

The Audit Findings for Lichfield District Council

Year ended 31 March 2022

January 2023



Contents



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Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. IT Audit findings report
- E. Fees

Page

- 3
- 5
- 19
- 21
- 22
- 23
- 24
- 36

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 and Member Standards Committee.

Name: Avtar Sohal
For Grant Thornton UK LLP

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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 2022 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 during June-November. Our findings are summarised on pages 7 to 18. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised a recommendation 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 or material changes to the financial statements, subject to the following outstanding matters:

- review of responses to queries in relation to our journals testing;
- review of responses to queries in relation to our disposals sample;
- review of responses to queries in relation to our PPE and investment property samples;
- review of responses to queries in relation to our grant income sample;
- review of responses to queries in relation to our work on employee costs and remuneration disclosures;
- review of responses to our creditors sample;
- receipt and review of evidence in relation to our Collection Fund discount and relief samples;
- updating our post balance sheet events review and enquiries of the legal team, to the date of signing the opinion;
- final senior management quality review processes;
- receipt of signed management representation letter; and
- review of the final approved set of financial statements.

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 was sent to the Chair of the Audit and Member Standards Committee on 20 September 2022. We expect to issue our Auditor's Annual Report by 30 April 2023. 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 have not identified any risks of significant weakness from our work to date. This is an ongoing process and if any risks of significant weakness are identified these will be reported in the 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 Auditor's Report in April 2023, and the Whole of Government Accounts procedures.

Significant Matters

We identified the Council's information technology control environment as a significant matter during the course of our work, as detailed under the 'Implementation of a new ledger system' heading in the 'Financial statements – significant risks' section of our report.

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 and will be discussed with the Audit and Member Standards Committee.

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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you in April.

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. These outstanding items are listed on page 3.

Acknowledgements

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

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.

We have revised the materiality thresholds due to the actual gross expenditure changing significantly from that at the planning stage, resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for the Council.

	Planning amount (£'000)	Final amount (£'000)	Factors considered
Materiality for the financial statements	900	829	Gross expenditure decreased between the prior year and current year due to a reduction in the value of Covid-19 spend. We deem the elevated Covid-19 spend in the prior year to be an exceptional item, and therefore revised our materiality based on the more usual current year gross expenditure.
Performance materiality	675	580	The Council underwent a new ledger implementation during the year, so our performance materiality was reduced to reflect the increased risk internal to the Council.
Trivial matters	45	42	Decrease in line with the reduction in materiality for the financial statements.
Materiality for senior officers' remuneration	TBC	14	This disclosure is likely to be of interest to the public, and therefore we set a lower materiality to detect errors to a higher precision.

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	<p data-bbox="555 536 658 564">We have:</p> <ul data-bbox="555 576 2085 604" style="list-style-type: none"> gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p data-bbox="555 616 1968 644">We have reviewed the Council's material accounting estimates and found them to be reasonable, with further detail on pages 12 to 15.</p> <p data-bbox="555 655 2121 799">We note that the Council has disclosed estimation uncertainties in note 4 for the valuation of PPE and investment property, the business rates appeals provision, the net pension liability, and sundry income and housing benefit overpayment debtors. We do not consider that the items relating to business rates appeals provision and sundry income and housing benefit overpayment debtors meet the definition of material estimation uncertainties and therefore these should be removed to avoid obscuring material information. We do not consider that the disclosures relating to the valuation of PPE and investment property and the net pension liability contain all of the necessary information to meet the requirements of IAS 1.</p> <p data-bbox="555 810 2078 868">From our review of critical judgements in applying accounting policies, the Council has disclosed a critical judgement in relation to the business rates appeals provision. The audit team does not consider this to be a critical judgement made by the Council in applying an accounting policy.</p> <p data-bbox="555 906 1003 935">For April 2021 to September 2021, we have:</p> <ul data-bbox="555 946 1641 1016" style="list-style-type: none"> analysed the journals listing and determined the criteria for selecting high risk unusual journals identified and tested unusual journals made during the year for appropriateness and corroboration <p data-bbox="555 1027 2101 1110">We were unable to evaluate the design effectiveness of management controls over journals as the Council could no longer evidence the processes and controls that were in place for the ledger system that was operating in this period. Please refer to the commentary under the 'IT control deficiencies' heading in the 'new issues and risks' section for more detail.</p> <p data-bbox="555 1165 1435 1193">For October 2021 to March 2022 and the post year-end closedown period, we have:</p> <ul data-bbox="555 1204 2022 1313" style="list-style-type: none"> 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 <p data-bbox="555 1361 1520 1390">Our audit work has not identified any issues in respect of management override of controls.</p> <p data-bbox="555 1401 1993 1458">We did identify an instance of a journal being deleted from the ledger without management's knowledge or approval. Please refer to the commentary under the 'Implementation of a new ledger system' significant risk for more detail.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings and surplus assets

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£36,071k as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.

We have:

- evaluated management's processes and assumptions for the calculation of the estimates, the instructions issued to the valuation expert, 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 valuations were carried out to ensure that the requirements of the Code are met;
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding;
- assessed the instructions issued by the Council to their valuer, the scope of the Council's valuer's work, the Council's valuer's reports and the assumptions that underpin the valuations;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those land and building assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Our audit work in these areas is ongoing but work to date has not identified any issues in respect of valuation of land and buildings assets, surplus assets, or investment property.

Valuation of investment property

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4,153k as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of net pension liability

The Council's pension fund net liability, as reflected in its balance sheet as 'long term liabilities: defined benefit pension', 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 (£24,799k 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. 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 net pension liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (the 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 pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports 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
- obtained assurances from the auditor of the 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's financial statements.

Our work has identified that the actuary's assumption for the salary growth rate is outside of the expected range determined by our auditor's expert. The actuary has used a salary growth rate of 3.6% whereas our expected range is 3.7% - 5.7%. The actuary has included a sensitivity analysis within their report which states that if the salary growth rate were to decrease by 0.1%, there would be a corresponding £276k decrease to the net pension liability. This is also reported in notes 4 and 38 of the financial statements.

Our audit work in this area is ongoing but work to date has not identified any other issues in respect of the net pension liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Implementation of a new ledger system

During the year the Council moved from an Oracle financial ledger to a Civica financial ledger. This required migration of data for the first six months of the financial year from one system to another. There was a risk that the data migrated between the two systems was not accurate or complete, and that the operation of a new ledger system during the financial statements closedown and preparation process may have led to an increased number of errors or delays.

We have:

- tested the processes and controls around the data migration exercise between the two ledgers
- tested the design effectiveness of IT general controls (ITGCs) relating to both the old and new ledgers

As part of our audit procedures to confirm the completeness of the full-year data within the new ledger, we identified an instance of a journal being deleted from the ledger without management's knowledge or approval. This was caused by the ledger provider, Civica, being asked to clear out an erroneous opening balances journal posted by a member of the finance team, which was consequently deleted by Civica rather than being reversed out. Management has investigated this and confirmed this was an isolated incident, with no other similar journals identified. See Appendix A for the action point raised.

Our work on the design effectiveness of ITGCs has identified significant deficiencies in the IT control environment for the new Civica ledger. Our work on the ITGCs of the previous Oracle ledger also identified significant deficiencies. We could not obtain sufficient audit evidence to conclude on the controls around security management in either Civica or Oracle and the controls around batch scheduling in Civica. Please refer to Appendix D for more detail.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

As part of our IT Audit we assessed the design effectiveness of IT general controls for both the previous ledger system and new ledger system, and we identified significant deficiencies. These are reported in more detail in Appendix D.

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
Valuations of land and buildings and surplus assets £36,071k	<p>Other land and buildings (OLB) comprises £22,571k of specialised assets such as theatres and leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£12,251k) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council engaged external valuer Gerald Eve to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. The Council revalued 96.5% of total OLB assets (by value) during 2021/22.</p> <p>Surplus assets comprises £1,250k of land, which is required to be valued annually at fair value. The Council engaged external valuer Gerald Eve to complete the valuation of surplus assets as at 31 March 2022.</p> <p>Management has considered the year end value for non-valued OLB assets of £1,212k, and the potential change in that value since the last revaluation date. Management's assessment has identified no material change to the assets' value.</p> <p>The total year end valuation of other land and buildings and surplus assets was £36,071k, a net increase of £2,416k from 2020/21 (£33,655k).</p>	<p>Work in this area is ongoing but to date we have:</p> <ul style="list-style-type: none"> not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate. no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. considered the movements in the valuations of individual assets and their consistency with national indices provided by our auditor's expert. reviewed management's assessment as to whether the assets not revalued as at 31 March 2022 are materially correct. not identified any material errors within the disclosures in the financial statements. 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

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

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of investment property £4,153k	<p>Investment property is required to be valued annually at fair value. The Council has engaged external valuer Gerald Eve to complete the valuation of investment properties as at 31 March 2022.</p> <p>The total year end valuation of investment property was £4,153k, a net increase of £205k from 2020/21 (£3,948k).</p>	<p>Work in this area is ongoing but to date we have:</p> <ul style="list-style-type: none"> not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate. no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. considered the movements in the valuations of individual assets and their consistency with national indices provided by our auditor's expert. not identified any material errors within the disclosures in the financial statements. 	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment																								
Valuation of the net pension liability £24,799k	<p>The Council's net pension liability at 31 March 2022 is £24,799k (PY £41,554k) comprising obligations under the Staffordshire Pension Fund Local Government defined benefit pension scheme.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme.</p> <p>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 assumption such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £16,755k net actuarial gain during 2021/22.</p>	<ul style="list-style-type: none"> We have no concerns over the assessment of management's expert. We have no concerns over the assessment of the actuary's approach taken. We have used PwC as auditor's expert to assess assumptions made by the actuary - see table below for the comparison made. The assumption used for the salary growth rate is considered optimistic as it is lower than our auditor's expert's expected range. This leads to a lower net pension liability. The potential effect is assessed as £276k by the actuary and this is not deemed to be material. We did not identify any further issues. No issues were noted in the completeness and accuracy of the underlying information used to determine the estimate. We have confirmed that the Council's share of LGPS pension assets is in line with expectations. We have confirmed that the decrease in the estimate is reasonable. The disclosure of the estimate in the financial statements is considered adequate. <table border="1"> <thead> <tr> <th>Assumption</th><th>Actuary value</th><th>PwC range</th><th>Assessment</th></tr> </thead> <tbody> <tr> <td>Discount rate</td><td>2.70%</td><td>2.70% - 2.75%</td><td>● Appropriate</td></tr> <tr> <td>Pension increase rate</td><td>3.20%</td><td>3.15% - 3.30%</td><td>● Appropriate</td></tr> <tr> <td>Salary growth</td><td>3.60%</td><td>3.70% - 5.70%</td><td>● Optimistic</td></tr> <tr> <td>Life expectancy Males currently aged 45 / 65</td><td>45: 22.2 65: 21.2</td><td>21.4 – 24.3 20.1 – 22.7</td><td>● Appropriate</td></tr> <tr> <td>Life expectancy Females currently aged 45 / 65</td><td>45: 25.5 65: 23.8</td><td>24.8 – 26.7 22.9 – 24.9</td><td>● Appropriate</td></tr> </tbody> </table>	Assumption	Actuary value	PwC range	Assessment	Discount rate	2.70%	2.70% - 2.75%	● Appropriate	Pension increase rate	3.20%	3.15% - 3.30%	● Appropriate	Salary growth	3.60%	3.70% - 5.70%	● Optimistic	Life expectancy Males currently aged 45 / 65	45: 22.2 65: 21.2	21.4 – 24.3 20.1 – 22.7	● Appropriate	Life expectancy Females currently aged 45 / 65	45: 25.5 65: 23.8	24.8 – 26.7 22.9 – 24.9	● Appropriate	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>
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Assessment

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- **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

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Provisions for business rates appeals £2,629k	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses historic data relating to appeals success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.	Our work in this area is ongoing but to date we have: <ul style="list-style-type: none"> not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate. 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. considered the disclosure of the estimate and found it to be adequate. not identified any changes to the overall calculation methodology. 	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 - 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 and Member Standards Committee. We have not been made aware of any incidents 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 presented separately on the agenda by the s151 Officer.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment, and borrowing counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	<p>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.</p> <p>We have identified, as in previous years, that the Council recognises the full value of the finance lease assets and finance lease liabilities associated with the joint waste service on its balance sheet. In line with the Council's accounting policy for 'Joint Operations', the Council should be recognising its own share of the assets and liabilities in line with the ratio of properties in each of the Councils' areas, as it does with its own share of the income and expenditure. As the total net book value of the assets is £nil and the total lease liability is £342k, we are satisfied that this does not lead to a material misstatement in the Council's balance sheet.</p> <p>Management response</p> <p>Following the introduction of IFRS 11 in relation to joint arrangements on 1 January 2014, the accounting treatment of the Joint Waste Service was reassessed as part of the 2015/16 accounts. The conclusion of this review agreed with the External Auditors Grant Thornton was that the assets and liabilities for the vehicles etc. related to the Joint Waste Service would continue to be shown fully in Lichfield District Council's Financial Statements. However Grant Thornton indicated that both Councils would need to include enhanced information for readers of the accounts in the critical judgements, contingent assets and contingent liabilities notes to explain this accounting treatment. This is the approach that continues to be applied in the Statement of Accounts at both Councils.</p>
Audit evidence and explanations / significant difficulties	<p>All information and explanations requested from management were provided.</p> <p>We encountered delays due to resource capacity in both the audit team and finance team, as well as issues obtaining sufficient evidence in relation to our IT work which held up other areas of our work.</p>

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties, • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>No work is required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Lichfield District Council in the audit report, as detailed on page 4, due to incomplete VFM and WGA work.</p>

3. 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 E.

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 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020).

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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fee £	Threats identified	Safeguards
Audit related			
Certification of 2021/22 housing benefit subsidy claim	19,000	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 £19,000 in comparison to the total fee for the audit of £65,512 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)	Our team has no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required for the audit of the financial statements.
		Management	The scope of work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team performs this engagement in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.

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 and 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 our recommendation with management and we will report on progress on this recommendation during the course of the 2022/23 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
High	<p>As part of our audit procedures to confirm the completeness of the full-year data within the new ledger, we identified an instance of a journal being deleted from the ledger without management's knowledge or approval. This was caused by the ledger provider, Civica, being asked to clear out an erroneous opening balances journal posted by a member of the finance team, which was consequently deleted by Civica rather than being reversed out.</p> <p>There is a risk that this may have occurred with other journals which could lead to a misstatement in the financial statements, however management has investigated this and confirmed this was an isolated incident, with no other similar journals identified.</p>	<p>The Council should implement a policy with the service provider that no posted journals should be deleted from the ledger, and that decisions made in relation to the correction of journals by the service provider should be taken in conjunction with Council management.</p> <p>Management response</p> <p>The approach taken to rectify the incorrect implementation journal by Civica was unfortunate and in our view outside of best practice. However, it is our believe that this was a single isolated incident during implementation that was undertaken by a consultant with enhanced access to the system.</p>

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Lichfield District Council's 2020/21 financial statements, which resulted in 1 recommendation being reported in our 2020/21 Audit Findings report. We are pleased to report that management has implemented this recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Testing on the useful economic lives (UELs) of plant, equipment and vehicles during the audit identified 47 assets on the Council's balance sheet which were fully depreciated but still in use.</p> <p>IFRS permits bodies to periodically review and extend UELs where assets are deemed likely to stay in use beyond the previously set expected lifetime, so we recommended that the Council regularly review the UELs of assets nearing the end of their useful lives to determine whether that period should be extended, and the associated depreciation charge altered.</p>	<p>The Council has reassessed the UELs of its fully depreciated assets and appropriately disposed of or "re-lifed" the assets where relevant.</p>

Assessment

- ✓ Action completed
- x Not yet addressed

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

We have not identified any adjusted misstatements for the year ending 31 March 2022.

Misclassification and disclosure changes

The Council has made a number of misclassification and disclosure changes identified during the audit in the final set of financial statements.

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements for the year ending 31 March 2022.

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

D. IT Audit findings report



IT Audit Findings Report Lichfield District Council

Year ended: 31 March 2022

Issued: 21 November 2022

Revised: 06 January 2023

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Contents

Section	Page
1. Executive summary	39
2. Scope and summary of work completed	40
3. Summary of IT audit findings	41
4. Detail of IT audit findings	43

Section 1: Executive summary

01. Executive summary

To support the financial statement audit of Lichfield District Council for year ended 31 March 2022, Grant Thornton has completed a design and implementation review of the IT General Controls (ITGC) for applications identified as relevant to the audit.

This report sets out the summary of findings, scope of the work, the detailed findings and recommendations for control improvements.

We would like to take this opportunity to thank all the staff at Lichfield District Council for their assistance in completing this IT Audit.

Section 2: Scope and summary of work completed

02. Scope and summary of work completed

The objective of this IT audit was to complete an ITGC design and implementation review over Lichfield District Council's IT environment to support the financial statements audit. The following applications were in scope for this audit:

- Civica Financials
- Oracle EBS

We completed the following tasks, as part of this IT Audit:









- Evaluated the design, implementation of security management; change management and technology infrastructure controls.
- Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas.
- Documented the test results and provided evidence of the findings to the IT Department for remediation actions where necessary.

Section 3: Summary of IT audit findings

03. Summary of IT audit findings

Overview of IT audit findings

This section provides an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT system	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks / other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Civica	Detailed ITGC assessment (design effectiveness only)					n/a
Oracle EBS	Detailed ITGC assessment (design effectiveness only)					n/a

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

IT system	Event	Result	Related significant risks / risk / observations
Civica	New system implementation	Deficiencies identified	No


Assessment

-  Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
-  Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
-  Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach / IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing




Section 4: Detail of IT audit findings

04. Detail of IT audit findings


IT general controls assessment findings

Assessment	Issue and risk	Recommendations
	<p>Segregation of duty conflicts within Civica and Oracle EBS</p> <p>Our IT audit procedures identified that there are 15 users with administrative access to Civica that additionally have finance responsibilities. The combination of financial responsibilities with the ability to perform system administrative functions is considered a segregation of duties conflict. These accounts include:</p> <ul style="list-style-type: none"> - 13 users with 'Administrator –Financial Web' role - 2 users with 'Company Full access role' <p>We further identified that administrative access to Oracle EBS (via diagnostic function) had been granted to one user (Senior Accountant) who had finance responsibilities within Solihull MBC. The IT team at Solihull MBC are responsible for managing Oracle EBS for Lichfield DC. We noted that the application instance of Oracle EBS is the same for both councils; they had just created a separate company for Lichfield.</p> <p>We understand that due to the limited number of staff able to develop and implement changes, it has not been considered possible to segregate these roles. However, independent monitoring undertaken to identify and validate any changes made by these users is not completed.</p> <p>Risk</p> <p>A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to</p> <ul style="list-style-type: none"> - unauthorised changes being made to system parameters - creation of unauthorised accounts, - unauthorised updates to their own account privileges - deletion of audit logs or disabling logging mechanisms. 	<p>It is recommended that the:</p> <ul style="list-style-type: none"> •Council adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. •Council should revoke system administration access from users with finance functions and those that are involved in development. •If incompatible business functions are granted to users due to organisational size constraints, the Council should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents etc.] <p>Management response</p> <p>As part of the implementation project to enable enable LDC staff to upload and download files two options were considered:</p> <ul style="list-style-type: none"> •The use of Filezilla. •To utilise administration access in FinancialsLive. <p>It was identified that allowing access to FileZilla would lead to risks associated to maintenance of an additional application for IT as well as staff training and support. Therefore admin access to users to allow the file transfer functionality as a short term solution was implemented.</p> <p>This short term solution has been revisited and the ICT team have developed a solution by creating a script to automate uploads, downloads and transfers. The script will run daily every 10 minutes looking for files to transfer.</p> <p>This means that staff no longer need admin access. Administration access has now been removed from all but two roles in the core finance team who are genuine system administrators.</p>

Assessment

-  Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
-  Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
-  Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

IT general controls assessment findings

Assessment	Issue and risk	Recommendations
	<p>Inadequate control over generic accounts within Civica, Oracle EBS and Oracle database</p> <p>Our IT audit procedures identified that there were no controls in place to proactively monitor the usage of active generic accounts within Civica, Oracle EBS and the Oracle database.</p> <p>Civica Financials Live :</p> <p>The following privileged accounts were active in the period:</p> <ul style="list-style-type: none"> • ‘Fuser’ is a generic user account assigned to Civica for accessing LDC network in order to apply any fixes to the application. User activity logs are not captured and monitored. Furthermore, passwords are not rotated periodically. • ‘Dummy Manager’ is a vendor default account for which we were unable to obtain any evidence around the purpose, usage and oversight. <p>Oracle EBS</p> <p>We identified one generic user account – SYSADMIN, which was active in the audit period. This account has held by a CRM Applications Support user [Craig Hevey] from Solihull MBC to schedule system processes with Oracle EBS. We identified that user activity logs for the account were not monitored during the audit period.</p> <p>Oracle database</p> <p>For 3 out of 4 generic database administrator user accounts used to perform daily administrative tasks, no user activity logs were captured and monitored. Furthermore, passwords for these accounts were not secure or rotated periodically.</p> <p>Risk</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p>	<p>It is recommended that the Council reviews the generic accounts in place and for each account confirm the:</p> <ul style="list-style-type: none"> • Requirement for the account to be active and be assigned privileged access; • Which users have access; and • Controls in place to safeguard the account from misuse. <p>Where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed.</p> <p>Alternately, the Council should implement suitable controls to limit access and monitor the usage of these accounts (i.e., through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded.</p> <p>Management Response</p> <ul style="list-style-type: none"> • The Solihull Oracle database is no longer available to LDC so changes cannot be made to improve security at this time. We do note comments made and would use the guidance for future changes in systems if appropriate. • We have shared the Solihull MBC Oracle Financials system since 1999. The contract assigns system administration responsibility to Solihull MBC. • In previous years we have relied on assurance from Solihull MBC’s External Auditors also Grant Thornton around the IT general controls. • To my knowledge no fundamental weaknesses have been identified in this area since 1999 that have necessitated additional controls or additional assurance. • We undertake periodic reconciliations between the general ledger and all feeder systems such as debtors and payroll to ensure the integrity of financial information utilised in financial reporting. • As part of the project we reconciled all information extracted from Oracle to that loaded into Civica and any variances were reconciled. • We have continued to undertake these periodic reconciliations as part of the control environment in Civica to ensure the integrity of financial information. • The set up in FinancialsLive was guided by Civica and accounts were created as part of the implementation. These accounts have been reviewed to provide alternate accesses in place providing Civica with the ability to support and maintain systems but limit associated risks.

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

Control for which assurance could not be provided

Control Area	Control Name and Description	Reason / Justification
Security Management	<ul style="list-style-type: none"> Access to any application (in line with the starter's roles and responsibilities) is requested and approved by the new starter's line manager (or equivalent person) before being granted by someone from IT. Any change to a user's access rights for the network or any application (in line with their amended roles and responsibilities), is requested and approved by the mover's line manager (or equivalent person) ahead of the effective date before being granted by someone from IT. For leavers, requests to revoke access to any in scope application is initiated by HR and / or their line manager ahead of the actual leave date and access revoked in a timely manner. Administrative privileges (including generic super user access rights) to the network, applications and are restricted to those users requiring this level of access (in line with their roles and responsibilities). Privileged duties do not conflict with other roles. Applications have been configured to generate security event logs (audit logs, user activity logs) which are proactively reviewed to detect any unauthorised access attempts or inappropriate use of the application. 	<p><u>Civica Financials Live</u></p> <p>We were unable to obtain sufficient evidence from Civica for:</p> <ul style="list-style-type: none"> verifying Civica's Domain user account creation date. corroborating that there were no changes to user access rights made during the audit period. verifying whether leaver access was terminated by Civica at the Domain Controller. the list of administrative users from Civica with access to manage the Domain Controller. verifying whether user activity logs are captured and monitored by Civica. <p><u>Management Response</u></p> <ul style="list-style-type: none"> Civica are certified to a number of ISO standards including data being protected and retained by ISO27001. In line with Microsoft standards, the system operates under the windows domain security model for password and user authentication. Further layers have been developed within Civica Financials to enable and limit the use of facilities within the system. Active directory integration for single sign on. The Council has its own processes for the management of users used in single sign on and the Council also controls access within Civica Financials We have continued to undertake periodic reconciliations as part of the control environment in Civica to ensure the integrity of financial information.

Control for which assurance could not be provided

Control Area	Control Name and Description	Reason / Justification
Security Management	<ul style="list-style-type: none"> Administrative privileges (including generic super user access rights) to the network, applications and are restricted to those users requiring this level of access (in line with their roles and responsibilities). Privileged duties do not conflict with other roles. 	<p><u>Oracle EBS</u></p> <ul style="list-style-type: none"> We understood that Solihull's Active Directory setup for controlling remote access to Oracle EBS for Lichfield DC users has been decommissioned. No historical data has been maintained for the Active Directory administrators during the period from 1st April 2022 to 4th October 2022. <p><u>Management Response</u></p> <ul style="list-style-type: none"> We have shared the Solihull MBC Oracle Financials system since 1999. The contract assigns system administration responsibility to Solihull MBC. In previous years we have relied on assurance from Solihull MBC's External Auditors also Grant Thornton around the IT general controls. To my knowledge no fundamental weaknesses have been identified in this area since 1999 that have necessitated additional controls or additional assurance. We undertake periodic reconciliations between the general ledger and all feeder systems such as debtors and payroll to ensure the integrity of financial information utilised in financial reporting.

Control for which assurance could not be provided

Control Area	Control Name and Description	Reason / Justification
Batch Scheduling	<ul style="list-style-type: none"> Operations personnel are automatically alerted to batch job processing exceptions or events that need their intervention, allowing them to address the issues in a timely manner. Changes to batch job processing schedules are requested and approved by business users before being implemented by authorised operations personnel. 	<p><u>Civica Financials Live</u></p> <ul style="list-style-type: none"> No evidence was provided by Civica to assess the controls over monitoring scheduled job failures. <p>Management Response</p> <ul style="list-style-type: none"> There are compensating controls to manage the risk of scheduled job failures including regular monitoring of imports and interfaces such as invoices. Regular control account reconciliations between feeder systems to ensure the integrity and robustness of financial information. Budgetary control and bank reconciliation key controls.

E. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee £	Final fee £
Audit of Council's 2021/22 financial statements	65,512	TBC
Total audit fees (excluding VAT)	65,512	TBC

The audit fee reconciles to the financial statements as follows:

- fee for the 2021/22 audit per financial statements £70,212 (rounded to £70,000)
- less additional fee for the 2019/20 audit approved by PSAA £4,700
- fee for the 2021/22 audit per audit plan £65,512

Non-audit fees for other services	Proposed fee £	Final fee £
Certification of 2021/22 housing benefit subsidy claim	19,000	TBC
Total non-audit fees (excluding VAT)	19,000	TBC

The non-audit fee reconciles to the financial statements with a £1k rounding difference.

