This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
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Audit Findings Report

Lichfield District Council

Year ended 31 March 2023

DRAFT – 13 November 2023

Contents

Your key Grant Thornton team members are:

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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 the Audit and Standards Committee.

Name: Avtar Sohal

For Grant Thornton UK LLP

Date:

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit Lichfield District Council(‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of 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 year-end audit took place between August and November. Our findings are summarised on pages 6 to 23.

We have not identified any adjustments to the financial statements that will result in adjustments to the Council’s Comprehensive Income and Expenditure Statement. We have identified three unadjusted audit adjustments and these are set out in Appendix D.

Our follow up of recommendations from the prior year’s audit are detailed in Appendix C. Management has addressed this issue.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of audit work on the net pension surplus (asset)- receiving the pension fund auditor IAS 19 assurance report and IFRIC14 paper from the actuary;
- Completion of senior remuneration disclosure testing- supporting evidence for the information disclosed in the financial statements;
- Completion of housing benefit expenditure-supporting evidence for the sample selected;
- Completion of testing for property, plant and equipment.
- Finalisation of Manager and Engagement Lead quality control reviews;
- Receipt of the signed management representation letter ; and
- Review of the final 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 financial statements 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 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	Our work on the Council's value for money (VFM) arrangements is complete and we awaiting comments from management. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023. 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 risk at this stage of the work. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report (Section 3).
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 2023.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to ensure that the audit does not fall behind and to issue a timely audit opinion.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. The Council's short term borrowing is £61 000 (2021/22 £61 000) is not material, there is no increasing risk in the current year and this has been well managed.

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 the Audit and 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;
- 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 altered our audit plan, as communicated to you in July 2023.

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 and Standards Committee meeting on 28th of November 2023, as detailed in Appendix I. The outstanding items regards our testing has been shared 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.

Materiality levels remain the same as reported in our audit plan in July 2023

We set out in this table our determination of materiality for Lichfield District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	829,000	We determined materiality for the audit of the Council's financial statements as a whole to be £0.82m in our audit plan, which equated is approximately 2% of actual gross operating costs for the year 2021/22. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	580,300	Performance materiality drives the extent of our testing and this has been set at 70% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment. • Senior financial management and key reporting personnel have remained the same from prior year audit.
Trivial matters	41,500	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Audit and Standards Committee.
Materiality for senior officers remuneration	39,046	In accordance with ISA 320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures off senior officer's remuneration to be an area users of the financial statements will be interested in.

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 the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • obtained the listing of journal entries and other adjustments in the year and reconciled this back to the trial balance to ensure it was complete • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested 28 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 • reviewed material estimates and judgements for evidence of material bias • reviewed the accounting policies adopted by the Council. No intentional misstatements of the Council's reported financial position were identified from our testing of journals. We have reviewed the Council's material accounting estimates and have found these to be reasonable, with further details on pages 11 to 13. Our audit work has not identified any significant issues in respect of management override of controls.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition (rebutted) £46.019m	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lichfield District Council, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for Lichfield District Council. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention. Whilst not a significant risk, as part of our audit work we have undertaken work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.
Risk of fraud related to expenditure recognition PAF Practice Note (Rebutted) £48.456m	Having considered the risk factors set out in Practice Note 10 and the nature of expenditure at the Council, we determined that the risk of fraud arising from expenditure recognition could be rebutted, because: • there is little incentive to manipulate expenditure recognition. • opportunities to manipulate expenditure recognition are very limited • the culture and ethical frameworks of local authorities, including Lichfield District Council, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for Lichfield District Council. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention. Our work has not identified any matters that would indicate our rebuttal was incorrect.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£37.512m as at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions. **Valuation of investment property** This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.838m as at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions. -- The Council revalues its land and buildings on a rolling five-yearly basis and investment properties on an annual basis. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the processes, controls and assumptions put in place by management to ensure that the valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement; • assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your valuations; evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work; • communicated with 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, particularly around obsolescence of assets, build costs, floor areas for DRC assets and yields and rents/market values for non-specialised properties. • tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value Our audit work in these areas did not identify any issues in respect of valuation of land and buildings assets. From our testing on investment property we note that in June 2023 the property management team through their processes identified that there are 2 properties which were omitted from the investment property fixed asset. The total value for the assets is £0.770m. Currently this is recognised on the 22/23 balance sheet but not for the opening balance, as managements view it is not material, therefore an adjustment to opening balances is not required. We are currently consulting with our technical team whether the non adjustment for opening balances is appropriate. We have also considered the key judgements and estimates in relation to the valuation of land and buildings. Our findings can be found on page 12 and 13.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net asset/surplus £5.046m	
The Council's pension fund net asset/surplus, as reflected in its balance sheet as the net defined benefit asset, represents a significant estimate in the financial statements. The pension fund net asset is considered a significant estimate due to the size of the numbers involved (£5.014m 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 surplus. In particular, the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the Defined benefit obligation. 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 surplus as a significant risk.	We have performed the following procedures: • Reviewed the disclosure in the draft financial statements to check they agree to the IAS 19 report prepared by Hymans. No issues were noted; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund IAS 19 disclosure and PWC (auditors expert); and • Reviewed if the assumptions used by Hymans are within the expected ranges as provided by PWC. No issues were noted. We are awaiting IAS 19 assurances from the pension fund auditor (EY) who are the auditors of the Staffordshire Pension Fund. This assurance is required to allow us to complete our work on the Council's net pension asset. We have considered the key judgements and estimates in relation to the pension fund liability. Our findings can be found on page 15.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations (including Surplus Assets)– £38.762m	Other land and buildings comprises £25.554m of specialised assets 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 £11.957m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Gerald Eve LLP their an external RICS qualified valuer to complete the valuation of properties as at 31st March 2023 on a five yearly cyclical basis. Surplus Assets of £1.250m are measured at fair value and are required to be revalued annually. 97% of total assets were revalued during 2022/23. Management has considered the year end value for non-valued OLB assets of £1.176m, and the potential change in that value since the last revaluation date. Management's assessment has identified no material change to the assets' value. The total year end valuation of land and buildings was £38.762m, a net increase of £2.623m from 2021/22 (£36.139m)	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate • 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 • tested on a sample basis revaluations of the Council's land and buildings during the year to ensure they have been input correctly into the Council's asset register and financial statements • considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties. We have satisfied ourselves in respect of the reasonableness of: • the Council's valuations of land and buildings; • of the increase in the estimate; and • the adequacy of the disclosure of estimate in the financial statements.	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
Investment Property Valuation - £4.838m	The Council has engaged an external valuer Gerald Eve LLP their RICS qualified valuer to complete the valuation of properties as at 31st March 2023. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement date). 100% of total assets were revalued during 2022/23. The total year end valuation of investment property was £4.838m, an increase of £0.685m from 2021/22 (£4.153m).	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate • 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 • tested on a sample basis revaluations of the Council's investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements . Management in the period under review identified that there are two assets that were omitted from the fixed asset register. Refer to page 10 • considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties.	To be finalised when the accounting treatment of the omitted assets is finalised.

2. Financial Statements: key judgements and estimates

Significant judgement or estimate

Net pension asset (surplus)– £5.046m

Summary of management's approach

The Council's net pension (asset)/liability at 31 March 2023 is (£5.046m) (PY: £30.268m) The Council is participates as an employer in Staffordshire Local Government Pension Scheme.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £39.130m net actuarial gain during 2022/23.

Audit Comments

We have:

- Undertaken an assessment of management's expert
- Reviewed and assessed the actuary's approach taken and detailed work undertaken to confirm reasonableness of approach
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged the assumptions and calculation methods applied

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.75%	4.75%	
Pension increase rate	2.95%	2.95%-3%	
Salary growth	3.45%	3.5%-5.5%	
Life expectancy – Males currently aged 45/65	21.2/ 21.8 years	19.1-21.5/ 20.4-29.1	
Life expectancy – Females currently aged 45/65	24.7 / 25.7 years	19.1-21.5/ 20.4-29.1	

- From preliminary review, the life expectancy for females is outside our auditors expect rage for current pensioners. Hymans determined ager is 24.7 years whereas PWC's range is 19.1-21.5years. The engagement team has brought this finding to attention of management as the actuary needs to provide an estimate if bringing the actuary value within PWC range if there is material misstatement the female life expectancy is not in the expected range.
- Our conclusion on the testing will be finalised once we have received the report from EY on their testing as mentioned on page 11

Assessment

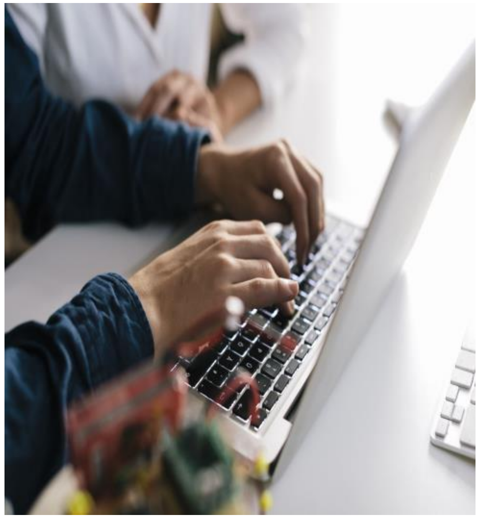
We will conclude once the testing has been completed

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 Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit 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

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send a confirmation request to the bank. This permission was granted and the requests were sent. We have received the confirmation back.
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 with the exception of information requested for investment properties.

2. Financial Statements: other communication requirements

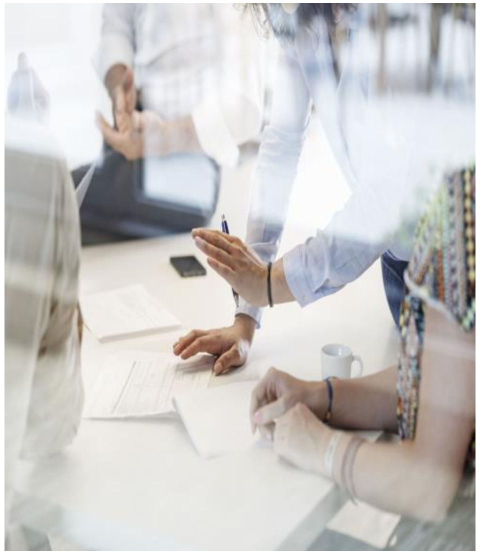
Our responsibility

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 (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. No inconsistencies have been identified
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/es. 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. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We will include the certification of the closure of the 2022/23 audit of Lichfield District Council in the audit report, as our work on VFM is completed and we are waiting for management's comments.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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

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. Our work has not identified any significant risks in arrangements, and this will be reported in Joint Annual Audit Report for 2021/22 and 2022/23.

5. 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 and consider that an objective reasonable and informed third party would take the same view. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix F.

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 Grant Thornton International Transparency report 2023.

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing benefit	31,000	Self-Interest (because this is a recurring fee)	The level of this likely recurring fee taken on its own is not considered a significant threat to independence as we expect it to be lower in comparison to the total fee for the audit 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.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Follow up of prior year recommendations

We identified the following issues in the audit of Lichfield District Council's 2021/22 financial statements, which resulted in 1 recommendation being reported in our 2021/22 Audit Findings report.

We are pleased to report that our testing did not identify any deleted journals.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Journal being deleted in Civica** 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. 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.	In our testing this year we have not identified any deletions of journals.

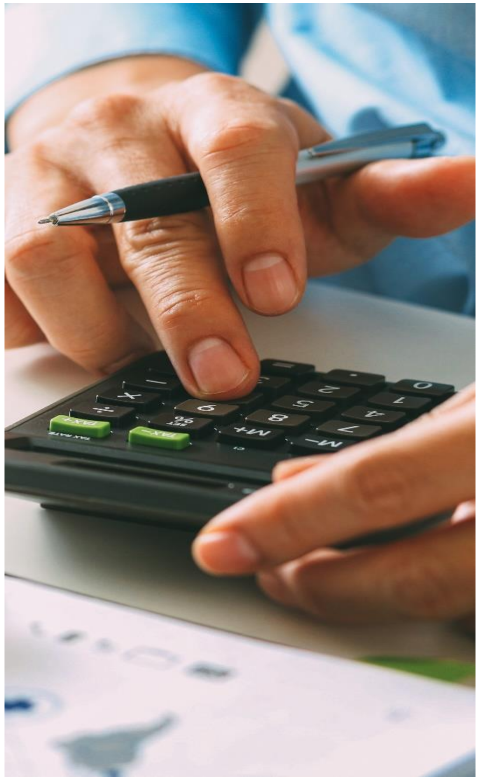
Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments (continued)

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

Our testing has not identified any audit differences that are material, which require adjustment to the reported financial position in the draft statement of accounts (SOA).

Misclassification and disclosure changes

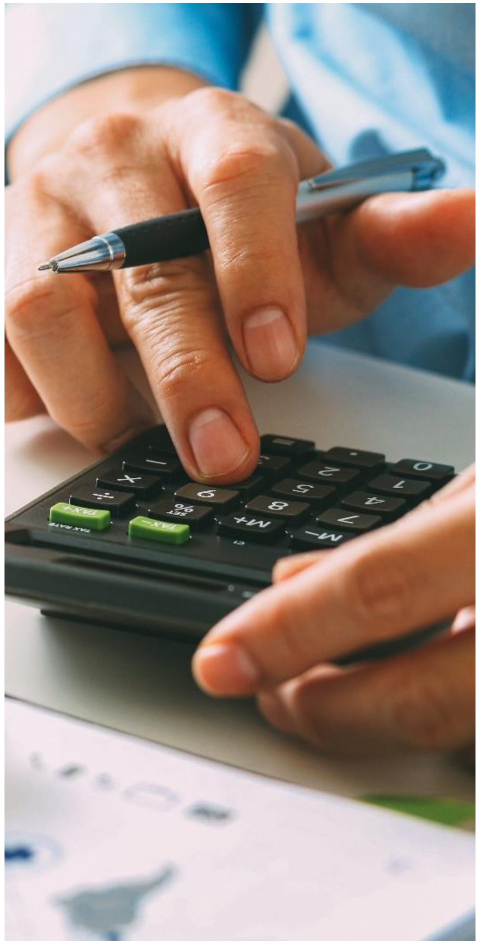
The Council has made a number of misclassification and disclosure changes identified during the audit in the final set of financial statements.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on equity£'000	Reason for not adjusting
Asset revalued to £865,000 but is carried at the unadjusted amount of £1,250,000	-	Credit-NCA -£385	Decrease surplus £0	Debit –Revaluation reserve £385	Impact is considered immaterial.
Overall impact	-	-£385	£0	£385	

C. Audit Adjustments (continued)



Impact of prior year unadjusted misstatements

The engagement team is still assessing if the omission of the two investment properties amounting to £770K will result in a retrospective restatement of prior year. Currently this is recognised on the 22/23 balance sheet but not for the opening balance, as managements view it is not material, therefore an adjustment to opening balances is not required. We are currently consulting with our technical team whether the non-adjustment for opening balances is appropriate.

D. Fees and non-audit services

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

Audit fees	Planned fee	Final Fee
Scale fee for 22/23	£42,913	£42,913
Additional work on Value for Money (VfM) under new NAO Code	£9,000	£9,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000	£3,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£2,100	£2,100
Enhanced audit procedures for Payroll – Change of circumstances	£500	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750	£750
Increased audit requirements of revised ISAs 315/ 240	£3,000	£3,000
Overrun fees in relation to Collection fund testing *	£0	£2,000
IFRIC 14 **	£0	£3,000
Total audit fees (excluding VAT)	**£61,263**	**£66,263**

*The Council was unable to provide a detailed individual transactions listing for council tax and NNDR payers debtors and creditors amounting to £2.42m and £1.58m. We have performed alternative audit procedures on these balances and no issues were noted.

**We have also had to do increased testing in relation to the Pension Asset which was accounted for by the Council, under IFRIC 14 IAS19.

All additional fees are subject to PSAA approval.

Non-audit fees for other services	Proposed fee
Certification of Housing benefit	31,000
Total non-audit fees (excluding VAT)	31,000

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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