

The Annual Audit Letter for Lichfield District Council

Year ended 31 March 2019

August 2019



Contents



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

Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

Page

- 3
5
9

Appendices

- A Reports issued and fees continued

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lichfield District Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 24 July 2019.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £880,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 25 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2019.

Certification of Grants We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by November 2019. We will report the results of this work to the Audit Committee separately.

Certificate We certified that we have completed the audit of the financial statements of Lichfield District Council in accordance with the requirements of the Code of Audit Practice on 25 July 2019.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £880,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer Remuneration and Exit Packages.

We set a lower threshold of £44,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the Narrative Report, Annual Governance Statement and Annual Report published alongside the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of land and buildings (both PPE and Investment Assets)</p> <p>The Authority revalue PPE land and buildings on a rolling five-yearly basis, and investment properties every year.</p> <p>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.</p> <p>This represents a significant estimate by management in the financial statements.</p> <p>We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work did not identify any issues in respect of valuations of the Council's property.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> 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 Have 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. 	<p>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.</p> <p>The Council 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.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 24 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 25 July 2019.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Lichfield District Council in accordance with the requirements of the Code of Audit Practice on 25 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>As part of our work we:</p> <ul style="list-style-type: none"> • Reviewed 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. • Considered the actions taken by the Council since the decision was made. 	<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 were taken to Overview and Scrutiny, Cabinet and Council respectively. The resulting decision was to stop the Friarsgate development. 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>
<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>As part of our work we:</p> <ul style="list-style-type: none"> • Considered the appraisal and decision making process followed by the Council when making significant delivery decisions. • 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>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>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>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. We can confirm there were no fees for the provision of non audit services

Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual £	2017/18 £
Statutory audit	35,412	39,912	45,990
Housing Benefit Grant Certification	14,000	TBC	6,123
Total fees	49,412	TBC	53,113

Our fees for the certification of the Council's Housing Benefit grant will be confirmed following the completion of our work.

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £35,412 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
Total proposed fee variation		4,500

Fee variations are subject to PSAA approval.



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.