The Audit Findings for Lichfield District Council

Year ended 31 March 2021

Lichfield District Council

September 2021

Contents

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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.

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

Avtar Sohal

Name : Avtar Sohal
For Grant Thornton UK LLP
Date : 14 September 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lichfield District Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed remotely between June and September. Our findings are summarised on pages 5 to 19. Per Appendix C, there are no audit adjustments resulting from this year’s audit work.. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (a draft copy of which is included within the Committee papers) or material changes to the financial statements, subject to the outstanding matters outlined on page 8 of this report.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of governance and informed decision making, as reported to you in our audit plan in March 2021. We are yet to finalize our procedures on this area of VFM work, however, the progress we have made are set our in the value for money arrangements section of this report. We will note any significant findings or recommendations in our Auditor's Annual Report.

Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Audi tor's report in November 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Member Standards Committee meeting on 22 September 2021, as detailed in committee item X. These outstanding items include:

- receipt of management representation letter;
- review of the final set of financial statements;
- receipt of one investment confirmation;
- receipt of IAS 19 assurance statement from the auditors of Staffordshire Pension Fund; and
- completion of audit work in relation to PPE and the LGPS liability (currently pending internal quality review).

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted within our audit plan presented to the Audit & Member Standards Committee on 24 March 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access to financial systems, video calling, verification of the completeness and accuracy of information provided remotely produced by the entity and similar challenges relating to pandemic working conditions.

Avtar Sohal

Avtar Sohal for Grant Thornton UK LLP

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 24 March 2021 .

We detail in the adjacent table our determination of materiality for Lichfield District Council

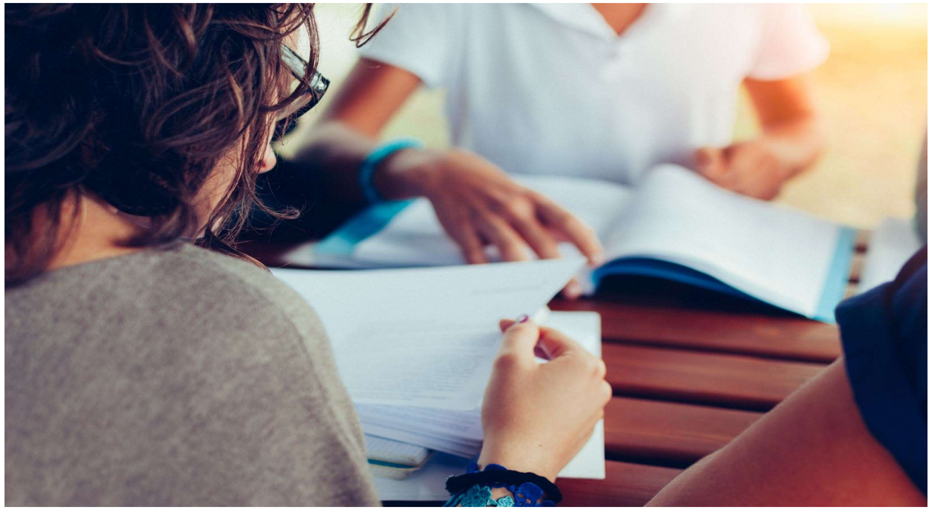
	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£0.840m	We determined that total expenditure in year was the most appropriate benchmark. Our risk assessment led us to set materiality at approximately 2% of prior year gross expenditure. We did not identify a requirement to change this upon receipt of draft financial statements.
Performance materiality	£0.630m	Based on the internal control environment at the Council we determined that 75% of headline materiality would be an appropriate benchmark.
Trivial matters	£0.042m	We decided that matters below 5% of materiality were trivial.
Materiality for senor officer remuneration	£0.025m	We identified senior management remuneration as a sensitive item and set a lower materiality of £25,000 for testing these items.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override 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 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 the course of business as a significant risk of material misstatement.	We have: - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our audit work has not identified any issues in this area. We are satisfied that there is no evidence of material management override of control or bias.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition (rebutted) Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated sue to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there s 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.	At the planning stage, 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 could 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. We have kept our risk assessment under continual review during the course of the audit but have not noted any circumstances which would suggest a requirement to update our conclusion. Therefore we do not consider this to be a significant risk for Lichfield District Council.
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 (£33.7m in the draft financial statements)	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Written 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; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Tested revaluations made during the year to see if they had been input correctly into the Council's balance sheet Our audit work on the valuation of land and buildings remains in progress, with resolution of some queries raised pending internal quality review. However, our audit work to date has not identified any significant reporting issues.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of 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 net liability is considered a significant estimate due to the size of the numbers involved (£41.5m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where the client's consulting actuary has indicated that a 0.5% change in either of these two assumptions would have approximately £14m effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • updated 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 evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested 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; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • requested assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We are awaiting to receive the IAS19 assurance letters from the auditors of Staffordshire Pension Fund before we can complete our testing on valuation of the pension fund net liability. However, the audit work completed to date has not highlighted any issues in respect of the valuation of the pension fund net liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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 (£3.95m as at 31 March 2021 per the draft financial statements) and the sensitivity of this estimate to changes in 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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written 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; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's balance sheet. Our audit work on the valuation of investment property remains in progress, with resolution of some queries raised pending internal quality review. However, our audit work to date has not identified any significant reporting issues.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £37.7m	The population of £37.7m is made up of Land and Buildings in use by the Council (£32.6m), Surplus Assets (£1.1m) and Investment Properties (£4m). Of these, some are specialised assets requiring valuation at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at either existing use value (EUV) or based on other criteria, such as gross internal area (GIA). The Council has engaged an external valuer (with support from its in house team) to complete the valuation of properties as at 31 March 2021 as part of a rolling program of valuations to ensure the balance of asset not valued in a given year is not material (£600k in 20/21).) The Council's Investment Property portfolio is valued in its entirety on an annual basis with reference to the Fair Value of individual assets.	We have: - evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - evaluated the competence, capabilities and objectivity of the valuation expert; - discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met; - challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and - tested revaluations made during the year to see if they had been input correctly into the Council's asset register. Our audit work on the valuation of land and buildings and Investment Property remains in progress, with resolution of some queries raised pending internal quality review. However, our audit work to date has not identified any significant reporting issues.	TBC
Provision for NDR appeals - £2.4m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest valuation information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.	We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector. Disclosure of the estimate in the financial statements is considered adequate. There have been no changes to the calculation method this year.	● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £41.55m</td>
<td>The Council's net pension liability at 31 March 2021 is £41.55m. This is in relation to the Council's obligations as a member employer of the Staffordshire Pension Fund, part of the Local Government Pension Scheme. The Council uses Hympans Robertson to provide actuarial valuations of their assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £8.8m increase in the liability during 20/21.</td>
<td>We have

Undertaken an assessment of management's expert;
Reviewed and assessed the actuary's roll forward approach taken;
Used an auditor's expert (PWC) to assess the actuary and assumptions made by the actuary; and reviewed

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.00%</td><td>1.95% to 2.05%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.85%</td><td>2.85% to 2.80%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.25%</td><td>1.00% above RPI-CPI (Pension Increase Rate</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>21.4 years/ 22.5 years</td><td>20.4 – 22.7 years/ 21/8 – 24.3 years</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>24.0 years/ 25.7 years</td><td>23.2 – 24.9 years/ 25.2 – 26.7 years</td><td>●</td></tr>
</table>

Completeness and accuracy of the underlying information used to determine the estimate
The impact of any changes to valuation method
Reasonableness of the Council's share of LPS pension assets.
Reasonableness of increase/decrease in estimate
Adequacy of disclosure of estimate in the financial statements.

</td>
<td>TBC</td>
</tr>
</table>

Assessment

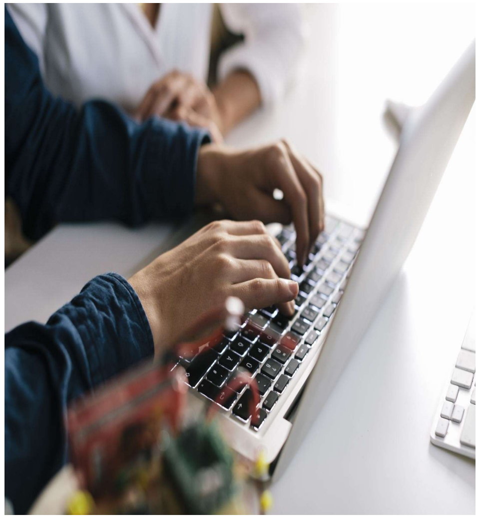
- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Member Standards Committee. We have not been made aware of any instances of material fraud in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit & Member Standards Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send several confirmation requests to the Council's banking partners and investment counterparties. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however one request was not received as at the report date – we await confirmation of this balance (£2m) prior to sign off of the accounts.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

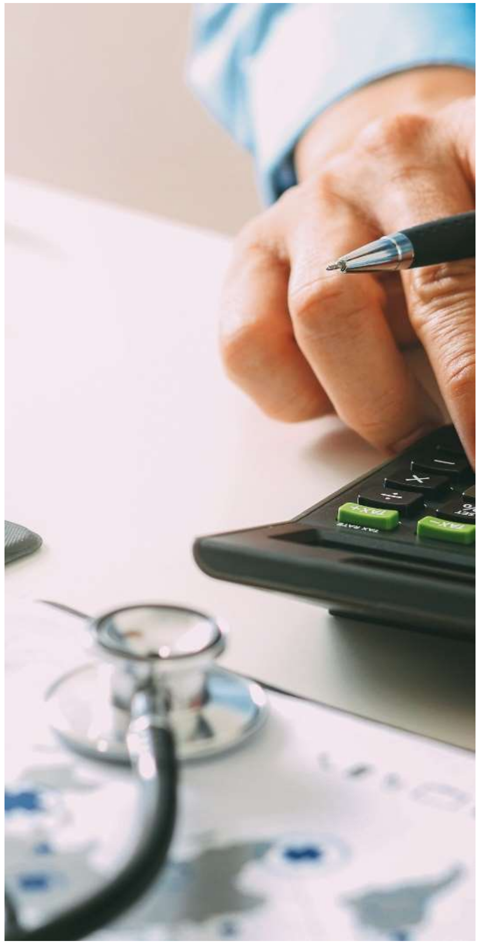
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (comprising the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect (a draft copy of the opinion is included within the Committee papers)
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The NAO sets a threshold within its group instructions below which detailed procedures are not required. As in previous years, the Council is below the threshold and therefore we are not required to carry out detailed audit work over the WGA return.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Lichfield District Council in the audit report, as detailed in Appendix E as a result of the incomplete Value for Money work (please note, current regulations allow for a period of three months after the closure of the financial statements audit to complete work on the Value for Money conclusion.) and to complete the submission of the WGA return, which has been delayed by the government this year.

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 30 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness	Work performed to date
Governance and Informed Decision Marking – We noted in our audit plan there was an issue in relation to a decision to dispose public land prior to appropriate consultation taking place.	The Council have used external experts to carry out an investigation in regards to this disposal which identified a number of governance weaknesses. We will consider the governance weaknesses reported in the report and identify any recommendations as part of our reporting on VFM.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified;

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit 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 £57,912 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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

Appendices

A. Action plan – Audit of Financial Statements

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed this recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Low – Best practice	Testing on the Useful Economic Lives (UEL) or plant, equipment and vehicles during the audit identified 47 assets on the balance sheet which were fully depreciated but still in use. IFRS permits bodies to periodically review and extend UELs where assets are deemed likely to stay in use beyond the previously set expected lifetime. Although it is difficult to quantify the impact of this on the Council's financial statements, we estimate that an additional year of depreciation on the impacted assets would alter the depreciation charge in the financial statements by £80k - £100k. However, it should be noted that the overall impact on this to the Council is minimal, given depreciation is a non cash item and does not affect the Council's General Fund. However, it is a potential above trivial impact on a financial statements disclosure and therefore has an effect on users' understanding of the accounts, both in terms of value of asset portfolio and associated costs of ownership. As such, we deem this to be a "best practice" recommendation only.	We recommend that the Council regularly reviews the UEL of assets nearing the end of their useful lives to determine whether that period should be extended, and the associated depreciation charge altered. This would help give a clearer picture of the Council's true financial position. Management response We will build a useful economic life review into our current year end vehicle, plant and equipment verification process with managers. However, our approach has been based on the CIPFA guidance notes in relation to depreciation for depreciated historical cost assets: • Depreciation should be calculated on the same basis as current value depreciation, particularly in relation to the methodology, estimated useful life and any residual value • If estimated useful lives change, the outstanding amount for depreciated historical cost is subsequently depreciated over the new life – there is no prior year adjustment for over or undercharged depreciation • Where depreciation reduced the depreciated historical cost of an asset to zero, perhaps because the useful life was underestimated, there is no need for an adjustment.

Controls

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

B. Follow up of prior year recommendations

Under the auditing standards we are required to report to you on the Council's progress against any audit recommendations made in prior periods. We are pleased to note that there were no recommendations raised during the prior period, This is reflective of the robust control environment in place at the Council.

C. Audit Adjustments

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

Impact of adjusted misstatements, PY unadjusted misstatements and misclassification and disclosure changes.

Our audit work has not uncovered a requirement for any adjusting entries or noted any above trivial unadjusted misstatements. There was an unadjusted misstatement in relation to the LGPS liability in the prior period AFR. However, as this related to an estimate, the impact of this is taken into consideration in the estimate for the following period and therefore there is no ongoing cumulative effect.

Furthermore, aside from a small number of clerical issues which are typical of any accounts preparation process, we note no misclassification or disclosure amendments which we are required to bring to your attention. This is indicative of the robust control environment in place at the Council.

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services (please note, there are no reconciling items between the fees per our audit scoping letter and AFR, and the disclosures at note 33 of the draft financial statements).

Audit fees	**Proposed fee**	**Final fee**
Council Audit	57,912	57,912
Total audit fees (excluding VAT)	£57,912	£57,912

Non-audit fees for other services	**Proposed fee**	**Final fee**
Audit Related Services (HB certification)	15,000	15,000
Total non-audit fees (excluding VAT)	£15,000	£15,000

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