



# The Audit Findings for Lichfield District Council

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Year ended 31 March 2020

October 2020



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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 2020 for those charged with governance.

|                             |   |  |
|-----------------------------|---|--|
| <b>Covid-19</b>             | <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, with front-line challenges, administration of significant volumes of grants to businesses, closure of car parks, and the additional challenges of reopening services under new government guidelines.</p> <p>The impact on the core finance team has been more limited, with minimal changes to staff sickness rates, and remote working already being possible as part of the normal course of business.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>   | <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) have been used where necessary.</p> <p>Management provided draft financial statements for audit on 26 June 2020, in advance of the revised Covid-19 timetables.</p>   |
| <b>Financial Statements</b> | <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"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• 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.</li> </ul> <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 has been completed remotely since July. Our findings are summarised on pages 5 to 13. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix 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 or material changes to the financial statements, subject to the outstanding matters listed on page 5.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified, including an Emphasis of Matter paragraph highlighting the disclosures made by the Council in Note 4 to the financial statements, relating to material uncertainties in the valuation of the Council's properties.</p> |

# Headlines

## Value for Money arrangements

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').

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.

We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on page 14.

## 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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## 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, prior to issue to the Audit and Member Standards Committee.

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

## Audit approach

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

- An evaluation of the Council's internal control 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 had to alter our audit plan, as communicated to you in April 2020, to reflect our response to the Covid-19 pandemic. In this Addendum, we detailed additional significant risks in relation to Covid-19 for 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 levels remain the same as reported in our audit plan.

|  | Council Amount |
|--|----------------|
| Materiality for the financial statements   | £850k          |
| Performance materiality  | £637k          |
| Trivial matters  | £42k           |
| Materiality for disclosures relating to remuneration of senior officers, due to their sensitive nature | £25k           |

## 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 7 October 2020. These outstanding items include:

- completion of our work on the Council's property valuations;
- completion of our work on the experience gain as a result of the triennial valuation of Staffordshire Pension Fund, as well as receipt and review of assurance letter from the auditor of Staffordshire Pension Fund;
- completion of testing of remaining sample items for income, expenditure, debtors and creditors;
- completion of testing of remaining disclosure-only items;
- final quality reviews by senior members of the audit team;
- receipt of signed management representation letter; and
- review of the final, approved, set of financial statements.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 3 to the financial statements. We will refer to these material valuation uncertainties in our audit report.

Our work to address the points above is substantially complete, and we have not identified any other issues or concerns to report.

# Significant audit risks

## Risks identified in our Audit Plan

### Improper revenue recognition

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.

## Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams, 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.
- The culture and ethical frameworks of local authorities, including the Council, 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.**

We have however:

- evaluated the Council's accounting policy for recognition of revenues for appropriateness;
- performed substantive testing on material revenue streams; and
- reviewed unusual significant transactions.

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

### 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;
- analysed the journals listing and determined 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 and made by management and considered 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 audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings (Rolling revaluation)

The Authority revalues its 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 (£36.7 million) 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 assets) 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.

## Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements;
- evaluated the assumptions made by management for any assets not revalued at 31 March 2020, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.

At the time of writing this report we have not identified any issues in relation to the valuation of the Council's properties, however this work is still ongoing.

### 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 (£32.7 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, which was one of the most significant assessed risks of material misstatement.

We have:


- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and 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 Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided 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
- completed 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 that report.

At the time of writing this report, we have yet to obtain assurances from the auditor of Staffordshire Pension Fund in relation to the controls surrounding the data sent to the actuary by the pension fund.

No other issues have been noted in relation to this risk.





# Significant findings – key estimates and judgements

| Accounting area                                    | Summary of management's policy  | Auditor commentary  | Assessment |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |
|--|---|---|------------|---------------|--------------------|------------|---------------|-------|-------|---|-----------------------|-------|---------------|---|---------------|-------|----------------------------------|---|--|----------------------|----------------------------|---|--|----------------------|----------------------------|---|--|
| <b>Net pension liability</b><br><b>£32.7m</b>      | <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 2019. 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"> <li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.</li> <li>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:</li> </ul> <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC expected range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.30%</td><td>2.30%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>1.90%</td><td>1.80% - 2.00%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>2.30%</td><td>1.90% – 2.80%<br/>scheme-specific</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 and 65</td><td>45: 22.1<br/>65: 21.2</td><td>21.6 – 23.3<br/>20.5 – 22.2</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 and 65</td><td>45: 25.0<br/>65: 23.6</td><td>24.6 – 26.3<br/>22.9 – 24.3</td><td>●</td></tr> </table> <ul style="list-style-type: none"> <li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li> <li>We have confirmed that the Council's share of the pension scheme assets is in line with expectations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> </ul> | Assumption | Actuary Value | PwC expected range | Assessment | Discount rate | 2.30% | 2.30% | ● | Pension increase rate | 1.90% | 1.80% - 2.00% | ● | Salary growth | 2.30% | 1.90% – 2.80%<br>scheme-specific | ● | Life expectancy – Males currently aged 45 and 65 | 45: 22.1<br>65: 21.2 | 21.6 – 23.3<br>20.5 – 22.2 | ● | Life expectancy – Females currently aged 45 and 65 | 45: 25.0<br>65: 23.6 | 24.6 – 26.3<br>22.9 – 24.3 | ● | <br>(green) |
| Assumption   | Actuary Value   | PwC expected range  | Assessment |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |
| Discount rate                                      | 2.30%   | 2.30%   | ●          |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |
| Pension increase rate                              | 1.90%   | 1.80% - 2.00%   | ●          |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |
| Salary growth                                      | 2.30%   | 1.90% – 2.80%<br>scheme-specific  | ●          |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |
| Life expectancy – Males currently aged 45 and 65   | 45: 22.1<br>65: 21.2  | 21.6 – 23.3<br>20.5 – 22.2  | ●          |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |
| Life expectancy – Females currently aged 45 and 65 | 45: 25.0<br>65: 23.6  | 24.6 – 26.3<br>22.9 – 24.3  | ●          |               |                    |            |               |       |       |   |                       |       |               |   |               |       |                                  |   |  |                      |                            |   |  |                      |                            |   |  |





## 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 estimates and judgements

| Accounting area   | Summary of management's policy  | Auditor commentary   | Assessment   |
|---|---|--|--|
| <b>Valuation of Land and Buildings</b><br><b>£36.7m</b> | <p>The Council has engaged Gerald Eve 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>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4 to the Financial Statements.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £0.3m.</p> <p>Management considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>The total year end valuation of land and buildings (including investment properties) was £36.7m, a net decrease of £1.3m from 2018/19 (£38.0m).</p> | <p>Our work in this area is ongoing at the time of writing our report, however based on the work completed to date:</p> <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>We have considered the movements in the valuations of individual assets and their consistency with indices provided by our auditor's expert. This work has not raised any issues with the 2019/20 valuations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> </ul> | <br>(green) |
| <b>Provisions for NNDR appeals</b><br><b>£1.2m</b>      | <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"> <li>We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>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.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>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.</li> </ul>   | <br>(green) |

## 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 – 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 material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this on the normal operations of the Council, with front-line challenges, administration of significant volumes of grants to businesses, closure of car parks, and the additional challenges of reopening services under new government guidelines. The Council is facing significant challenges and has reported a deficit on the provision of services for 2019/20.

Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. It may take a number of years before the Council can fund its gross service expenditure without the use of its reserves. The Council will therefore require further use of its financial reserves to pay its expenses in 2020/21. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

## Going concern commentary

### Management's assessment process

## Auditor commentary

Management have undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting, which states that “*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”.

We have discussed the assessment that was made with the Head of Finance and Procurement, who has explained the basis of his assessment is broadly:

- Stress testing undertaken very early in the pandemic, exploring the potential impacts that could be expected;
- Enhanced monthly income monitoring undertaken;
- Regular forecasting completed to inform reports to Cabinet and its sub-committees;
- Financial support provided by central government, both in terms of grant monies and other support mechanisms; and
- Information on the demographics of the population of Lichfield.

We have reviewed the documentation referred to above, and are satisfied that the Council's approach is reasonable.

## Work performed

We have viewed the Council's financial assessment of the impact of Covid-19, future financial plans and cash flow forecasts, and the Council's level of reserves. We have not identified any material uncertainties in relation to going concern.

## Concluding comments

We are satisfied that the Council's financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required.

## Other matters for communication

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   | Auditor commentary   |
|---|--|
| <b>Matters in relation to fraud</b>                             | We have previously discussed the risk of fraud with the Audit and Member Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| <b>Matters in relation to related parties</b>                   | We are not aware of any related parties or related party transactions which have not been disclosed.   |
| <b>Matters in relation to laws and regulations</b>              | 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.   |
| <b>Written representations</b>                                  | A letter of representation has been requested from the Council, which is included in the Committee papers.   |
| <b>Confirmation requests from third parties</b>                 | We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.               |
| <b>Disclosures</b>  | Our review found no material omissions in the financial statements.  |
| <b>Audit evidence and explanations/significant difficulties</b> | All information and explanations requested from management was provided.   |

# Other responsibilities under the Code

| Issue  | Commentary   |
|--|--|
| <b>Other information</b>                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>                            |
| <b>Matters on which we report by exception</b>               | <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"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p> |
| <b>Specified procedures for Whole of Government Accounts</b> | <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>The Council is not expected to exceed the threshold, and so no detailed work is expected to be required.</p>   |
| <b>Certification of the closure of the audit</b>             | <p>We intend to certify the closure of the 2019/20 audit of Lichfield District Council in the audit report.</p>  |

# Value for Money

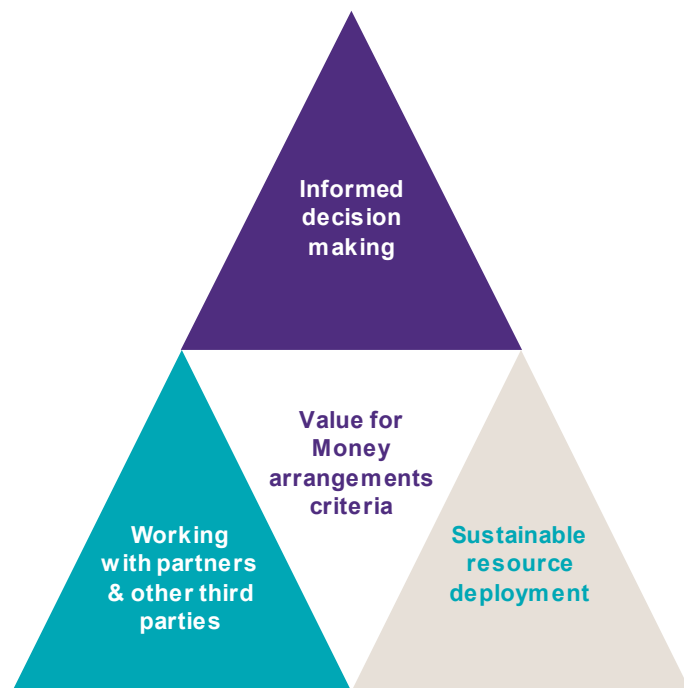
## Background to our VFM approach

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 April 2020. 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 March 2020 and did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

## 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 nothing to report

## Overall conclusion

Based on the work we performed, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the 2019/20 year.

## 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.

# 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

## 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 which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

|   | Fees £  | Threats identified                                 | Safeguards  |
|---|---------|--|---|
| <b>Audit related</b>                      |         |  |   |
| Certification of Housing Benefit Claim    |         | Self-Interest<br>(because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,000 in comparison to the total fee for the audit of £42,912 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 all mitigate the perceived self-interest threat to an acceptable level. |
| 2018/19                                   | £14,000 | Self review<br>(because GT provide 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.   |
| 2019/20                                   | £15,000 |  |   |
| <b>Non-audit related</b>                  |         |  |   |
| 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.

# 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

There are no adjusted misstatements to report for the year ending 31 March 2020.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure Reference                        | Detail   | Reason for not adjusting  |
|---|--|---|
| Pooled Fund Adjustment Account<br>(Note 22) | In 2018/19 the Council elected to account for investments in the CCLA Property Fund as fair value through other comprehensive income. It has been decided that a fair value through profit and loss treatment was more appropriate, and this treatment has been backdated to the date that the relevant accounting rules came into effect (ie 1 April 2018).<br><br>While we agree that treatment as fair value through profit and loss is appropriate, in our view, as this adjustment is not material, it should have been made during the 2019/20 year, rather than being backdated and treated as a prior period adjustment. | Management believe that processing this adjustment retrospectively makes the accounting clearer for the user of the Financial Statements. |

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Member Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail   | Comprehensive Income and Expenditure Statement<br>£'000 | Statement of Financial Position<br>£'000 | Reason for not adjusting                                |
|--|---|--|---|
| Following the end of the financial year, information became available relating to a remedy for the McCloud/Sargeant judgements.  |   |  |   |
| The Council requested an updated actuarial report following this. If the pension liability in the Balance Sheet was amended for the revised valuation, the result would be a reduction in the liability of £614k (£249k reduction in cost of services and £365k increase to the gain on remeasurement of the net defined benefit liability). | (614)   | 614                                      | Difference is not material to the financial statements. |
| <b>Overall impact</b>  | <b>(£614k)</b>  | <b>£614k</b>                             |   |



# Fees

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

| Audit fees    | Proposed fee | Final fee |
|---------------|--------------|-----------|
| Council Audit | 42,912       | TBC       |

We will confirm our final fees at a later date, subject to PSAA approval.

| Non-audit fees for other services               | Proposed fee | Final fee |
|---|--------------|-----------|
| Certification of Housing Benefits claim 2018/19 | 14,000       | 14,000    |
| Certification of Housing Benefits claim 2019/20 | 15,000       | TBC       |

# Audit opinion

## We anticipate we will provide the Council with an unmodified 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 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and the notes to the financial statements and a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements and Notes to the Collection Fund Statement. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

##### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Head of Finance and Procurement and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

##### 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.

In our evaluation of the Head of Finance and Procurement's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

##### Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings at 31 March 2020. As disclosed in Note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted in many sectors. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report. Our opinion is not modified in respect of this matter.

##### 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 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 Edition' 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, the Narrative Report and the Annual Governance Statement 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
- 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.

# Audit opinion

## 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 2019/20, 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](http://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 April 2020, 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 2020.

### 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 April 2020, 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 2020.

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 the 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 anyone 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.



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