



# The Annual Audit Letter for Lichfield District Council

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Year ended 31 March 2020

January 2021



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# 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 2020.

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 and Member Standards Committee as those charged with governance in our Audit Findings Report on 7 October 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £850,000, which is 2% of the Council's gross cost of services.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 27 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties, and the property assets of its pension fund, given the Coronavirus pandemic.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	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 27 November 2020.
<b>Certificate</b>	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 27 November 2020.

## 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.

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  
January 2021

# 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 £850,000, which is 2% of the Council's gross cost of services. 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 of £25,000 for disclosures relating to remuneration of senior officers, due to their sensitive nature

We set a lower threshold of £42,000, above which we reported errors to the Audit and Member Standards 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 to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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><b>Covid-19</b></p> <p>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 expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;</li> <li>evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;</li> <li>evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and</li> <li>evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> </ul>	<p>The Council's valuer reported their valuations as at 31 March 2020 on the basis of 'material valuation uncertainty'. Similar uncertainties were reported in the valuations of the Staffordshire Pension Fund's property and infrastructure assets as at 31 March 2020.</p> <p>We referred to these material valuation uncertainties in our audit report.</p> <p>We did not identify any other issues or concerns to report.</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b> (including investment properties)</p> <p>The Council revalues land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuations were carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>tested, on a sample basis, revaluations of the Council's properties during the year to ensure they have been input correctly into the Council's asset register and financial statements;</li> <li>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.</li> </ul>	<p>Our audit work did not identify any issues in respect of the valuation of the Council's land and building assets, other than the uncertainties relating to Covid-19 discussed above.</p>
<p><b>Valuation of net pension liability</b></p> <p>The Council's pension fund net liability, as reflected in the 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 (£625 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>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</li> <li>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.</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of the Council's pension fund net liability</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</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 have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• tested 'top-side' journals between the general ledger and the financial statements for appropriateness and corroboration;</li> <li>• 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</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in June 2020 in accordance with the agreed timescale, 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 and Member Standards Committee on 7 October 2020.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in draft Statement of Accounts in June 2020.

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 in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold

## **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 27 November 2020.

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# 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 April 2020 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.

We updated this risk assessment up to the date of giving our report, including considering the impact of Covid-19 on the Council's finances, and identified no significant risks where we need to perform further work.

## 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 2020.

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	October 2020
Annual Audit Letter	January 2021

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services below are consistent with the group's policy on the allotment of non-audit work to your auditor

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
• Certification of Housing Benefits claim 2018/19	14,000
• Certification of Housing Benefits claim 2019/20	15,000
<b>Non-Audit related services</b>	
- None	nil

### Fees

	Planned £	Actual fees £
Statutory audit	42,912	47,612

### Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £35,412 for the Council 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 led to additional work. These were set out in our Audit Plan.

We have given consideration to additional fees for the impact of Covid-19 on our audit processes, and have determined that an additional fee of £6,200 is appropriate. We have also deducted our planned fee for the audit of the implementation of IFRS 16, which has been deferred.

Fee variations are subject to PSAA approval.



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