



The Audit Findings for Lichfield District Council

Year ended 31 March 2019

July 2019



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Your key Grant Thornton team members are:

Phil Jones

Key Audit Partner

T: 0121 232 5232

E: phil.w.jones@uk.gt.com

Laurelin Griffiths

Manager

T: 0121 232 5363

E: laurelin.h.griffiths@uk.gt.com

David Schofield

Executive

T: 0121 232 5103

E: david.schofield@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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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 2019 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none">• 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. <p>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.</p>	<p>Our audit work was completed on site during June. Our findings are summarised on pages 4 to 13. We have identified adjustments to the financial statements which are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (included as Appendix D), subject to the outstanding matters detailed on the next page.</p> <p>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.</p> <p>Our anticipated audit report opinion will be unqualified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Lichfield District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• 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.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work required under the Code, and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

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 calculations remain the same as reported in our audit plan:

	Amount (£)
Materiality for the financial statements	880,000
Performance materiality	660,000
Trivial matters	44,000
Materiality for disclosures relating to:	100,000
<ul style="list-style-type: none"> • Senior Officer Remuneration; and • Exit Packages. 	

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 or change our audit plan, as communicated to you in February 2019.

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 Member Standards Committee meeting on 24 July 2019, as detailed in Appendix D. These outstanding items include:

- completion of our work on the Council's property revaluations;
- completion of our testing on the Council's employee remuneration and housing benefits expenditure, and of the appropriateness of the Council's expenditure cutoff;
- review of the Council's amended financial statements, to ensure that adjustments have been appropriately processed;
- quality reviews by the audit manager and engagement lead;
- receipt of the signed management representation letter; and
- review of the final, approved, set of financial statements.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including the Authority, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Lichfield District Council.

Our audit work has not identified any issues in respect of revenue recognition.

2

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.

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;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings (both PPE and Investment Assets)

The Authority revalue PPE land and buildings on a rolling five-yearly basis, and investment properties every year.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus and investment assets) at the financial statements date, where not all assets are valued in the financial year.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- communicated with the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our audit work in this area is ongoing, but has not identified any issues in respect of valuations of the Council's property at the time of writing this report.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£34 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- 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.

Our work on the assumptions used by the actuary identified that the actual rate of return on the pension fund's assets for the year differed from the estimated rate provided by the Pension Fund to the actuary. The Council requested that their actuary reperform the actuarial valuation as a result of this, leading to a reduction in gross pension assets of £833k.

The Council have also requested that the actuary give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud), which due to the prevailing legal uncertainty at the time of preparing the draft financial statements, and the need to produce these by 31 May 2019, were not taken into account in the first actuarial valuation. This resulted in increases in gross pension liabilities of £158k and £350k respectively.

The financial statements have been amended for these issues. See page 19 for further detail.

Our audit work in this area is ongoing, but has not identified any other issues in respect of valuation of the Council's net pension liability at the time of writing our report.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability</p> <p>Draft: £41.4m</p> <p>Final: £42.7m</p>	<p>The Council's net pension liability at 31 March 2019 is £42.7m (PY £34.4m) comprising obligations under the Staffordshire Pension Fund Local Government pension scheme.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from the schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions 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.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation: <table border="1" data-bbox="1098 432 1804 775"> <thead> <tr> <th>Assumption</th> <th>Actuary's Value</th> <th>PwC's expected range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>scheme-specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.1 22.1</td> <td>23.7 – 24.4 21.5 – 22.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.4 24.4</td> <td>26.2 – 26.9 24.1 – 25.1</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We have confirmed that the Council's share of the pension scheme assets is in line with expectations. Disclosure of the estimate in the financial statements is considered adequate. A material adjustment has been made to the financial statements as a result of the use of an estimated rate that differed to the actual rate of return on the pension fund's assets and the omission of liabilities due to the prevailing legal uncertainty (see page 19). 	Assumption	Actuary's Value	PwC's expected range	Assessment	Discount rate	2.4%	2.4% - 2.5%	●	Pension increase rate	2.5%	2.4% - 2.5%	●	Salary growth	2.9%	scheme-specific	●	Life expectancy – Males currently aged 45 / 65	24.1 22.1	23.7 – 24.4 21.5 – 22.8	●	Life expectancy – Females currently aged 45 / 65	26.4 24.4	26.2 – 26.9 24.1 – 25.1	●	
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Assessment

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

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provision for NNDR appeals £1.2m	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector. Disclosure of the estimate in the financial statements is considered adequate. There have been no changes to the calculation method this year, with the exception of the increase in the Council's share of the liability. 	●
Valuation of Land and Buildings £35.6m	<p>The Council has engaged the District Valuer to complete the valuation of its properties, with approximately 85% of assets being subject to a full, formal valuation process at the balance sheet date. The remaining 15% have been subject to a valuation in the last 5 years.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £0.3m.</p> <p>The total year end valuation of land and buildings (including surplus assets) was £35.6m, a net increase of £2.8m from 2017/18 (£32.9m).</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations. Disclosure of the estimate in the financial statements is considered adequate. No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate. 	●

Assessment

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

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Valuation of Investment Properties £4.9m	<p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.</p> <p>The Council has engaged the District Valuer to complete the valuation of these properties. The year end valuation of the Council's investment property was £4.9m, a net decrease of £0.3m from 2017/18 (£5.2m).</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations. Disclosure of the estimate in the financial statements is considered adequate. 	●
Classification of Financial Instruments	<p>As a result of IFRS 9 being brought into effect, the Council made a declaration in their 2017/18 financial statements that they elected to present changes in the fair value of equity investments in other comprehensive income from 1 April 2018.</p>	<ul style="list-style-type: none"> We do not consider that this election is available for the type of investments that the Council holds. It is our opinion that movements in the fair value of these assets should be recognised in the CIES. The movement in 2018/19 was below our trivial threshold. 	●
Other accruals and estimates	<p>The Council continues to apply estimates and judgements in a number of areas, such as accruals of income and expenditure.</p>	<ul style="list-style-type: none"> The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. Disclosure of the estimates in the financial statements is considered adequate. As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. We have found no material misstatements in the financial statements relating to these balances. 	●

Assessment

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

Going concern

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).

Going concern commentary

Auditor commentary

Management’s assessment process

Management’s assessment is that there is no reason to consider the Council is at risk of not being a going concern.

We have gained assurance that management’s use of the going concern basis of accounting is reasonable and appropriate. Management’s forward planning process is thorough and transparent.

This determination is made by personnel who are sufficiently senior and experienced.

Work performed

We have:

- held regular discussions with officers throughout the year; and
- reviewed the Council’s financial statements and financial forward planning.

The Council’s financial forecasts show that it has sufficient assets available to meet its liabilities for the foreseeable future.

We have considered these forecasts, and the Council’s past performance against its budgets, and have no concerns over the Council’s financial plans.

Concluding comments

We intend to issue an opinion that is not modified in respect of Going Concern.

No events or conditions have been identified in the course of our audit that cast doubt on the entity’s ability to continue as a going concern.

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
① 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 issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ 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.
④ Written representations	A standard letter of representation has been requested from the Council, which is included in the Committee papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Where responses were not received, we undertook alternative procedures to confirm balances with no issues noted.
⑥ Disclosures	Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
① 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 the 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 unqualified opinion in this respect (per Appendix D).</p>
② 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 meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ 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>This work is not required as the Council does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Lichfield District Council in the audit opinion, as detailed in Appendix D.</p>

Value for Money

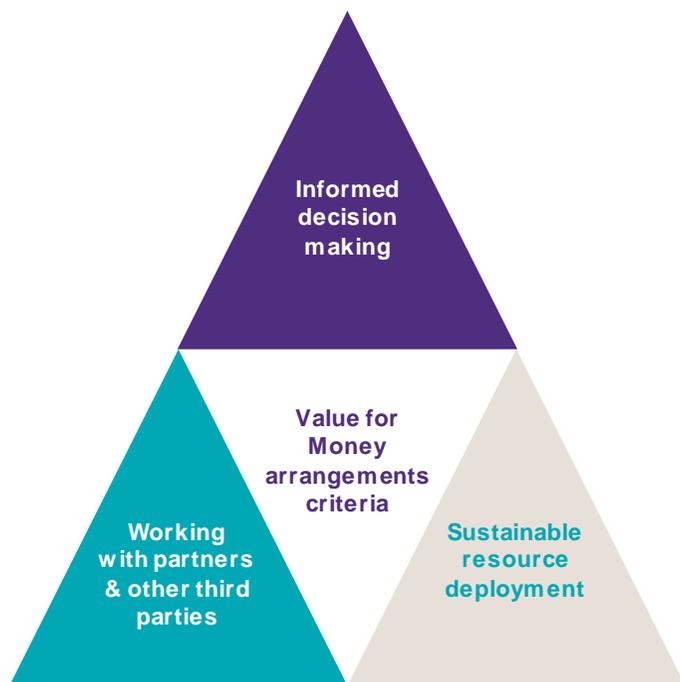
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on the next page.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p>Termination of the Friarsgate development</p> <p>The Friarsgate Development project was terminated early in the 2018/19 year following the withdrawal of a key funding partner in 2017.</p> <p>This was a key decision for the future of the district.</p>	<p>We will review the actions taken by management between the beginning of the financial year and the decision taken to abandon the Friarsgate project, including any expert advice that was taken and the information that was shared with key decision makers.</p> <p>We will also consider the actions taken by the Council since the decision was made.</p>	<p>The Council maintained a project-specific risk schedule which detailed the key risks to the project and the mitigations in place. This was available to all relevant officers, and formed the basis of regular reports to the Senior Leadership Team.</p> <p>Reports setting out the options available to the Council (supported by relevant legal advice) were taken to Overview and Scrutiny, Cabinet and Council respectively. The resulting decision was to stop the Friarsgate development.</p> <p>Following this decision, the Council commissioned an independent review of the process, in order to incorporate learning into future projects.</p> <p>It is important that the Council applies this learning as it develops its new plans for the site. Work is ongoing to develop these plans.</p> <p>No weaknesses noted in the Council's arrangements.</p>
2	<p>Financial sustainability</p> <p>The Council has made significant changes to aspects of its service delivery in recent years, including the outsourcing of the provision of leisure services to Freedom Leisure, the joint provision of waste collection with Tamworth Borough Council. The Council are also in the process of setting up a subsidiary company for the delivery of housing.</p> <p>In addition to this, future funding arrangements for local authorities are not known, and the UK's exit from the European Union will potentially have a significant impact.</p>	<p>We have considered the appraisal and decision making process followed by the Council when making significant delivery decisions.</p> <p>We have maintained a watching brief on the Council's progress in setting its budget for the 2019/20 year, and the updated medium term financial strategy, and consider the appropriateness of the process followed, including any actions taken to mitigate the Council's risk.</p>	<p>We consider that the Council's decision making process is clear and transparent. Officers are responsible for constructing proposals and supporting business cases etc. These are then reviewed and approved by the relevant Scrutiny Committee, Cabinet and Council.</p> <p>Proposals clearly set out the risks and financial implications, and any alternative arrangements that have been considered.</p> <p>The Council's MTFs includes transfers from reserves of £0.8m, £0.9m and £1.0m in the three years from 2020/21, although general fund reserves are forecast to remain relatively constant.</p> <p>It is important that the Council carries out appropriate diligence as plans relating to the property company progress, to ensure that financial risk is minimised and advantages to the local community (specifically the provision of housing) are maximised.</p> <p>No weaknesses noted in the Council's arrangements.</p>

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.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits claim	14,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,000 in comparison to the total fee for the audit of £35,412 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
No non-audit related services identified.			

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.

Follow up of prior year recommendations

We identified the following recommendation as a result of the audit of the Council's 2017/18 financial statements.

Assessment
 ✓ Action completed
 X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<p>Consideration of a de-minimis level for manual year-end accruals and adjustments</p> <p>Our testing of income and expenditure accruals identified a number of small value items. Processing of low-value accruals can create extra work for the Council's finance team during the close-down process and is unlikely to have a material impact on the financial statements if the accruals were incorrect.</p>	<p>To enable the completion of the Statement of Accounts by the 31 May and reduce error the Council have automated a number of processes. This is one area where automation has been introduced and the introduction of a de-minimis level would require manual intervention. This would make the process less efficient and increase the risk of error.</p>

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
Actuarial Valuations		
As discussed on page 7, our work identified adjustments to the Council's net pension liability as at 31 March 2019.		
Work on the assumptions used by the actuary identified that the actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary.		
In addition, the actuary's initial valuation did not give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud).		
The Council instructed their actuary to reperform their valuation as a result of this work, with the revised valuation including liabilities for GMP and McCloud (£158k and £350k respectively), and a lower gross asset position due to a £833k reduction in the assumed return on the Council's share of the pension fund assets.		
The following adjustment has therefore been made to the financial statements:		
Dr Past Service Costs (Cost of Services)	508k	
Dr Interest on Defined Benefit Obligation	8k	
Cr Gross Pension Liability		(516k)
Dr Return on Plan Assets (re-measurement of the net defined benefit liability)	833k	
Cr Gross Pension Assets		(833k)
Total Adjustment	1,349k	(1,349k)

Fees

We set out below our fees for the audit and provision of non-audit services.

Audit Fees

	Proposed fee £	Final fee £
Council Audit	35,412	TBC

We will confirm our final fees at a later date. We may need to consider levying additional fees for unplanned work that we have had to carry out this year.

Fees for other services	Fees £
Certification of Housing Benefits claim	14,000

Audit opinion

We anticipate we will provide the Council with an unqualified audit report

Independent auditor's report to the members of Lichfield District Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lichfield District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Expenditure and Funding Analysis – Note to the Accounts on page 49, Notes to the Accounts, and Notes to the Collection Fund. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance and Procurement's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and Procurement has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Head of Finance and Procurement is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

Audit opinion

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Head of Finance and Procurement and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 3, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Procurement. The Head of Finance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance and Procurement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and Procurement is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Member Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements- Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Lichfield District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to any one other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[signature and date to be inserted]



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