities. It is the responsibility of the Authority 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 Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Valuation of land and buildings • Valuation of net pension fund liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	• We have determined planning materiality to be £0.85m (PY £0.88m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. • We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for senior officers' remuneration disclosures. • We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £42.3k (PY £44k).
Value for Money arrangements	Our value for money risk assessment remains in progress. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.
Audit logistics	Our interim visit will take place in January and February 2020 and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £42,912 (PY: £39,912) for the Authority, subject to the Authority meeting our requirements set out on p
Independence	We have complied with 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..

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

The Council is currently forecasting that it will deliver its planned budget position for 2019/20.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Local Authority until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Local Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Financial Statements & Value for Money

We have commenced our detailed planning for 2019/20 and have started the process of meeting with your Executive team. We have started initial discussion around key risk areas including valuation of properties and disclosure requirements around IFRS 16.

Our value for money risk assessment remains in progress.

We will keep the Audit and Member Standards Committee updated with our assessment.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Head of Finance and Procurement (s151 Officer) and is subject to PSAA agreement.

- We continue to liaise with your finance team on a regular basis in order to ensure key risks areas are kept under appropriate consideration.
- We will meet with your wider management team in considering our value for money assessment.

3. Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lichfield District Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Lichfield District Council.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	The Authority revalue's its land and buildings on a rolling five-yearly basis, and investment properties every year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£50 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register and accounted for correctly; and • evaluating 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.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Authority'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 (£42 million, in 2018-19, in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake 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; and • obtain assurances from the auditor of Staffordshire 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.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 Authority's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

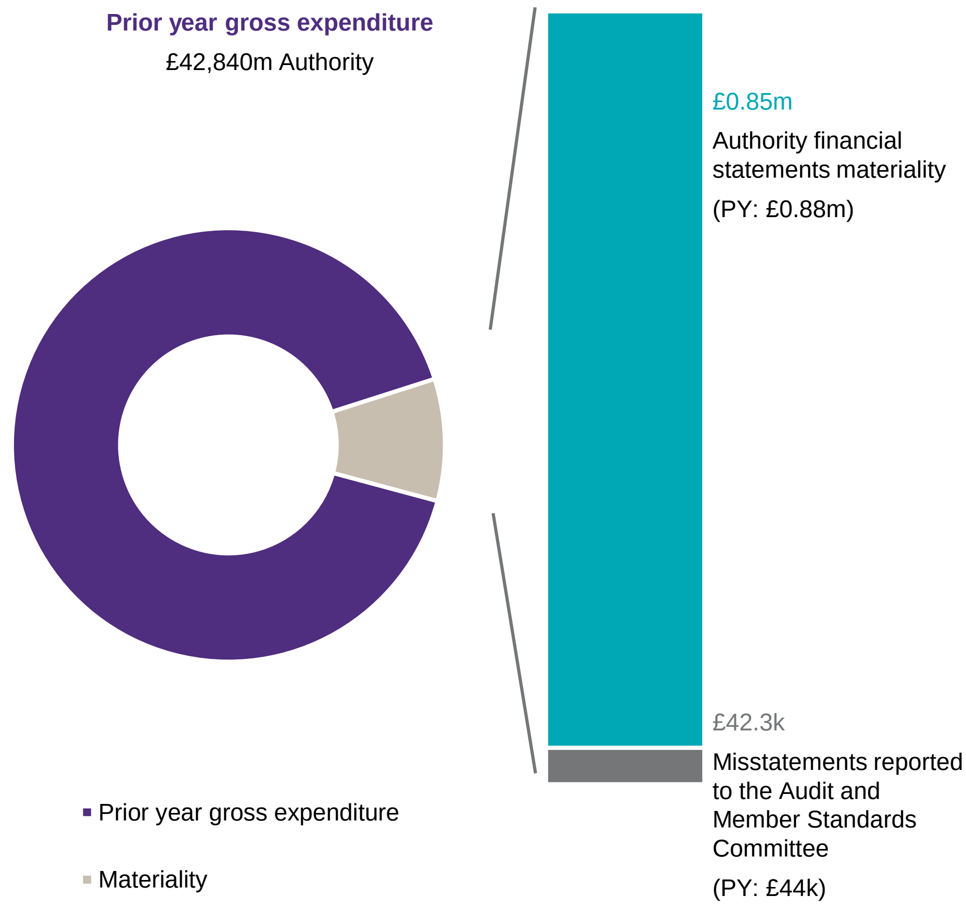
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.85m (PY £0.88m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for the disclosure of Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Member Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Member Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £42.3k (PY £44k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Member Standards Committee to assist it in fulfilling its governance responsibilities.



7. Value for Money arrangements

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:

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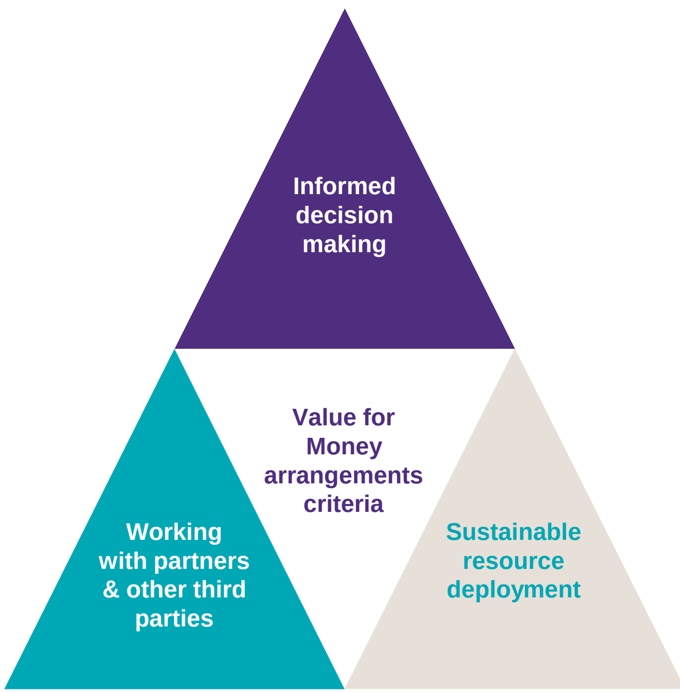

Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Our Risk Assessment Remains in Progress

The Council is currently forecasting that it will outturn for the General Fund with a contribution of £1,113,560 to general reserves and this is £964,700 higher than estimated in the original budget, mainly as a result of one-off items including additional Business Rates grants £336,660, earmarked reserves being returned £276,500 and higher treasury income £116,000.

The Council has set a balanced budget for 2020/21, with a £462k contribution to reserves. The MTPF however recognises that there are significant risks in the medium term, with a funding gap of £613k in 2021/22, £959k in 2022/23 and £1,507k in 2023-24, based on current assumptions and mitigations.

The CIPFA Financial Resilience Index, which looks at a range of factors that may affect resilience and sustainability, and relies on information on earmarked reserves, shows that the Council are at the lower risk end of the spectrum compared to it's nearest neighbours based on level and use of reserves.

The Council is introducing a more commercial approach to managing its finances and this is resulting in the ability to develop longer term financial projections.

Our value for money risk assessment remains in progress. However, based on the assessment completed to date, we do not anticipate any significant VFM audit risks that will impact the audit for 2019-20.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

8. Audit logistics & team

Planning and risk assessment

Audit and Member Standards Committee
February 2020
Audit Plan

Interim audit
February 2020

Audit and Member Standards Committee
April 2020
Interim Progress Report

Year end audit
June / July 2020

Audit and Member Standards Committee
July 2020
Audit Findings Report

Audit opinion

Audit and Member Standards Committee
September 2020
Annual Audit Letter

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John Gregory, Key Audit Partner

John's role will be lead to our relationship with you and be a key contact for the s151 Officer and the Audit and Member Standards Committee. John will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority as well as ensuring that Grant Thornton's full service offering is at your disposal.

Javed Akhtar, Audit Manager

Javed's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.

Ellie West, Audit Incharge

Ellie's role will be the day to day contact for the Authority's finance staff, will take responsibility for ensuring there is effective communication and understanding by finance of audit arrangements. Ellie will focus on the on the technical matters raised by you throughout the audit.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Head of Finance and Procurement (s151 Officer) and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£45,990	£39,912	£42,912

Assumptions:
In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	35,412	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New Standards	1,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements. We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.
Revised scale fee (to be approved by PSAA)	**£42,912**	

10. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Housing Benefit subsidy certification	14,000	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 £14,000 in comparison to the total fee for the audit of £45,875 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.
Non-audit related:			
N/A	-	N/A	N/A

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Member Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

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Appendices

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the Audit and Member Standards Committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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Grant Thornton

grantthornton.co.uk

Grant Thornton
An instinct for growth™

Our ref: JG/ja
Your ref:

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16 January 2020

Dear Anthony

Audit scope and additional work 2019/20

In recent conversations, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also recently received a letter via email from Tony Crawley of PSAA explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: "*significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.*"

I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Council's audit.

<u>Increased challenge and depth of work – raising the quality bar</u>

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

Score	Description
1 or 2a	Acceptable with Limited Improvements Required
2b	Improvements required
3	Significant Improvements Required

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.

Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority.
- checking the value of the Pension Fund Assets at 31 March per the Council's financial statements against the share of assets in the Pension Fund statements
- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers.

- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process).

Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.

We understand that you expect the impact of the new standard to be relatively insignificant for the Council, but we will nevertheless need to undertake sufficient work on your own assessment to be able to confirm this and the appropriateness of the actions you have taken, and this is what is allowed for in our proposed fee.

Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

Area	Cost £		
	2019/20	2018/19	2017/18
Increased challenge and depth of work	2,500	NIL	NIL
PPE	1,750	1,500	NIL
Pensions	1,750	3,000	NIL
New standards/ developments	1,500	NIL	NIL
Total	**7,500**	**4,500**	**NIL**

This would give a scale fee for the statutory accounts audit for 2019/20 of £35,412 plus VAT plus a variation of £7,500 plus VAT.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 31 July 2020. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit, which at this stage is planned to be delivered by 31 July 2020.

Future changes to audit scope

As I have previously mentioned in meetings and at the audit and risk committee, the National Audit Office is currently consulting on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;

b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and

c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

Until the consultation is finalised and more details emerge of what is expected of auditors, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year,

Yours sincerely

John Gregory
Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

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Informing the audit risk assessment Lichfield District Council 2019/20

Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council, clear and effective arrangements are in place to prevent and detect fraud. No material instances of fraud have been identified in 2019/20.
How are the Audit Committee satisfied that the overall control environment is robust. In particular what processes does the Council have in place to identify and respond to risks of fraud in the organisation?	The Council has in place strong controls over the sales and purchase ledger in order to prevent fraud. Internal audit are used to carry out work on overall fraud risk areas including Council Tax and Housing benefit. Internal audit also give an opinion on their work on controls..
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	There are no material instances of fraud that have been identified during the year. There are some areas that are inherently at risk from fraud such as: • Council Tax • Single person discount Lichfield District Council is a participant in the National Fraud Initiative and review matches as they become available (NFI data sets and app check). Lichfield is working with other Local Authorities in a joint procurement of a credit reference agency to identify potential fraud in Council Tax. Capita has been selected as the successful company and mobilisation is to take place in spring 2020.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Not aware of any area where there is a potential of override of controls or inappropriate influence over the financial reporting process.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Not aware of any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process.

Fraud risk assessment (continued)

Question	Management response
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Audit and Member Standards Committee receives an update report from Internal Audit which is a summary of the work completed by Internal Audit. This highlights the number of recommendations made. It also highlights implementation reviews completed and highlights where there are recommendations not implemented. The Audit and Member Standards Committee receive copies of all finalised internal reports and finalised implementation reviews carried out. Any frauds identified will be reported to the Audit and Member Standards Committee.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Code of Practice is available on the Council's intranet along with the whistleblowing policy. All employees are required to read this as part of their induction process.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Whistleblowing Policy encourages employees to report any suspicions of fraud or irregularity, and explains the procedures to follow. This policy is available to all staff via the Council's intranet, and is included as part of the induction programme for new staff.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	The Council sets out related party transactions within the annual accounts. Declarations and conflicts of interest are recorded on an annual basis through a return required to be submitted by members. Any additional interests are required to be declared before meetings and on an ad hoc basis throughout the year.
Are you aware of any instances of actual, suspected, or alleged fraud either within the Council as a whole or within specific departments since 1 April 2019?	None.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2019? If so how does the Audit Committee respond to these?	We are not aware of any whistleblowing reports or reports under the Bribery Act since 1 April 2019.

Laws and regulations

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the noncompliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? How does management gain assurance that all relevant laws and regulations have been complied with?	The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover: • complying with the law of the land (including any relevant Codes of Conduct); • complying with any General Guidance issued, from time to time, by the Monitoring Officer; • making lawful and proportionate decisions; and • generally, not taking action that would bring the Council, their offices or professions into disrepute. This officer has access to all Council committee reports. The Monitoring Officer raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the monitoring officer would get involved at an early stage. Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Monitoring Officer (or representative) attends Audit and Member Standards Committee meetings and advises members on any areas of concern.
Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2019, or earlier with an on-going impact on the 2019/20 financial statements?	The Monitoring Officer is not aware of any instances of non compliance with laws or regulations that would have an impact on the financial statements.

Impact of laws and regulations (continued)

Question	Management response
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	No new litigation claims in year. The process is consistent with the prior year. The Monitoring Officer is responsible for identifying and evaluating claims in the first instance. Up to 1 January 2020, if the Council could not deal with claims in-house then an external solicitor would have been contacted. Post 1 January 2020, any claims will be sent to South Staffordshire District Council Legal Shared Services for legal advice.
Is there any actual or potential litigation or claims that would affect the financial statements?	None that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	None.

Going concern

Matters in relation to laws and regulations

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

We have discussed the going concern assumption with key Council officers and reviewed the Council's financial and operating performance. Below are key questions on the going concern assumption which we would like the Audit Committee to consider.

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	A review of future revenue streams and a cash flow forecast is undertaken as part of the budget setting process, management assesses whether it will have enough cash to continue to operate and whether there are any known events that might occur that could prevent this.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	Management is not aware of any events or conditions that may cast doubt on the entity's ability to continue as a going concern.
Are arrangements in place to report the going concern assessment to the Audit Committee? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	In terms of the going concern we have a four year Strategic Plan 2016- 2020 (which has been replaced as of 18 February by a new Strategic Plan 2020-2024) and this went through a number of Committees including Full Council for approval. Therefore whilst we don't specifically report on the going concern assessment to Audit and Member Standards Committee we need to take account of the Council's overall Governance process of which Audit and Member Standards Committee is one element. All Audit and Member Standards Committee Members will have been part of the process for its compilation and approval. We have also incorporated reference to the new Strategic Plan in the Statement of Accounts via the narrative statement and AGS. The Council has a balanced budget in 2020/21. There are funding gaps 2021/22 onwards. However, there are sufficient reserves to balance the budget up to 2025/26. In addition, the Council will be working on efficiency savings to close the gaps.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Medium Term Financial Strategy is agreed annually and reflects the investment needs required to deliver the Strategic Plan. The Medium Term Financial Strategy makes clear reference to the Strategic Plan as the basis for the financial considerations in setting the Medium Term Financial Strategy. The financial assumptions are therefore consistent with the Strategic Plan. Monitoring Reports in year to Cabinet and Strategic (Overview and Scrutiny) Committee are consistent with the agreed budget.

Going concern considerations (continued)

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Medium Term Financial Strategy considered explicitly the government changes in terms of grants. The plan sets out the likely implications of the Government's Resources Review and other changes to local government finance.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made?	No, Internal Audit have not raised any significant assurance weaknesses in controls or procedures.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The available financial information does not identify any adverse financial indicators including negative cash flow.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	There are sufficient staff in post with appropriate skills and where vacancies have occurred consideration is given to the recruitment of temporary resources.

Related parties

Matters in relation to Related Parties

Local Authorities are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out below and management has provided its response.

Related parties considerations

Question	Management response
What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members • Annual declaration of interest • Councillors and officers do not participate in decisions where they are a related party • Annual accounts disclosures for related parties and transactions are reviewed for completeness by senior finance officers
Who have the Council identified as related parties?	No changes are expected to those related parties disclosed in the 2019/20 financial statements.

Accounting estimates

Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identified the transactions, events and conditions that may give rise to the need to an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

• the estimate is reasonable; and

• estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	The Check, Challenge and Appeal Process and the paucity of information will mean there will be significant estimates and judgement on the level of the appeals provision at 31 March 2021.
Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	Yes- Accounting estimates are made by members of the finance team with sufficient skill and knowledge. The finance team at LDC is experienced and there have been no issues in prior year audits surrounding estimates. Accounting treatment used by the Council is in line with IFRS and the Code of Practice. The Council has an estates team who are able to validate the estimates for the valuation and asset lives of non current assets.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Experienced finance staff are responsible for making the estimates and are done so in line with accounting standards. Assurance is also provided by internal and external audit.

Appendix 1 - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations.	Valuations are made by Gerald Eve inline with RICS guidance on the basis of 5 year valuations with interim reviews.	Senior Accountancy Assistant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.	Used Gerald Eve.	Valuations are made inline with RICS guidance – reliance on expert.	No
Estimated remaining useful lives of PPE.	The following asset categories have general asset lives: ■ Buildings 50 years ■ Equipment/vehicles 5 years ■ Plant 12 years ■ Infrastructure 40 years.	Consistent asset lives applied to each asset category.	Used Gerald Eve for property related assets. Managers provide estimates for vehicles, plant and equipment assets.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with Gerald Eve's estimates.	No
Depreciation & Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation according to: ■ A full year's charge is made in the year of acquisition. ■ Assets that are not fully constructed are not depreciated until they are brought into use.	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Used Gerald Eve..	Valuations are made inline with RICS guidance - reliance on expert.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation.	The finance team apportion central support costs to services based on fixed bases.	All support service cost centres are allocated according to the pre agreed bases.	No	Apportionment bases are reviewed each year to ensure equitable.	No
Measurement of Financial Instruments.	Council values financial instruments at fair value based on the advice of their treasury management advisors and other finance professionals.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No
Provisions for liabilities.	has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision.	A provision is estimated using a proportion basis of an aged debt listing.	The finance team and Corporate Debt Team review the aged debt listing and the likelihood of debt being collected before calculating the BDP.	No	Consistent proportion used across aged debt as per the Code.	No
Accruals	The finance team collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used	No
Non adjusting events - events after the Balance Sheet date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Directors and Heads of Service notify the S151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances.	N/A

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2019/20

Item	24 July 2019	14 November 2019	5 February 2020	19 March 2020	28 April 2020	Deferred Reason
FINANCE						
Annual Governance Statement					√	
Annual Treasury Management Report	√					
Mid-Year Treasury Management Report		√				
Review of Accounting Policies				√		
Statement of Accounts	√					
Treasury Management Statement and Prudential Indicators			√			
Audit & Member Standards Committee Practical Guidance			√			Only relevant if there is updates to guidance so may not be needed
INTERNAL AUDIT						
Annual Report for Internal Audit					√	
Internal Audit Charter and Protocol				√		
Internal Audit Plan				√		
Internal Audit Progress Report	√	√	√			
Quality Assurance and Improvement Programme					√	Deferred from March
Review of Internal Control including Public Sector Internal Audit Standards Self-Assessment Summary					√	Deferred from March
Risk Management Update	√		√		√	
Risk Management Update to include Risk Management Policy and Corporate Risk Register		√				
Counter Fraud Update Report including Counter Fraud & Corruption and Whistleblowing Policies	√					
Anti-Money Laundering Policy					√	Deferred from March until July

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2019/20

Item	24 July 2019	14 November 2019	5 February 2020	19 March 2020	28 April 2020	Deferred Reason
LEGAL AND DEMOCRATIC						
Annual report on Exceptions and Exemptions to Procedure Rules			√			
Overview of the Council's Constitution in respect of Contract Procedure Rules	√					
GDPR/Data Protection Policy		√				
Annual Report of the Monitoring Officer - Complaints		√				
RIPA reports policy and monitoring					√	
Review of the Effectiveness of the Audit & Member Standards Committee			√			
The Rules on Confidentiality		√				
Terms of Reference						
EXTERNAL AUDITOR						
Audit Findings Report for Lichfield District Council 2018/19	√					
The Annual Audit Letter for Lichfield District Council		√				
Certification Work for Lichfield District Council for Year Ended 31 March 2019		√				TBC depending on when we agree the work will be performed – may have to be Feb
Planned Audit Fee 2019/20	√					
Informing the Audit Risk Assessment - Lichfield District Council				√		Deferred from February
Audit Plan for Lichfield District Council 2019/20				√		

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2019/20

Item	24 July 2019	14 November 2019	5 February 2020	19 March 2020	28 April 2020	Deferred Reason
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2020			√			
Audit & Member Standards Committee Training Session by Grant Thornton					√	Deferred from March until July
Annual Audit Fee Letter				√		

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