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Your ref
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Ask for Wendy Johnson
Email wendy.johnson@lichfielddc.gov.uk

District Council House, Frog Lane
Lichfield, Staffordshire WS136YU

Customer Services 01543 308000
Direct Line 01543 308075

Wednesday, 17 March 2021

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, 25TH MARCH, 2021 at 6.00 PM** to consider the following business.

In light of the current Covid-19 pandemic and government advice on social distancing, the meeting will be held online and streamed live on the Council's YouTube channel

Yours faithfully

Christie Tims
Head of Governance and Performance

To: Members of Audit and Member Standards Committee

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

AGENDA

RESOLVED: That, as publicity would be prejudicial to the public interest by reason of the confidential nature of the business to be transacted the public and press be excluded from the meeting for the following item of business which would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended.

IN PRIVATE

12. **Independent External Investigation** Verbal Report

(Verbal update of the Head of Governance & Performance/Monitoring Officer)

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AUDIT AND MEMBER STANDARDS COMMITTEE

3 FEBRUARY 2021

PRESENT:

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

Observers: Councillor Strachan, Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Officers in Attendance: Mrs L Fowkes, Mrs J Irving, Miss W Johnson, Ms R Neill, Mr K Sleeman, Mr A Thomas and Ms C Tims

Also Present: Mr J Gregory, Ms L Griffiths, Mr A Sohal & Mr D Rowley – Grant Thornton

24 APOLOGIES FOR ABSENCE

There were no apologies for absence.

25 DECLARATIONS OF INTEREST

Councillor Grange declared a personal interest in any discussion relating to the Friary Grange Leisure Centre as she was a Friend of the Friary Grange Leisure Centre.

Councillor Grange also declared a personal interest in respect of GDPR/Data Protection as she was working with a technical company in the GDPR area.

26 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 12 November 2020 previously circulated, were taken as read and approved as a correct record.

An update was given by the ICT Manager, Kevin Sleeman. All laptops had now been successfully encrypted and USB sticks cleared and a further update on GDPR would be discussed under agenda item no 6 – Internal Audit Progress Report, following concerns at the previous meeting.

27 TREASURY MANAGEMENT STATEMENT AND PRUDENTIAL INDICATORS

Mr Anthony Thomas (Head of Finance and Procurement) delivered a Presentation on the Treasury Management Statement and Prudential Indicators, which covered the financing and investment strategy for the forthcoming financial year.

The Capital Strategy shown at Appendix A was explained and key updates were:-

Capital bidding forms part of service and financial planning process;

Proposal for early repayment of Burntwood Leisure Centre capital investment of £979k to generate annual savings of £140k – would mean that at the end of March 2021, external debt would temporarily exceed borrowing. However, over the 3-year period, the Council was compliant;

Refocus in the Investment in Property section from the Property Investment Strategy to enhanced information on the current portfolio;

In line with the action included in the CIPFA FM Code assessment a longer-term capital investment plan has been incorporated; (25 years)

This plan is currently based on “broad brush” assumptions which include population growth and demographics.

Mr Thomas explained following Council approval, the Capital Programme had removed the Property Investment budgets which has a significant impact on the balance sheet and projections but also the treasury management strategy and budget. The renewal of the waste fleet and the new Leisure Centre would increase the borrowing need, and this was currently being budgeted to be funded through a lease type arrangement and external borrowing. Graphs illustrated the capital programme comparisons from last year to this year and also capital funding graphs and cumulative borrowing needed to reflect the much lower capital programme recommended.

The Chief Financial Officer’s Assessment was highlighted and although the removal of the Property investment Strategy by the Council means the overall level of risk has significantly reduced there were, in his opinion, still risks and so he has assessed the current risk as a material level of risk.

Mr Thomas explained the Minimum Revenue Provision Statement for 2021/22 at Appendix C which sets out the Council’s policy of using the asset life method for making prudent provision for debt redemption. He said each year the Council must approve this statement which would include an allowance for finance leases that appear on the Council’s balance sheet i.e. Waste Fleet was in this category.

The Treasury Management Statement / Annual Investment Strategy at Appendix D & E was clarified and very little had changed from last year, Mr Thomas said the only proposed change was on the investment holding limits based on Arlingclose advice to remove the overall Money Market fund limit of £21m. They recommend that this limit be removed because at present the risk of moving into other sectors was higher. Mr Thomas said the four strategic fund investments total £8m at this time and as there was a prudential indicator for longer term investments of £10m, it was proposed that a further investment of up to £2m to achieve higher returns is made to take the Council up to the £10m limit. Further strategic investments would only be undertaken after taking advice from Arlingclose and with the agreement of the Cabinet Member.

Balance sheet projections were illustrated, with key messages, and Mr Thomas said although it was projected there would be a large deficit on the collection fund at 31 March 2021 (due to the impact of Covid-19 and the award of business rate reliefs), this would be transferred to the revenue budget over a 3 year period. The statutory nature of Collection fund accounting was explained and, after taking into account Section 31 grants, should have a minimal impact on the Council’s revenue budget.

Mr Thomas explained that IFRS16 for leases has been deferred until 1 April 2022. He added that the Secretary of State and Government had made a lot of announcements recently regarding the level of commercial income, predominantly to do with borrowing to invest in property. Basically, Government wanted to see local governments reduce its dependence on commercial income from these sources and so there were a number of initiatives to achieve this aim e.g. the PWLB consultation response which had been announced. Mr Thomas said we would be asked to confirm there was no intention to buy investment assets that were primarily for yield in the current or next 2 financial years. As S151 Officer he would need to confirm he was content with plans and they were within acceptable use of PWLB. Local councils could be prohibited from accessing the PWLB if they planned debt for yield activity and Her Majesty's Treasury could restrict local authorities from borrowing and had powers to issue penalties, suspend access, insist on repayment of loans with penalties or even review the prudential framework in its entirety. Mr Thomas also said it was announced the previous day there was to be a consultation on the prudential code which was also aimed at strengthening provisions. It stated clearly that borrowing for debt for yield investment was not permissible which was another indicator that CIPFA and the Government were looking to stop this type of activity.

Prudential and local indicators were illustrated for information and prudence measures.

Questions were received relating to the capital receipt of Leyfields and Netherstowe which had been referenced in the Capital Strategy although its receipt was subject to planning approval being granted. Mr Thomas said if this sale did not happen, the Capital Strategy/Capital Programme would have to be reviewed and alternatives sought. Mr Thomas said a recommendation had been included in the Cabinet MTFS report to delegate to the Head of Finance & Procurement and the Cabinet Member to identify alternative funding in the event the land was not sold.

The level of general reserves was discussed as three scenarios had been prepared. Mr Thomas said the central scenario was, in his opinion, a realistic and deliverable scenario and he was comfortable with the level of reserves. He also said that within that budget there were a number of risk contingencies built into the MTFS i.e., contingencies for sales, fees and charges and business rate estimates, because of risks around retail rent income. The retail risks were discussed as the Council owned properties in the Lichfield city centre and the values have reduced quite significantly because of lower income streams and these would need to be subject to ongoing monitoring. It was highlighted that a number of the Council-owned properties were relatively new which would mean maintenance obligations/liabilities would start to accrue and so these had been built into the plan.

RESOLVED:- That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:

(1) The Capital Strategy and Capital Programme, outlined in Appendices A & B;
(2) The Minimum Revenue Provision Statement for 2021/22, at Appendix C, which sets out the Council's policy of using the asset life method for making prudent provision for debt redemption;
(3) Treasury Management Strategy Statement for 2021/22 including proposed limits shown at Appendix D. The only change being proposed is based on Arlingclose advice to remove the £21m overall investment limit for Money Market Funds to manage credit and liquidity risk;
(4) The plan to undertake a further Strategic Fund Investment up to £2m;
(5) The Investment Strategy Report (Appendix E) including the proposed limits for 2021/22;
(6) The Capital and Treasury Prudential Indicators for 2020-25 in the financial implications section;
(7) The Authorised Limit Prudential Indicator shown within the financial implications section.

And that Members also note:

(8) The Public Works Loans Board (PWLB) response to the consultation on changes to lending terms.

28 REDMOND REVIEW REPORT

Mr Anthony Thomas (Head of Finance and Procurement) delivered a presentation on the recently published Redmond Review Report which was an independent review of Local Authority financial reporting and External Audit. Mr Thomas advised that initially the report was to be an update on the review, its findings and recommendations. However, during the report drafting, the Government had announced its response as part of its finance settlement and therefore this had also been incorporated into the report.

The key issues/key findings and recommendations and the Government response were illustrated by Mr Thomas. The main issues were highlighted:-

- The level of accounts signed off by the deadline;
- External Audit fees;
- Sustainability of the Audit market – 3 firms hold 80% of market.

Mr Thomas said he had looked at the implications for the Council and felt they were likely to be:-

- Higher External Audit fees – the Council had already included a budget pressure of £8k p.a. from 2021/22;
- There was a risk of moving the audit deadline to 30 September which was a concern as it could become a competing demand for the finance staff as the MTFS development work commenced July/August to be completed by the following February and this would be problematic;
- The potential use of Internal Audit as an assurance tool, which could reduce duplication and lead to more effective use of audit resources.

Discussions took place around the External Audit market generally and Mr Thomas said the audit framework and financial reporting of accounts were meaning a lot more complex work was expected of the External Auditors. He felt this would continue until the audit framework was addressed. It was agreed that auditing Local Authority accounts was not like any other audits: they were prepared in line with accounting standards but they were also subject to a number of statutory elements and therefore demanded different skillsets and expertise. Mr Thomas said that having more smaller companies may potentially reduce fees but they would need to recruit and train staff and therefore a significant investment would be required.

Mr Gregory from Grant Thornton advised that the PSA Ltd. procurement process had made the deliberate choice of awarding the External Audit market 40% Grant Thornton, 25% to another and 15% to another and that is why only three firms have the 80% of the market. Overall Grant Thornton welcomed the Redmond Review Report.

Members agreed that Local Government finances were notably more complicated now with layering IRFS on top of statutory requirements and it was noted that public objections can cause further work, delay and expense. It was agreed that External Audit requirements were reactive and often in response to corporate issues and therefore there was a sector wide problem.

RESOLVED:- The committee noted the contents of the report.

29 INTERNAL AUDIT PROGRESS REPORT

Ms Rebecca Neill (Shared Head of Audit) presented the Internal Audit Progress Report for the period to 31 December 2020 (Quarter 3). She advised that the audit opinion remained reasonable at this three-quarter stage of the year. She advised that 67% of the audit plan had been completed which remained a strong performance against audit's main KPI which was to deliver 90% of the plan by year end. She added that Covid-19 was still having an effect on services and their ability to respond to audits which is in turn impacting on other audit performance measures at Section 5 of the report. She reminded the committee that these were new PI's introduced with challenging targets, but that they should continue to be strived for in normal times. Members agreed that, in what had been an interesting year, it was heartening to see how far the audit programme had come.

Ms Neill summarised the positive direction of travel in audit follow-up implementation rates, highlighting 107 actions outstanding in comparison to the 230 outstanding actions which were in place at the start of the new system for follow up, last year. Members' attention was drawn to the Appendix of the report which was a summary of all the detailed audit reports the members receive.

Matters raised at the last committee were discussed, namely the high priority finding in the Remote Working Audit, regarding unencrypted laptops and the GDPR limited assurance follow-up audit. Ms Neill summarised the progress to date, which was that a position statement was sent to members from management in November 2020 and that an audit follow-up report had been sent to members in January 2021. She said that there were 9 unencrypted laptops at the last follow-up and that this had now reduced to zero. In terms of the GDPR follow-up, there were now 4 High and 2 Medium priority actions outstanding. Ms Christie Tims, Head of Governance and Performance, provided an update and was pleased to report that, subject to verification by the internal audit staff, 99% of all actions as of the previous day had been completed. There were only 2 items outstanding on the project plan which related to the medium priorities on the audit and everything else had been completed by the end of January. She thanked the IT staff involved as all actions were now in place and she assured members that a forward plan to maintain datasets was now to be implemented. Ms Neill assured the actions would be followed up until all the recommendations were implemented. Members requested that a progress report come back to the next committee meeting.

The number of high priority actions were discussed, and members requested more information on which of the high priority actions had been outstanding, post January 2020. Ms Neill said she would provide more detail for the committee.

There was a query on the payroll audit report, relating to the transition to a new payroll provider, as there was only 5 months to go on the current contract. Councillor Strachan said a report was on the Cabinet agenda for the forthcoming week and Ms Tims confirmed that there was a preferred supplier and reassured the committee that they could meet the deadline.

Ms Neill was asked if the Capital Strategy audit also looked at disposals and if they were involved with the issue regarding the disposal of Land at Netherstowe and Leyfields open spaces. Ms Neill said she would check the scope of the audit and report back but internal audit was not reviewing that particular issue. Ms Tims advised that she was currently in the final stages of awarding the procurement of this independent external investigation and this item would be added on to the Work Programme for the March or April meeting.

The Procurement audit was discussed as the only limited assurance report. Mr Thomas gave assurance that the new procurement team were working through this plan. Mr Thomas said one of the actions was the approval of a procurement strategy, which had been done. He believed the other high priority was to update the contract register and he knew the team were engaging significantly with services to get the contract register updated. Ms Neill assured the members that the same process for procurement would apply as to GDPR and a follow-up of the audit would be provided.

RESOLVED:- The committee noted the contents of the report.

30 RISK MANAGEMENT UPDATE

Ms Rebecca Neill (Shared Head of Audit) presented the report which provided the committee with their routine risk management update. She said there was an update to SR2: Resilience Risk (at the request of the previous committee meeting) to include flooding and climate change within the mitigating controls section. She explained that an update to this risk description had been made to account for Covid variants and the third national lockdown. This risk was already at the highest score and so could go no higher.

Ms Neill reported there were no changes in other scores to report this time. She went on to say that SR1: Finance and SR2: Resilience remained the two highest risks and remain out of "risk appetite". Members' attention was drawn to the potential emerging risks, i.e., forthcoming elections/turnover of staff in key posts/transition to new payroll provider and potential of no sunset clause on regulations allowing remote council meetings going beyond early May 2021.

Ms Neill said a lot of positive work had been undertaken in terms of the sub-strategic risks, which were the risks at head of service level. Draft risk registers were now in place which mirrored the strategic risk register, bringing in the three lines of assurance linking back to the service plan objectives and the strategic objectives.

Members raised concern about the emerging risks associated with running the May 2021 elections during the pandemic, in terms of not only potential disenfranchisement of the electorate but the effect on staff, volunteers and potential candidates. Examples were of nomination papers not being signed due to self-isolation, not being able to visit people for canvassing, front line staff needing training, volunteers not having their vaccines, polling stations being unsuitable, emergency proxy votes being required for the newly diagnosed etc. Ms Tims said the matter was heightened and the team were investing a lot of time in planning for this election, making sure it had contingencies in place to mitigate as much risk as possible. She advised there was a risk register and project plan developing and agreed it was a massive undertaking for such a small authority with limited resources and that further national guidance was expected.

RESOLVED:- The committee noted the risk management update and received assurance on actions taking place to manage the Council's most significant risks.

31 THE ANNUAL AUDIT LETTER FOR LDC

The Chairman introduced Mr John Gregory from Grant Thornton who advised that both he and Ms Laurelin Griffiths were leaving their External Audit roles for Lichfield District Council and he introduced Mr Avtar Sohal as the replacement Engagement Lead and Mr David Rowley as the replacement Manager.

The Annual Audit Letter for Lichfield District Council year ended 31 March 2020 was presented by Mr Gregory of Grant Thornton. He said members would be familiar with the content as it was a summary of the audit findings report tabled in the autumn. He advised that it was a relatively smooth audit again this year and gave credit to Mr Thomas and his finance team for providing a good set of accounts. He advised that although they had identified Covid as a significant risk this did not have much impact on the audit.

RESOLVED:- The committee noted the Annual Audit Letter for Lichfield District Council year ended 31 March 2020.

32 CERTIFICATION WORK FOR LICHFIELD DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2020

Ms Laurelin Griffiths from Grant Thornton provided a verbal update on the Certification Work for Lichfield District Council for year ended 31 March 2020 which was the certification for the housing subsidy claim. Ms Griffiths stated that this was usually an update given in November but because of Covid the deadline had been extended to end of January and so the certified subsidy claim was submitted on 18 January and was for just over £14m. The certification was after an adjustment of £122 and contained an extrapolated error of £10. Ms Griffiths thanked

Pat Leybourne and the benefits team for all their help over the last couple of months as it did take longer than it would normally.

33 AUDIT COMMITTEE LDC PROGRESS REPORT AND UPDATE - YEAR ENDED 31 MARCH 2021- KEY MESSAGES

Mr John Gregory from Grant Thornton provided a verbal progress report and update and explained that it was a relatively quiet time in terms of the Local Authority audits, so not much to report. He said Mr Sohal and Mr Rowley would be starting to plan the 20/21 audit very shortly and work towards this year's timescale which was 30 September deadline. Mr Sohal explained there would be a few changes in terms of their approach this year which were driven by the new accounting and audit standards. This included more value for money conclusion work and reporting and looking more in to ISA540 (which was around estimates) and advised members that they would see a lot more work and reporting going forward around these topics, which represented additional work. This was noted and the Chairman thanked Mr Gregory and Ms Griffiths on behalf of the committee for all their hard work and wished them well and welcomed Mr Sohal and Mr Rowley.

34 WORK PROGRAMME

The Work Programme for the Audit & Member Standards Committee 2020/21 was considered, and it was agreed to add both GDPR and the Netherstowe & Leyfields independent external investigation to next month's agenda items.

(The Meeting closed at 7.37 pm)

CHAIRMAN

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PROPOSED ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY FOR THE 2020/21 STATEMENT OF ACCOUNTS

Lichfield district council
www.lichfielddc.gov.uk

Cabinet Member for Finance, Procurement, Revenues and Benefits and Customer Services

Date:	25 March 2021
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.

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 2020/21 Statement of Accounts. it also details any changes that have been made to the Council's 2019/20 Accounting Policies to ensure that they are relevant to the preparation of the Council's 2020/21 Statement of Accounts.

1.3 International Standard on Auditing, ISA 540, deals with the Auditor's responsibilities relating to accounting estimates and related disclosures when auditing the Statement of Accounts. With the impact of Covid-19 it is anticipated that there will be more high risk estimates than in prior years and so Auditors will be spending more time assuring themselves that there are no material misstatements in this area.

1.4 This report, therefore, also highlights the Critical Accounting Adjustments and the Key Sources of Estimation Uncertainty that will be used in the production of the 2020/21 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 2020/21 Statement of Accounts.

2.2 It is also recommended that the Committee approves the Council's approach to the Critical Accounting Judgements and Key Sources of Estimation Uncertainty that will be considered in completing the 2020/21 Statement of Accounts.

2.3 To delegate to the Head of Finance and Procurement the ability to make further changes to the accounting policies to reflect the subsequent release of new or updated guidance.

3. Background

Accounting Policies

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 on Local Authority Accounting in the United Kingdom 2020/21 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 2020/21 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 2020/21 Statement of Accounts is shown at **Appendix B**.

3.6 The Council has reviewed these Accounting Policies in line with the 2020/21 Code of Practice and no fundamental changes have been made. Minor amendments are highlighted in blue.

<u>International Financial Reporting Standard (IFRS) 16 - Leases</u>

3.7 The new Standard was originally applicable from 1 April 2020, but due to Covid-19 the implementation has been delayed until 1 April 2022. This Standard 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.

3.8 The identification and inclusion of these assets on the Council's Balance sheet will also mean that there will be an increase in the Capital Financing Requirement (Borrowing Need), and changes to financing and a number of Prudential Indicators related to debt.

3.9 The only area potentially impacting on the Council is lessor leases for nil consideration, which are still under discussion. 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 these can be excluded.

3.10 In addition, there is also the arrangement 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. However it is likely the value (excluding Friary Grange Leisure Centre) of the assets and matching liabilities will not be significant.

3.11 Given the revised timeframe, the Council will continue to monitor any new leases and changes to current leases in order that we ensure that we are compliant with the new IFRS.

Critical Accounting Judgements

3.12 The Code of Practice requires that the judgements that the Chief Finance Officer has made in applying the Council's Accounting Policies must be disclosed either with the Accounting Policies or in a separate note to the Accounts. The relevant judgements are those that have the most significant effect on the Accounts and hence these are known as Critical Accounting Judgements. Judgements that are made in arriving at estimates are not included here, rather these are included under a separate note, 'Key Sources of Estimation Uncertainty', discussed later in this report.

3.13 Disclosure of such Critical Judgements is made to enable users of the Statement of Accounts to better understand how the Accounting Policies are applied and to make comparisons between authorities regarding the basis on which these judgements are made. It is also important that these disclosures include the judgements made to exclude material items which could impact on providing a 'true and fair' view, for example, not to treat a possible future transaction as a contingent asset/liability. (A contingent asset/liability is a potential economic benefit/loss that is dependent on future events out of the Council's control. Not knowing for certain whether these gains will materialise, or being able to determine their precise economic value, means these assets/liabilities cannot be recorded on the Council's balance sheet. They are instead reported in the notes to the Statement of Accounts provided that certain conditions are met).

3.14 These arrangements have the effect of requiring the Council to justify the view that they have taken regarding significant transactions and balances by providing an appropriate explanation of the factors that were taken into account and any assumptions made when making the judgement, together with the outcome.

3.15 The Council's Critical Accounting Judgements in the 2019/20 Statement of Accounts can be seen at **Appendix C**. These will be updated for 2020/21 as part of the process of completing the Statement of Accounts. It is anticipated that Covid-19 will have had a significant impact on these judgements, in particular in relation to item 2 Freedom Leisure Pensions risk. This is shown in the table below:

Judgement	1% Low Risk from 2019/20 Accounts	5% Estimate based on 2019/20 Figures	Maximum Commitment (Admission Agreement)
Freedom Leisure Pension	£79,212	£396,060	£677,870

3.16 The pension risk for the staff that transferred to the Garrick Trust is considered to be immaterial in financial terms and has therefore not been included in the table above. Item 3, NNDR appeals, is considered as part of the Key Sources of Estimation Uncertainty table later in this report:

Key Sources of Estimation Uncertainty

3.17 The Code of Practice requires the Chief Finance Officer to disclose the assumptions that have been made in the Statement of Accounts about the future and other major sources of Estimation Uncertainty. These should be disclosed in a separate note to the Statement of Accounts. This disclosure is limited to those estimates that have a significant risk of resulting in a material adjustment within the next financial year.

3.18 Disclosures are restricted to assets and liabilities whose carrying amount is dependent on estimates that are in turn dependent on difficult, subjective or complex judgements for which there is a risk that correction or re-estimation with material effect in the next financial year might be required.

3.19 Estimation Uncertainty disclosures deal with situations where the Council has incomplete or imperfect information which will only be enhanced as a result of future events. The minimum disclosure requirements are:

- The nature of the assets and liabilities affected
- Their carrying amount at the end of the financial year.

3.20 However, International Accounting Standard (IAS) 1 'Presentation of Financial Statements' adds further information that might be needed depending on materiality of the assets/liabilities and the degree of uncertainty attaching to them, and this is supported by the Code of Practice:

- The nature of the assumption or other Estimation Uncertainty relating to the assets or liabilities
- The sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- The expected resolution of an uncertainty and the range of possible outcomes for the carrying amounts of the assets/liabilities within the next financial year
- An explanation of changes made to past assumptions concerning the assets/liabilities if the uncertainty existing at the start of the financial year remains unresolved at the end of the year.

3.21 The Council's Key Sources of Estimation Uncertainty in the 2019/20 Statement of Accounts can be seen at **Appendix D** and in summary below:

	2019/20 Accounts				
	Financial Assumptions £	Other Assumptions %	Balance Sheet £	Sensitivity	
				Pensions +/- 0.5%	Other +/- 1.0%
Business Rate Appeals (LDC 40%)					
(all preceptors provision £3.1m)					
2005 and 2010 Lists	£39,150,000	3.84%	(£511,000)		£194,000
2017 List	£87,031,087	2.10%	(£729,000)		£190,000
Pension Liability					
Increase in real discount rate		2.30%		£10,513,000	
Increase in Salary Rate		2.30%	(£108,874,000)	£1,139,000	
Increase in Pension Rate		1.90%		£9,277,000	
Bad Debt Provisions					
Sundry Debt	£1,582,000	(46.52%)	(£736,000)		(£16,000)
NNDR					
(all preceptors arrears £0.555m)	£224,955	(51.57%)	(£116,000)		(£2,000)
Council Tax					
(all preceptors arrears £2.517m)	£524,872	(28.20%)	(£148,000)		(£5,000)

	Annual Depreciation £	Average Useful Lives	Balance Sheet £	Sensitivity	
				Valuation Changes +/- 1.0%	Useful Lives +/- 1 year
Non-Current Assets					
Other Land & Buildings - current value	£793,000	32	£32,671,000	£327,000	£37,000
Vehicles, Plant & Equipment - historic	£1,071,000	4	£2,285,000	£0	£106,000
Infrastructure Assets - historic	£3,000		£291,000	£0	
Community Assets - historic	£0		£4,071,000	£0	
Surplus Assets - fair value	£0		£1,782,000	£18,000	
Assets under Construction - historic	£0		£334,000	£0	
Investment Properties - fair value	£0		£4,075,000	£41,000	

3.22 These will be updated for 2020/21 as part of the process of completing the Statement of Accounts. It is anticipated that Covid-19 will have had a significant impact on all of these estimates, and as such our sensitivity analysis will need to be wider than the **0.5%/1%** used in **Appendix D**.

3.23 The data from **Appendix D** for 2019/20 has been remodelled using a wider range of sensitivity and assuming no other changes for 2020/21:

	2020/21 Accounts				
	Sensitivity		Level of Estimation Uncertainty	Source of Estimates	Assurance
	Pensions +/- 1.0%	Other +/- 10.0%			
Business Rate Appeals					
2005 and 2010 Lists		£1,656,000	Material	VOA information	Benchmarking
2017 List		£3,483,000			
Pension Liability					
Increase in real discount rate	£21,026,000				Pensions Committee and Senior Pensions Officers
Increase in Salary Rate	£2,278,000		Material	Expert - Actuary	
Increase in Pension Rate	£18,554,000				
Bad Debt Provisions					
Sundry Debt		(£158,000)		Corporate Debt Team	Finance Team
NNDR		(£22,000)			
Council Tax		(£52,000)			

	Sensitivity				
	Valuation Changes +/- 10.0%	Useful Lives +/- 1 year	Level of Estimation Uncertainty	Source of Estimates	Assurance
Non-Current Assets					
Other Land & Buildings	£3,267,000	£37,000	Material	Expert - Valuer	Estates Team
Vehicles, Plant & Equipment	£0	£106,000			
Infrastructure Assets	£0				
Community Assets	£0				
Surplus Assets	£178,000			Expert - Valuer	Estates Team
Assets under Construction	£0				
Investment Properties	£408,000			Expert - Valuer	Estates Team

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. The Committee may also consider either not to approve the Council's approach to both Critical Accounting Judgements and the Key Areas of Estimation Uncertainty.
Consultation	Consultation has taken place with the Council's external auditors, Grant Thornton.
Financial Implications	The adoption of relevant Accounting Policies, Critical Accounting Judgements and Key Area of Estimation Uncertainty 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 2020-24.
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 is 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, Critical Accounting Judgments and Key Area of Estimation Uncertainty 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.	Likelihood : Green Impact : Green Severity of Risk : Green
B	The judgments in the Key Area of Estimation Uncertainty are not seen as sufficient or may need to change as a result of more up to date information post Committee.	We will review our judgements as the Statement of Accounts is produced and up until the external auditors sign off the Accounts. These will be updated as appropriate.	Likelihood : Green Impact : Green Severity of Risk : Green

Background documents

Code of Practice on Local Authority Accounting 2020/21.

Relevant web links

APPENDIX A

Accounting Policies in the Code of Practice for Local Authorities 2020/21

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 2020/21 financial year and its position at the year end of 31 March 2021. 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 2020/21 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 property, plant and equipment 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 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 2020/21 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 2021. 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.

On derecognition, the associated balance in the Financial Instruments Revaluation Reserve FIRR representing the accumulated fair values gain or loss is recycled to Finance Income and Expenditure.

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.

On derecognition, the financial asset is derecognised with any surplus or deficit recognised financing and investment income in the CIES. A statutory mitigation is in place until 2023/24 so that unrealised gains and losses on pooled investment funds are taken to the Pooled Investment Fund Adjustment Account instead of the General Fund and so have no impact on revenue resources available to fund service expenditure.

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.

Heritage Assets

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.

<u>Investment Property</u>

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 Council 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 Council 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 service segments in accordance with the Council's arrangements for accountability and financial performance. This means effectively that the cost of the overheads are shown in total within ' A Good Council' in the Comprehensive Income and Expenditure Statement. ~~those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2020/21(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, <u>or</u>

(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.

<u>Valuation</u>

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.

Impairment

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.

Depreciation

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.

Surplus Assets

Surplus Assets are those assets within property, plant and equipment that are not used to supply goods and services and that do not meet the criteria of assets held for sale. These assets are measured at fair value as a current value base and not existing use value.

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.

APPENDIX C

Critical Accounting Judgements

In applying the accounting policies set out in **Note 1**, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts:

1. The Council hosts the Joint Waste Service with Tamworth Borough Council and is responsible for management of the arrangement including the refuse fleet. Each Council is responsible for showing its share of income and expenditure and assets and liabilities within its Financial Statements. In February 2016 the Council procured a new waste fleet using a contract hire arrangement that has been evaluated under IAS 17 as a finance lease. The value of assets procured and the finance lease obligation was **£2,240,000**. A further **£680,000** of assets was added to this during 2016/17. At 31 March 2020 the Net Book Value of the assets was **£587,000** and the value of the finance lease obligation was **£997,000**. The assets of the operation in respect of vehicles, equipment, land and buildings have been assessed as being under the control of Lichfield District Council and are therefore shown on this Authority's Balance Sheet. The Joint Waste Service shares joint income and expenditure based on the ratio of properties in each area and the current ratio is **58.29%** Lichfield and **41.71%** Tamworth.
2. The Council outsourced the management of its leisure centres to Freedom Leisure on 1 February 2018. As part of the contractual arrangements, all leisure centre staff were transferred to Freedom Leisure via TUPE arrangements. Freedom Leisure has been admitted to the Staffordshire County Council pension fund and pension arrangements between Lichfield District Council, Staffordshire County Council and Freedom Leisure are managed using a pass through agreement. This agreement assigns the majority of pension risk to Lichfield District Council. The IAS19 report provided by the actuary excludes the assets and liabilities relating to the transferred staff. As the Council acts as guarantor for the pension commitments of these former employees, an annual assessment is carried out by management of the risk and potential financial consequences should the Council be called to settle these liabilities. For 2019/20, the risk has been assessed at low, no greater than **1%** or **£79,212**. This is despite Covid-19 as the Council has agreed to support Freedom for the first three months of 2020/21.
3. The assumptions around the outcome of appeals against NNDR valuations (either received to date or expected to be received in future years) represent a material and critical judgement applied to the accounts. The appeals provision is empirically derived from past experience of both the 2005 and 2010 Lists as well as appeals determinations so far as made against the 2017 List. A **1%** variance in the determined appeals provision would alter the net locally retained income to the Council by **£194,000**. Due to the technical adjustment relating to the Collection Fund Adjustment Account, this would not result in any change to the level of General Reserves.

APPENDIX D

Key Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance bringing into doubt the useful lives assigned to assets. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors. As at the valuation date, the Valuer has considered that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported as being subject to 'material valuation estimation uncertainty' Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.	<u>Specialised Assets</u> These valuations were undertaken and submitted shortly before the 31 March 2020 and the Valuer took the decision to leave them unchanged following consideration of the inputs and the information that was available at the date of the valuation. There are three main components to a DRC valuation which are build costs, depreciation adopted and land values. The Valuer reviewed the information published by BCIS in terms of build cost information and noted that there had only been a nominal adjustment, less than 1%, between the information relied upon and that which was available on 31 March 2020 and concluded that this was not sufficient to merit amendment of the valuations provided. In terms of the land values, it is assumed that in each case a suitable site is acquired at least expense for the modern equivalent asset and as a result the land values are kept relatively low and at present there is no evidence to suggest that they should be amended. <u>Investment Properties</u> On income producing assets there is information to suggest downwards pressure on values as there is a risk that some tenants will not be able to meet rent liabilities within the lockdown period or possibly for lengthier periods. This primarily applies to the retail assets which are subject to a number of tenancies. In the valuation of these assets the Valuer has reflected this risk by assuming voids of up to 6 months and moving yields out by 50 basis points. <u>Useful Lives</u> If the useful life of assets is reduced depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by **£37,000** and for vehicles, plant and equipment would increase by **£106,000** for every year that useful lives had to be reduced. (Note that depreciation charges are indicative figures to show the value of the resources consumed by the Council in the year in using assets. The charges do not impact on the council tax that the Council raises to cover its expenditure.)
Business Rate Appeals	Local Authorities from 1 April 2013 are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier years in proportion to their share (40% for this Council). A provision has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the Valuation Office Agency (VOA) ratings	The key assumptions we have made in the calculation of the provision for Business Rate Appeals using Rateable Values (RV) are summarised below for both the 2005 and 2010 lists: <u>2005 List</u> Average success rate **45.23%** Average reduction in RV **10.36%**

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2020. **2005 and 2010 Lists** Total Rateable Value of Appeals Outstanding at 31 March 2020 (2005 and 2010 lists) = **£39.15m** Total provision = **£3.10m** (£1.278m for 2005 and 2010 lists and £1.822m for 2017 list.) Provision as a % of Appeals Outstanding (2005 and 2010 lists) = **3.26%** **2017 List** The Check, Challenge and Appeal process has resulted in much lower appeals being submitted related to the 2017 list. Therefore a hybrid approach has been adopted for this list. This calculation uses historical appeals information. The 2005 and 2010 lists showed that by the end of the third year 98% of the opening Rateable Value had received an appeal. At 31/03/2020 this would be £87.031m (98% of £88.816m). This value is multiplied by the allowance in the Business Rates Multiplier of 2.1p to calculate the appeals provision of **£1.822m.**	Combined **4.70%** 2010 List Average success rate **29.15%** Average reduction in RV **10.45%** Combined **3.03%** **Overall (2005 and 2010 lists)** Average success rate **36.98%** Average reduction in RV **10.39%** Combined **3.84%** Each **1%** increase in the overall Combined figure would increase the provision by **£485,000**. The Council's share of this increase at **40%** would be **£194,000**. **2017 List** Each **1%** increase in the overall Combined figure would increase the provision by **£475,000**. The Council's share of this increase at **40%** would be **£190,000**. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's directly held property is reported on the basis of material valuation uncertainty. The Council's share of these assets is £564,000.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a **0.5%** decrease in the real discount rate assumption would result in an increase in the pension liability of **£10,513,000**; a **0.5%** increase in the salary rate would amount to **£1,139,000**; and a **0.5%** increase in the pension rate would amount to **£9,277,000.**
Sundry Income and Housing Benefit Overpayment Debtors	At 31 March 2020, the Council had a balance of sundry income debtors of **£1,582,000**. A review of arrears suggested that an impairment of doubtful debts of **47% (£736,000)** was appropriate and an additional allowance of **13%** (based on the impact on GDP of previous similar pandemics) was added to reflect the added risk presented by the pandemic. However, in the current economic climate it is not certain that such an allowance would be sufficient.	The element of debtors not covered by the Bad Debt Provision is **£846,000 (53%)**. Each **1%** increase in the percentages used to calculate the Bad Debt provision would increase the provision by **£16,000.**

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.

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INTERNAL AUDIT PLAN, CHARTER & PROTOCOL 2021/22

Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Date:	25 March 2021
Agenda Item:	5
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

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To consider the 2021/22 proposed internal audit plan, charter and protocol (**Appendix 1, 2 and 3**).

2. Recommendations

2.1 To consider the 2021/22 proposed internal audit plan, charter and protocol (**Appendix 1, 2 and 3**).

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.

3.3 The proposed audit plan is detailed at **Appendix 1**.

3.4 During 2020/21, a trial 12 month extension to the shared agreement with Tamworth Borough Council to include Lichfield District Council's sharing of their auditor resources took place. Despite the pandemic and challenges with remote working, the trial has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine performance reports). It is therefore suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of future direction of the service.

3.5 The Audit Charter is detailed at **Appendix 2** and Protocol at **Appendix 3**. Minor changes, largely to account for role titles have been made and are highlighted on the documents.

Alternative Options	1. None required.
Consultation	1. Leadership team, which includes the Council's Section 151 Officer, have been consulted.
Financial Implications	1. The plan remains deliverable within budget.
Contribution to the Delivery of the Strategic Plan	1. Delivery of the audit plan contributes to all aspects of the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. No equality, diversity or human rights implications arising from this report.
Crime & Safety Issues	1. None arising.
Environmental Impact	1. A risk based review looking at the Council's preparation to de-carbonisation / climate change agenda is included on the draft plan.
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.	Likelihood - Green Impact – Yellow Severity of 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.	Likelihood - Green Impact – Yellow Severity of Risk – Green (tolerable)
C			
D			
E			

Background documents

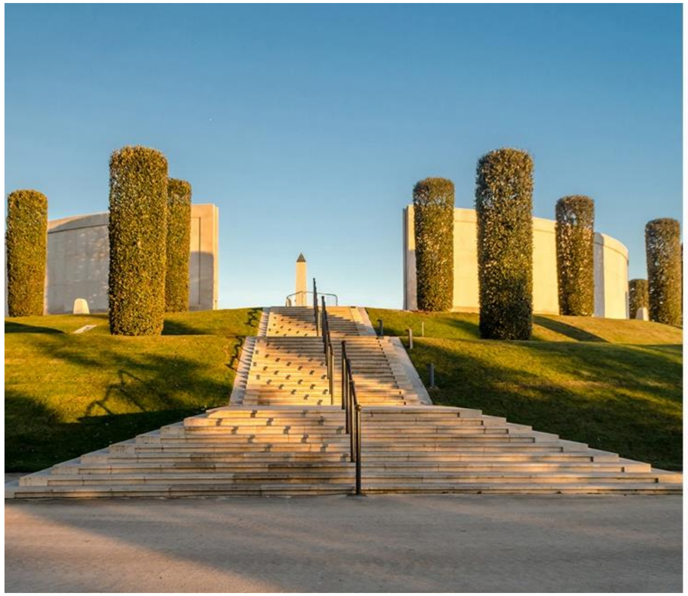
Accounts and Audit Regulations 2015
Financial Procedures Rules

Relevant web links

Appendix 1

Lichfield district council

Internal Audit
Draft Audit Plan, Charter & Protocol 2021/22
March 2021



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 endorsement 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.

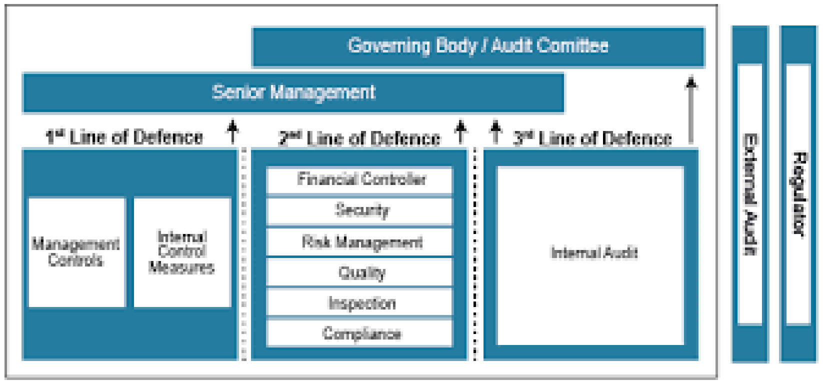
The fundamental role of Internal Audit is to provide senior management and the Audit Committee with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled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

02 Audit Planning

As part of the planning for 2021/22, the proposed plan of work has been developed based on:

- **Key risks and priorities** – the plan for 2021/22 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.
- **Coronavirus –** Due to the significant impact of the pandemic on the Council's operations, as was the case for the 2020/21 plan, an allocation of time to address assurance needs as and when they arise, in response to the pandemic and subsequent recovery has been included. This will be kept under review and any proposed changes reported to the
- **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** – in 2020/21 a benchmarking exercise was undertaken to compare the level of audit resources with similar council's. Audit days were reduced from 447 days (2019/20) to 286 days (2020/21) to be competitive with peers. The Council's risk profile has not changed year this year, is not unusual (a reasonable assurance opinion has been given for the last 3 years) and the level of fraud risk has remained low. For these reasons the 2021/22 draft plan resources have not materially changed.
- **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 Shared 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.

04 Joint Working

During 2020/21, a trial 12 month extension to the shared agreement with Tamworth Borough Council to include the use of LDC's auditor resources took place. Despite the pandemic and challenges with remote working, the trial has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine performance reports). It is therefore suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of future direction of the service.

05 Charter

The refreshed charter is at **Appendix 2.** Changes, which have been highlighted, are mainly to account for the replacement of the Head of Audit & Governance with an Audit Manager.

06 Protocol

The refreshed protocol is at **Appendix 3** and changes are as above.

APPENDIX 01: DETAILED AUDIT PLAN 2021/22

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Debtors	Risk based review covering the adequacy and effectiveness of controls around debtors, including account set up / amendment, invoice requisitioning, invoicing, fees and charges and recovery. To accommodate the change to the new Civica Financials Live financial system.	10	40	Q3
	Assets & Inventory	Risk based review covering the adequacy and effectiveness of controls regarding the Council's assets and inventory.	10		Q2
	Grants	Risk based review of the adequacy of controls surrounding grants awarded to the authority. To include compliance with accountable body agreements including arrangements for third party compliance where appropriate.	10		Q2
	Council Tax	Risk based review of council tax including assurance over the adequacy of controls around the maintenance of systems recording taxable properties and liable persons, billing, discounts and reliefs, collection, refunds and write offs.	10		Q4
Strategic & Operational Risks	Strategic Risk Register	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks.	25	105	Q1-Q4
	Pandemic risks	'Flash' audits of dynamic risks arising from the Council's pandemic response. To include continuity and recovery arrangements, business grants, productivity and performance.	20		Q1-Q4

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
	Replacement Financial System	Programme assurance based review of the replacement financial system programme to Civica Financials Live. To include income management system replacement. Programme assurance includes programme planning, governance structure and controls, delivery, change management, RAIDD management (Risk, Action, Issue, Decision, Dependency), testing and reporting.	10		Q1-Q2
	Payroll transition	Assurance based review on the effectiveness of payroll controls following the transition from Stafford Borough Council to Stoke City Council, the new payroll agency provider.	10		Q3
	Development Control (Planning)	Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee management. Audit carried forward from 2020/21.	10		Q2
	Shared Services	Risk based review of controls in place for effective delivery of shared services e.g. waste management, legal services, building control, internal audit.	10		Q1
	Elections	Risk based review of elections processes and in particular financial returns.	10		Q2
	Climate Change	Risk based review looking at the Council's preparation to de-carbonisation / climate change agenda.	10		Q3
ICT	TBC	TBC	20	20	Q2 – Q4
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement	5		Q3
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	5		Q3

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
	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	121	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 & Member Standards Committee.	30		Q1-Q4
	Ad hoc / Consultancy / Contingency	Contingency allocation to be utilised upon agreement of the Chief Finance Officer.	10		Q1-Q4
	Risk Management	Supporting the Council's risk management systems.	15		Q1-Q4
	Election Support	Support to May 2021 Elections	13		Q1
				286	

APPENDIX 2

Lichfield district council

INTERNAL AUDIT CHARTER

March 2021

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
15/03/2021	1.02.06	Annual review

Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Diane Tilley	Leadership Team Approval	16.3.21
Anthony Thomas	Head of Finance & Procurement	16.3.21
Rebecca Neill	Shared Head of Internal Audit	16.3.21

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
Audit Manager	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 (Audit Manager)

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

APPENDIX 3

Lichfield district council

INTERNAL AUDIT PROTOCOL

March 2021

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
15/03/2021	1.01.06	Annual review

Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Diane Tilley	Leadership Team Approval	16.3.21
Anthony Thomas	Head of Finance & Procurement	16.3.21
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LICHFIELD DISTRICT COUNCIL

INTERNAL AUDIT PROTOCOL

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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 is produced based on a risk assessment detailing the audit areas to be reviewed during the year. The audit plan, including timings, will be discussed and agreed with the relevant Head of Service 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.

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

Where agreement cannot be reached, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant 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. 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 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 action plan, 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	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable Assurance	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	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	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.

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.

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 Principal Auditor / Audit Manager.

Following conclusion of the 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.

The action plan 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 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 (copy to relevant Head of Service)

Where management responses are not forthcoming after a further week, despite reminders having been issued, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant 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.

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 Principal Auditor.

The 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 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 Leader of the Council
- the External Auditor

The Audit Manager 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, 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 risk register. This is the responsibility of the risk register owner.

Follow Up Reviews

Follow up reviews will be carried out by audit staff for all no and limited overall assurance reviews and for all high priority audit recommendations. The purpose of this work is to establish the implementation of key recommendations. 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 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.

Where it is found that the recommendations in overall no and limited assurance reports have not been satisfactorily implemented or there are high priority recommendations still outstanding this will be pursued at a more senior level including raising the matter with the relevant Head of Service, Chief Executive or the S151 Officer, and the Audit & Member Standards Committee.

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

The Audit Manager 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 annual plan 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:

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 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 shall prepare a written report to those charged with governance timed to support the Annual Governance Statement.

The Audit Manager'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 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.
- Receive final internal audit report.
- Ensure recommendations are implemented in line with the agreed action plan.
- Complete and return the Customer Satisfaction Questionnaire to the Principal Auditor 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 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 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 considers to be significant, i.e. frauds, irregularities or fundamental problems in their service area.
- Attend annual audit meeting with the Audit Manager, 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 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

- 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 the Audit Manager 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..
- Receive progress reports, which highlight variations from the agreed annual plan 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 Manager.
- 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 the Audit Manager 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 follow up.
- Receive progress reports, which highlight variations from the agreed annual plan 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.
- 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 copies of all final internal audit reports.

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 high priority recommendations at follow up or where a no or limited overall assurance opinion review has not been assessed as being substantial or reasonable on follow up..
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Head of Service / 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.

GDPR Audit - Follow Up

Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Date:	25 March 2021
Agenda Item:	6
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

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To provide an update to the Committee on the GDPR limited assurance internal audit report.

2. Recommendations

2.1 To note the update.

3. Background

3.1 An audit of GDPR was completed during 2018/19. The initial audit opinion was limited assurance which means - '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'.

3.2 As the assurance opinion on this audit was limited, a follow up audit undertaken. The first follow up was undertaken in May 2020 and the audit opinion remained limited assurance, concluding that of the 14 actions within the original report, 4 had been implemented and 10 were outstanding. The Audit & Member Standards Committee have since been tracking progress on this follow up and have requested regular updates.

3.3 A second follow up audit has now been undertaken and the full follow up audit report was issued to accountable officers and members of the Committee on 15 March 2021. In summary:

- Of the 10 outstanding actions (6 high and 4 medium), 8 were found to have been fully implemented and the remaining 2 partially implemented.
- The revised audit opinion based on the progress noted above and assuming there has been no significant break down in controls in areas previously audited as part of this audit, is that <u>substantial assurance</u> is given.
- The 2 (1 high, 1 medium) remaining partially implemented recommendations are expected to be fully implemented by the ICT Manager by 30 April 2021 and comprise:

  - Completion of the process for obtaining a full record of GDPR compliant contracts / agreements with all 3rd party data processors. This was a high priority action.

- Following the completion of the information audit and identification of the processes that rely on consent as the lawful basis for processing data - that a full list of GDPR compliant consents is in place. This was a medium priority action.

3.4 These partially implemented recommendations will be tracked through to their full implementation and progress reported through the routine internal audit progress updates.

Alternative Options	1. None required.
Consultation	1. Leadership team, which includes the Council's Section 151 Officer, have been consulted.
Financial Implications	1. None noted.
Contribution to the Delivery of the Strategic Plan	1. Having sound arrangements for GDPR contributes to the strategic plan objective of being 'a good Council'.
Equality, Diversity and Human Rights Implications	1. No equality, diversity or human rights implications arising from this report.
Crime & Safety Issues	1. None arising.
Environmental Impact	1. None arising.
GDPR/Privacy Impact Assessment	1. This update is to provide assurance to the Committee of the progress made on improving the Council's internal control environment in respect of GDPR.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Significant / high risk GDPR control weaknesses fail and go un-addressed.	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk, including GDPR. The audit follow up process ensures that where significant weaknesses in the control environment are identified, these are followed through until they are addressed / resolved.	Likelihood - Green Impact – Yellow Severity of Risk – Green (tolerable)
B			
C			
D			

Background documents Internal Audit Progress Reports Minutes of the Audit & Member Standards Committee

Relevant web links

Annual Report on Exceptions and Exemptions (Waivers) to Procedure Rules

Report of Cabinet Member for Regulatory, Housing & Health

Date:	25 March 2021
Agenda Item:	**7**
Contact Officer:	Christie Tims
Tel Number:	01543 308002
Email:	christie.tims@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	**n/a**

Lichfield district council

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To report on the number of Exceptions and Exemptions (Waivers) made in financial year 2019/20 under the Contract Procedure Rules.

2. Recommendations

2.1 The Committee is asked to review the Exceptions (Waivers) set out within **APPENDIX A.**

3. Background

3.1 Compliance with our Procedure Rules is essential in order to demonstrate sound financial management of the Council's affairs. There are, however, occasions when an Exception or Exemption (Waiver) may be granted.

3.2 The process for granting an Exception or Exemption (Waiver) forms part of the approved Contract Procedure Rules, which are currently being reviewed following the appointment of an in-house procurement team.

3.3 However, significant levels of Exception or Exemption (Waiver), without justifiable reasons, could potentially give rise to concerns that the Council was not achieving value for money. To ensure financial standards and probity in this process of granting Exceptions and Exemptions (Waivers) are maintained, an annual report is produced for Audit Committee. 2019/20 reporting has been delayed due to Covid 19 response and 2020/21 reporting will feature much earlier in the work programme for the committee in the next municipal year to redress this.

3.4 The Contract Procedure Rules allow us to agree a contract without keeping to one or more of the procurement rules we have agreed to follow in our Constitution. We may grant an exception under conditions set out below. We cannot grant an exception if to do so would mean breaking any laws on public procurement or other relevant legislation, only where this sits outside of the additional measures we have built into our governance processes.

3.5 The Chief Executive may grant an exception to these rules using a request for waiver form which is then kept and reported on by the monitoring officer on an annual basis. An application for an exception will not be granted without good reason. A lack of time caused by poor forward planning is not a good reason and so will not be allowed.

3.6 Exceptions may be granted in the following circumstances:

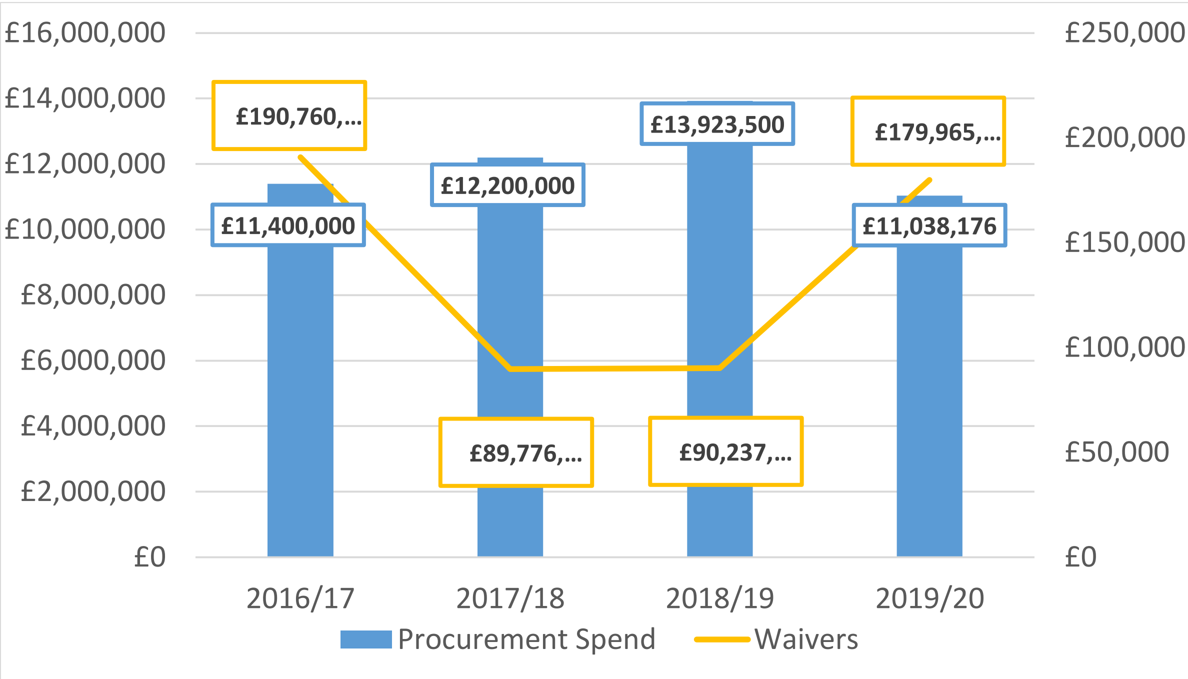
- If there is an unexpected emergency involving danger to life or health or serious damage to property, if the goods, work or services are needed more urgently than would be possible if we followed the tender or quotation procedure;
- If, for technical reasons, the goods, work or services can be bought from only one provider and this can be justified;

- If the proposed contract is an extension or change to the scope of an existing contract with a value (including the change or extension) that is below the relevant EU limit. However, this does not apply if the existing contract provides for an extension;
- If we can achieve value for money by allowing a supplier to complete work already partially undertaken that would cost significantly more to place with an alternative provider;
- If we can achieve value for money by buying used vehicles, equipment or materials;
- To deliver our aims to develop the local economy, without breaking public procurement rules; and
- If we have followed our procurement processes but not yielded sufficient response from the market.

3.7 When reviewing Exceptions and Exemptions (Waivers) granted during 2018/19 members of the committee requested inclusion of the rationale in the reported log, which has been added in to the appendix.

3.8 The level of Exceptions and Exemptions (Waivers) granted during 2019/20 totalling approximately £179,965.25 (as advice to support the purchase of Imperial Retail Park was not used, otherwise the total would have been £278,465.25) is shown in summary at **APPENDIX A** of this report.

3.9 Trend analysis for the last 4 years is:



Alternative Options	None. Members are being informed of the use of waivers already granted to enable timely procurement as specified in our Contract Procedure Rules.

Consultation	Any issues are considered at the time the Waiver is granted.

Financial Implications	The Council procured goods and services during 2019/20 with a total value of £ **£11,038,176.23**. The majority of procurement activity **98.3%** (**99.3%** in 2017/18 and **99.3%** in 2018/19) has been procured using routes where a Head of Service or Manager has determined that they are compliant with the requirements of the Contract Procedure Rules.

Contribution to the Delivery of the Strategic Plan	The Procedure Rules are a significant contributor towards the demonstration of best value, and ensuring competition in the award of contracts. Any significant level of expenditure not within the Procedure Rules could potentially be construed as not having demonstrated best value.

Equality, Diversity and Human Rights Implications	Any issues are considered at the time the Waiver is granted.
Crime & Safety Issues	Any issues are considered at the time the Waiver is granted.
Environmental Impact	Any issues are considered at the time the Waiver is granted.

GDPR/Privacy Impact Assessment	None however we do ask all contractors to comply with the Data Protection Act 2018.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Adherence to Contract Procedure Rules (CPR's) is needed to show achievement of value for money and the sound use of public funds. Non adherence, without justifiable reasons, potentially exposes the Council to inefficient use of public funds and accusations of improper actions.	All officers have been trained in procurement and our CPR's. Specialist procurement advice is temporarily available in-house, whilst a permanent solution is being sought. Internal Audit Review.	Green – Tolerable Likelihood – Green Impact - Yellow
B	Breach of EU procurement regulations	All officers have been trained in procurement. Specialist procurement advice is temporarily available in-house, whilst a permanent solution is being sought.	Yellow – Material Likelihood – Green Impact - Red

Background documents

PART 4 - RULES OF PROCEDURE (lichfielddc.gov.uk) - Financial Procedure Rules & Contract Procedure Rules

Relevant web links

FOR DECISION/FOR INFORMATION (lichfielddc.gov.uk)

APPENDIX A

Title of Contract/ Framework Agreement	Description of Goods/Works/ Services	Name of Proposed Provider, if known	Duration and Value of Contract	Rationale for Waiver	Signed off date
Training for Company Directors	Accredited training for company directors	Institute of Directors (IoD)	1 year - Up to £25k	Qualification Required – only provider.	01.05.2019
Merchant Acquiring Contracts	Review/benchmark the current arrangements and provide advice on the options available for securing cost savings	Focus on Banking	One-off - £3,500	One-off limited providers	01.07.2019
Lichfield District Local Plan – Compliance with Habitat Regulations	To prepare Appropriate Assessments for each stage in the preparation and submission of the Local Plan and any subsequent modifications.	Footprint Ecology	September 2019 - February 2022. Value: £9,893 (will be divided up per stage of Local Plan Review)	Continuation of previous contract, awareness of issues and therefore best value.	20.08.2019
Provision of temporary toilets Birmingham Road site	Provision of toilets and servicing for 3 year period from December 2019	Healthmatic Ltd	3 years from Dec 2019	Only respondent to quotes who could provide the additional servicing needs.	05.09.2019
Development Support – Community Lottery	Development support 1. Member and Officer on-boarding 2. Delivery of your business case and business plan 3. Delivery of a cabinet/council report to secure authorisation 4. Completion of your licence application 5. Good cause on-boarding and launch of ticket sales	Aylesbury Borough Council	£5k one-off	Limited providers insufficient alternative quotes.	20.08.2019

APPENDIX A

Title of Contract/ Framework Agreement	Description of Goods/Works/ Services	Name of Proposed Provider, if known	Duration and Value of Contract	Rationale for Waiver	Signed off date
Lichfield District Local Plan – legal instruction	Counsel review of draft plan and supporting evidence base to inform May 2020 consultation.	QC No. 5 Chambers	LDC's Local Plan Review is to be submitted for Examination by 2021. Value: £10,000	Continuation of prior advice and awareness of issues. Therefore best value.	29.10.2019
Local Government Accounting Technical Support Service	Technical support for Local Authority Accounting	Ichabod Industries Limited	One Year £1,350	Limited providers insufficient alternative quotes.	02.12.2019
Advise and Support in Purchasing Imperial Retail Park	Advising Agent for Property Acquisition	Jones Valerio Ltd	Works £4,511,413 + Goods & Services £181,302	Agent that bought forward the opportunity. Timescales did not allow for further procurement work to undertake due diligence of potential acquisition.	13.12.2019
Private Water Supply Analysis	Statutory analysis of 5 private water supplies (rechargeable to the customer)	ALS Environmental Ltd Torrington Avenue Coventry CV4 9GU	£3602.25 + VAT	No frameworks available and limited market providers - interim solution to meet statutory obligations whilst sourcing contract.	11.12.2019

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Grant Thornton

Lichfield District Council audit plan

Year ending 31 March 2021

Lichfield District Council

25th March 2021

Agenda Item 8

Contents

Your key Grant Thornton team members are:

Avtar Sohal
Key Audit Partner
T 0121 232 5420
E avtar.s.sohal@uk.gt.com

David Rowley
Audit Manager
T 0121 232 5225
E david.m.rowley@uk.gt.com

Ellie West
Associate
T 0212 232 5279
E ellie.j.west@uk.gt.com

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

Key matters

Factors	Our response

Council developments

The Council is forecasting another robust financial performance in year, and looking to the coming year with a balanced budget and required savings plans successfully identified and planned out. Per the most up to date financial data available the Council are forecasting a £100k underspend against an approved revenue budget of £12.05m, with a projected gain to reserves of around £300k.

Management have amended their approach to their capital strategy, narrowing the focus of the Council to focus on managing the impact of the pandemic in the short term. On a longer timeline, the Council has plans to develop land in the area for provision of social housing via its subsidiary and is also undertaking a project to implement a new finance IT system in the coming financial year.

Impact of Covid 19 pandemic

The Council's finance team, management and Cabinet colleagues have adapted well to remote working arrangements. Processes and controls have been adapted where required to ensure that base level day to day financial management of the Council's finances is maintained. Internal Audit continue to deliver their program, ensuring that assurance is provided to the governance function. Finances remain robust, with a level of reserves well above the minimum level identified as part of the Medium Term Financial Planning exercise.

However, 20/21 has presented a number of unusual challenges to the Council, particularly around responding to the pandemic, ensuring that funding is appropriately treated and that the significant volume of government assistance grants, placed under the control of the Council, are appropriately administered. The Council will also need to adapt to new ways of working, and potentially permanent amendments to revenue streams as the pandemic impacts a wide range of areas from shopping and travel habits, to working locations and use of leisure facilities.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is currently under discussion with management and our regulators and will be confirmed at a later date.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of controls (see page 5). The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lichfield District Council ('the Council') for those charged with governance.

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.

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:

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

The audit of the financial statements does not relieve management or the Audit & Member Standards of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council'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:

- Management override of controls
- 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 £0.84m (PY £0.85m) for the Council, which equates to approximately 2% of your prior year gross expenditure. 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 £0.04m (PY £0.04m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risk of significant weakness:

- Governance and informed decision making

Audit logistics

Our interim visit will take place in March and our final visit will take place over the summer. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our audit fee is currently under discussion with management and our regulators. The scale fee for the audit is £35,412, however we anticipate that this will be uplifted as a result of additional Value for Money requirements, changes to auditing standards in relation to estimates and operational challenges stemming from remote working conditions during the pandemic. For reference, our prior period fee was £47,412.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

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. As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because: - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure 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 management override of controls is present in all entities. The Council 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 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 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.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (PPE)	The Council revalues its land and buildings on a rolling five-yearly basis and surplus assets on an annual basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £36m in the prior period) and the sensitivity of this estimate to changes in key assumptions. . We have 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 Council's balance sheet
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund liability is considered a significant estimate due to the size of the numbers involved (£32.7m as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatements.	We will: Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; 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 our the Council's pension fund valuation; Assess the accuracy and completeness of the information provided by the Council 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.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment property	The Council revalues its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4m as at 31 March 2020) and the sensitivity of this estimate to changes is key assumptions. Management engage the services of a valuer to estimate the current value as at the balance sheet date. We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	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 Council's balance sheet.

Accounting estimates and related disclosures

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The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Member Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Homelessness
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management via our Informing the Risk Assessment report which we use as a vehicle for updating our understanding of the Council's controls framework. We will present this as a separate report and ask that the Committee review and approve the report to ensure we have a consistent understanding of the Council's arrangements.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

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 our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - 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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 12).

Materiality

The concept of materiality

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

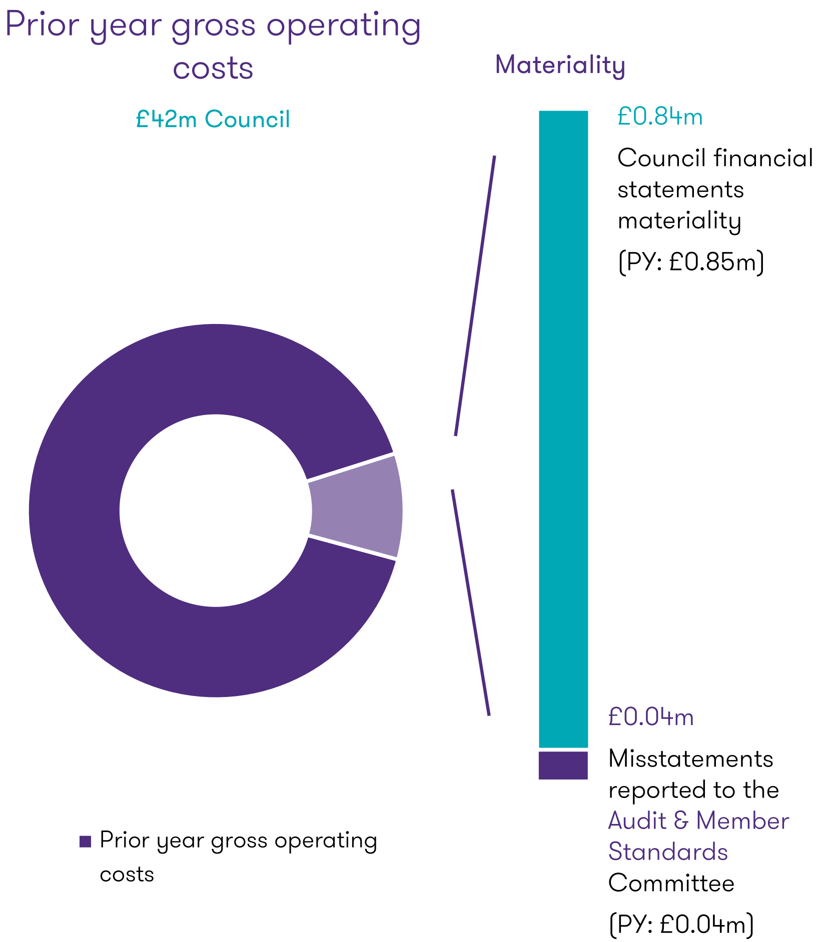
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.84m (PY £0.85m), which equates to approximately 2% of your prior period gross expenditure. 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 officer remuneration owing to the sensitive nature of these disclosures.

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 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 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.04m (PY £0.04m).

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 & Member Standards Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

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

Governance & Informed Decision Making

We note from initial planning discussions with the Council that an issue has arisen in relation to a decision to dispose of public land prior to the appropriate consultation taking place.

In response to this we will engage with management, Internal Audit, those charged with governance and other key stakeholders to determine the root cause of this issue (with due regard to the Council's internal investigation, to ensure no duplication of work), and undertake a review of the control environment and governance structure to determine whether this represents evidence of a pervasive issue or an isolated incident.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Audit logistics and team

Planning and risk assessment

Interim audit
March 2021

Audit committee
March 2021

Interim Progress Report

Year end audit
TBC

Audit committee
TBC (est Sept 2021)

Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit committee
TBC (est Nov 2021)

Auditor's Annual Report

Avtar Sohal, Key Audit Partner

Avtar leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the CCGs.

David Rowley, Audit Manager

As the engagement manager, David is responsible for overseeing delivery of our service and managing the audit process in respect of the Council. He will be in hand to answer any queries, whilst ensuring an efficient audit process.

Ellie West, Audit Incharge

Ellie will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. She will oversee the day to day running of the audit and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

Audit fees

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In 2018, PSAA awarded a contract of audit for Lichfield District Council to begin with effect from 2018/19. The fee agreed in the contract was 35,412x. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 12, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increase to the scale fee of £18,500 (52%). This is in line with increases we are proposing at all our local audits.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21 is still in discussion with management and regulators – for reference, we set out 2019/20 and 2018/19 fees below.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Lichfield District Council Audit	£39,912	£47,612	TBC
Total audit fees (excluding VAT)	£39,912	£47,612	TBC

Assumptions

In setting the above fees, we have assumed that the Council 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 (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and 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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. 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 Council's policy on the allotment of non-audit work to your auditors. 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.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Subsidy Claim	15,000	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 £15,000 in comparison to the total fee for the audit of £53,912 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.
Total	15,000		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

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Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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Agenda Item 9

Informing the audit risk assessment for Lichfield District Council 2020/21

Avtar Sohal
Director
T +44 (0)121 232 5420
E avtar.s.sohal@uk.gt.com

Agenda Item 9

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Lichfield District Council's external auditors and Lichfield District Council's Audit and Member Standards 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 and Member Standards Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Member Standards 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 and Member Standards Committee and supports the Audit and Member Standards 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 Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Lichfield District Council's management. We have also submitted to the Committee alongside this report, a separate Appendix providing detailed responses from management to our questions around the various processes and controls in place to calculate estimates. The Audit and Member Standards Committee should consider whether these responses in both documents are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The ongoing impact of the COVID-19 pandemic including the impact on income streams, additional costs and the level of provisions and reserves.
2. Have you considered the appropriateness of the accounting policies adopted by Lichfield District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed each year and a report is presented to Audit and Member Standards Committee for them the review and approve the policies. No events or transactions for 2020/21 to make the Council change or adopt new policies.
3. Is there any use of financial instruments, including derivatives?	The Council does have financial instruments related to financial assets (investments including strategic investments) and financial liabilities (loans, trade creditors and finance leases). The Council does not use derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	There may be a potential compensation claim against the Council in relation to the proposed disposal of an area of public open space – an independent investigation has been commissioned

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Not aware of any changes that will not be already being considered by the external valuer as part of the rolling programme of valuations.
6. Are you aware of any guarantee contracts?	The only ones we are aware of are included in the notes to the accounts related to pension guarantees for the Lichfield Garrick and Freedom Leisure.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	There may be a potential compensation claim against the Council in relation to the proposed disposal of an area of public open space – an independent investigation has been commissioned .
8. Other than in house solicitors, can you provide details of those solicitors utilised by Lichfield District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has an agreement with South Staffordshire District Council for legal services. There is no in house solicitor although a number of solicitors are utilised on a case by case basis based on the specific project and specific expertise. This includes projects that include the Lichfield Garrick and leisure centres.
9. Have any of the Lichfield District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not aware of any.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	There may be a potential compensation claim against the Council in relation to the proposed disposal of an area of public open space – an independent investigation has been commissioned

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Fraud

Issue

Matters in relation to fraud

ISA (UK) 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 and Member Standards Committee and management. Management, with the oversight of the Audit and Member Standards 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 and Member Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Lichfield District Council's external 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 and Member Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Member Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Member Standards 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 Lichfield District Council's management.

Fraud risk assessment

Question	Management response
1. Have Lichfield District Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Lichfield District Council's risk management processes link to financial reporting?	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 2020/21. The maintenance of an internal control environment that is subject to a risk based internal audit assurance programme that is monitored by the Audit and Member Standards Committee. The Council utilises the Best Practice three lines of assurance model for risk management: w
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Th ere are some areas th • Council Tax • Single person discount • Income streams such as sales, fees and charges. • Cyber related fraud. • Procurement. Lichfield District Council is a participant in the National Fraud Initiative and review matches as they become available (NFI data sets and app check).

Key to 3 lines of assurance:	
1st Line	Day to day operations of internal control systems
2nd Line	Management oversight and monitoring controls
3rd Line	Independent assurance from Internal / external audit and other independent assurance sources (e.g. HSE, BFI)

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Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lichfield District Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	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 2020/21.
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Lichfield District Council where fraud is more likely to occur?	None. None. None.
5. What processes do Lichfield District Council have in place to identify and respond to risks of fraud?	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. The Council has recruited a new in house procurement Team. The Council at Audit and Member Standards Committee on 12 November 2020 recently approved an updated Counter Fraud Framework. That included the following: • The Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes • Confidential Reporting (Whistleblowing) Policy • Anti-Money Laundering Policy • Prevention of the Facilitation of Tax Evasion policy

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Fraud risk assessment

Question	Management response
6. How do you assess the overall control environment for Lichfield District Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? 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)?	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 undertake a risk based assurance plan with individual audit reports providing an overall level of assurance together with prioritised actions to address weaknesses identified. Internal Audit also provide an overall opinion on their work on the internal control environment. All systems and processes include risk based internal controls such as segregation of duties and management oversight. Not aware of any area where there is a potential of override of controls or inappropriate influence over the financial reporting process.
7. Are there any areas where there is potential for misreporting?	Not aware of any area where there is a potential for misreporting..

Fraud risk assessment

Question	Management response
8. How do Lichfield District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	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. 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. None.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	The Council does not directly deliver services in some of the traditionally higher risk areas such as Council Housing and Leisure Centre operation. The higher risk areas are now likely to be related to digital/cyber related areas. The Internal Audit assurance plan is risk based and therefore will reflect the prevailing risk and control environment.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	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. 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

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Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit and Member Standards Committee? How does the Audit and Member Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	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.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	We are not aware of any whistleblowing reports since1 April 2010
13. Have any reports been made under the Bribery Act?	We are not aware of any reports under the Bribery Act since 1 April 2020.

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Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 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 and Member Standards Committee, is responsible for ensuring that Lichfield District 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 and Member Standards 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 non-compliance 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
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Lichfield District Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	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.
2. How is the Audit and Member Standards 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.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	No. There is currently an independent investigation for the disposal of an area of Public Open Space.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	See 3 above.

Impact of laws and regulations

Question	Management response
5. What arrangements does Lichfield District Council have in place to identify, evaluate and account for litigation or claims?	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.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None

Related Parties

Issue

Matters in relation to Related Parties

Lichfield District Council are required to 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 Lichfield District Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority 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 [type of body], 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 [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 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 Parties

Question	Management response
1. Have their been any changes in the related parties disclosed in Lichfield District Council's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and Lichfield District Council • whether Lichfield District Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	No changes are expected to those related parties disclosed in the 2019/20 financial statements.
2. What controls does Lichfield District 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
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The Constitution and the related Governance process where a key decision limit of £75k has been established.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The Constitution and the related Governance process.

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Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Member Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Member Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Business Rate Appeals, Pension Liability, Bad Debt Provisions and Non Current Assets (including Investment Properties). Financial Instruments related to loans and investments are relatively 'vanilla'.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	They are identified as part of normal financial reporting and are considered as part of the Statement of Accounts process. A specific area of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions. The Report to Audit and Member Standards Committee on 25 March 2021 identifies the accounting estimates together with the impact of changes in key assumptions.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	We utilise a number of external (treasury management advisors, actuary and valuer) and internal experts (corporate debt and estates team) to inform these estimates.
4. How do management review the outcomes of previous accounting estimates?	We are reliant the Pension Fund Audit and internal experts to provide assurance on the outcomes of previous accounting estimates in material areas such as the pension fund and property valuations.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	The only potential change is to utilise external support to evaluate the impact on the Business Rate Appeals provision of potential material Change of Circumstances in higher risk valuation areas such as retail.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	It is a judgement based on materiality, skills set required and capacity/information available.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	It is judgement based primarily on materiality but will also take into account changes in the regulatory/accounting environment and best practice.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	We are reliant on assurance from the Pensions Team at the Administering Authority and the internal Estates Team at the Council.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	A specific area of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions. The Report to Audit and Member Standards Committee on 25 March 2021 identifies the accounting estimates together with the impact of changes in key assumptions.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	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. The impact on the Business Rate Appeals provision of potential material Change of Circumstances in higher risk valuation areas such as retail will need to be considered.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A 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.
12. How is the Audit and Member Standards 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. A specific area of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions. The Report to Audit and Member Standards Committee on 25 March 2021 identifies the accounting estimates together with the impact of changes in key assumptions.

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Appendix to agenda item 9

The Valuation of Land & Buildings

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks currently identified – the external valuer (Gerald Eve) has been provided with the valuation schedule that currently covers 96% of Property, Plant and Equipment and 100% of surplus assets. Last year the valuer included a material valuation estimation uncertainty clause although the approach to be applied in 2020/21 is not yet determined.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the external valuer and related RICS guidance and CIPFA requirements together with the internal estates team. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the external valuer and related RICS guidance together with the internal estates team. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the external valuer and related RICS guidance together with the internal estates team. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The external valuer through a framework agreement.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We utilise the knowledge and expertise of the internal estates team.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place through the contract and instructions provided to the external valuer. We utilise the knowledge and expertise of the internal estates team.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We rely on the expertise of the external valuer and related RICS guidance together with the internal estates team.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We have included a sensitivity analysis in the report to Audit and Member Standards based on +/- 10% valuation change.

Depreciation/Useful Economic Lives of Buildings

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The useful lives of buildings and related plant and equipment are provided by the external valuer and standalone vehicles, plant and equipment are provided by the asset owner. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The useful lives of buildings are provided by the external valuer and plant and equipment by the asset owner. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The useful lives of buildings are provided by the external valuer and plant and equipment by the asset owner. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The external valuer provides useful lives for buildings. Framework agreement.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We utilise the knowledge and expertise of the internal estates team for property assets.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place through the contract and instructions provided to the external valuer for the material element related to property. We utilise the knowledge and expertise of the internal estates team.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	For property which is the material element, we rely on the expertise of the external valuer and related RICS guidance together with the internal estates team.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We have included a sensitivity analysis in the report to Audit and Member Standards based on +/- 1 year change in useful lives.

The Valuation of Investment Property

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks currently identified – the external valuer (Gerald Eve) has been provided with the valuation schedule that covers 100% of Investment Properties. Last year the valuer included a material valuation estimation uncertainty clause although indications are that this will not be necessary for 2020/21.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the external valuer and related RICS guidance and CIPFA requirements together with the internal estates team. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the external valuer and related RICS guidance together with the internal estates team. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the external valuer and related RICS guidance together with the internal estates team. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The external valuer through a framework agreement.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We utilise the knowledge and expertise of the internal estates team.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place through the contract and instructions provided to the external valuer. We utilise the knowledge and expertise of the internal estates team.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We rely on the expertise of the external valuer and related RICS guidance together with the internal estates team.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We have included a sensitivity analysis in the report to Audit and Member Standards based on +/- 10% valuation change.

Valuation of the Pension Liability

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks currently identified
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the Staffordshire Pension Fund's appointed Actuary and related guidance, together with SCC's Pensions Committee and Senior Pensions Officers No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the Pension Fund Actuary and related guidance together with SCC' pension's team. As above No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	We rely on the expertise of the Pension Fund actuary and related guidance together with SCC' pension's team. As above No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The Actuary was appointed through a procurement exercise undertaken by the Staffordshire Pension Fund.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We rely on the knowledge and expertise of the Actuary, the SCC Pensions Committee, Senior Pensions Officers plusthe external audit opinion from previous financial years.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place. We utilise the knowledge and expertise of SCC's Pensions Committee and Senior Pensions Officers
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We rely on the expertise of the actuary and related guidance together with SCC's Pension's team. As above
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We have included a sensitivity analysis in the report to Audit and Member Standards based on +/- 1% change in • Real discount rate. • Salary rate. • Pension rate

Bad Debt Provision (general)

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The COVID-19 pandemic has increased the uncertainty in this area and in 2019/20 we included an extra 13% allowance. We may add a further allowance (to be determined) to bad debt provisions.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We utilise the corporate debt team who collect all debt within the Council and the finance team who have detailed knowledge related some of the debts. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We utilise the corporate debt team. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	We utilise the corporate debt team. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	We utilise the corporate debt team.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Finance undertake the calculation based on the information provided by the corporate debt team. Internal Audit undertake systems/risk based audits.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes - Finance undertake the calculation based on the information provided by the corporate debt team. Internal Audit undertake systems/risk based audits.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We utilise the corporate debt team who collect all debt within the Council and the finance team who have detailed knowledge related some of the debts.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We have included a sensitivity analysis in the report to Audit and Member Standards based on +/- 10% change in average impairment allowance.

Fair value of Financial Instruments

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We utilise Arlingclose for information on fair values. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We utilise Arlingclose for information on fair values. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	We utilise Arlingclose for information on fair values. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Arlingclose procured through a competitive tender.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The contract with Arlingclose, internal audit of Treasury Management and the expertise of the Finance Team.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes – Internal Audit of Treasury Management.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We utilise Arlingclose for information on fair values.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The Council has a relatively 'vanilla' debt and investment portfolios and therefore the level of risk is very low.

Business Rate Appeals

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The COVID-19 pandemic has introduced a potential risk around a material change in circumstances for certain business rate valuations such as retail. We plan to review the estimates utilised.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	We use historic average rates of success and average valuation reductions for each class of property. The COVID-19 pandemic has introduced a potential risk around a material change in circumstances for certain business rate valuations such as retail.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	We use historic average rates of success and average valuation reductions for each class of property. The COVID-19 pandemic has introduced a potential risk around a material change in circumstances for certain business rate valuations such as retail.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	We utilise the VOA appeals information. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	We may consider using our financial planning experts to provide additional assurance – we procured them directly.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	At present the calculation is undertaken by the Finance Team using factual historic information.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes – external audit review as part of the statement of accounts and returns are submitted to government.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We utilise historic factual information from the 2005 and 2010 valuation lists provided by the VOA.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We have included a sensitivity analysis in the report to Audit and Member Standards based on +/- 10% change in average appeals allowance.

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2020/21

Item	22 July 2020	7 October 2020	12 November 2020	3 February 2021	25 March 2021	27 April 2021	Deferred Reason
FINANCE							
Annual Governance Statement	√					√	
Annual Treasury Management Report	√						
Mid-Year Treasury Management Report			√				
Accounting Policies and Estimation Uncertainty		√			√		
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
CIPFA Financial Management Code			√				
Redmond Review Report				√			
INTERNAL AUDIT							
Annual Report for Internal Audit (including year-end Internal Audit progress report)	√					√	
Internal Audit Plan, Charter & Protocol 2020/21	√				√		
Quality Assurance and Improvement Programme /Public Sector Internal Audit Standards	√						
Risk Management Update	√		√	√		√	
GDPR					√		
Counter Fraud Update Report including Counter Fraud & Corruption/Whistleblowing/Anti-Money Laundering/ Prevention of Tax Evasion Policies			√*				*Deferred from April

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2020/21

Item	22 July 2020	7 October 2020	12 November 2020	3 February 2021	25 March 2021	27 April 2021	Deferred Reason
LEGAL AND DEMOCRATIC							
Chair of the Audit Committee’s Annual Report to Council	√					√	
Annual report on Exceptions and Exemptions to Procedure Rules 2019/20					√		Annual Review
Overview of the Council’s Constitution in respect of Contract Procedure Rules						√	Annual Review
GDPR/Data Protection Policy			√				
Annual Report of the Monitoring Officer - Complaints							Annual Report due **July** (Allows for full year reporting)
RIPA reports policy and monitoring	√						Annual Report
Review of the Effectiveness of the Audit & Member Standards Committee						√	
Independent External Investigation					√		
Terms of Reference							
EXTERNAL AUDITOR							
Audit Findings Report for Lichfield District Council 2019/2020		√					
The Annual Audit letter for Lichfield District Council				√			
Certification Work for Lichfield District Council for Year Ended 31 March 2020				√			

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2020/21

Item	22 July 2020	7 October 2020	12 November 2020	3 February 2021	25 March 2021	27 April 2021	Deferred Reason
Audit Plan (including Planned Audit Fee 2020/21)					√		
Informing the Audit Risk Assessment - Lichfield District Council	√				√		
Audit Plan for Lichfield District Council 2019/20	√						
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2021				√		√	
Annual Audit Fee Letter	√						
Private meeting with the Internal and External Auditors, Grant Thornton						√	

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