

Informing the audit risk assessment for Lichfield District Council 2020/21

Avtar Sohal
Director
T +44 (0)121 232 5420
E avtar.s.sohal@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Accounting Estimates	20
Accounting Estimates - General Enquiries of Management	21

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Lichfield District Council's external auditors and Lichfield District Council's Audit and Member Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Member Standards Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Member Standards Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Member Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Member Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Member Standards Committee and supports the Audit and Member Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Lichfield District Council's management. We have also submitted to the Committee alongside this report, a separate Appendix providing detailed responses from management to our questions around the various processes and controls in place to calculate estimates. The Audit and Member Standards Committee should consider whether these responses in both documents are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The ongoing impact of the COVID-19 pandemic including the impact on income streams, additional costs and the level of provisions and reserves.
2. Have you considered the appropriateness of the accounting policies adopted by Lichfield District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed each year and a report is presented to Audit and Member Standards Committee for them the review and approve the policies. No events or transactions for 2020/21 to make the Council change or adopt new policies.
3. Is there any use of financial instruments, including derivatives?	The Council does have financial instruments related to financial assets (investments including strategic investments) and financial liabilities (loans, trade creditors and finance leases). The Council does not use derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	There may be a potential compensation claim against the Council in relation to the proposed disposal of an area of public open space – an independent investigation has been commissioned

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Not aware of any changes that will not be already being considered by the external valuer as part of the rolling programme of valuations.
6. Are you aware of any guarantee contracts?	The only ones we are aware of are included in the notes to the accounts related to pension guarantees for the Lichfield Garrick and Freedom Leisure.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	There may be a potential compensation claim against the Council in relation to the proposed disposal of an area of public open space – an independent investigation has been commissioned
8. Other than in house solicitors, can you provide details of those solicitors utilised by Lichfield District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has an agreement with South Staffordshire District Council for legal services. There is no in house solicitor although a number of solicitors are utilised on a case by case basis based on the specific project and specific expertise. This includes projects that include the Lichfield Garrick and leisure centres.
9. Have any of the Lichfield District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not aware of any.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	There may be a potential compensation claim against the Council in relation to the proposed disposal of an area of public open space – an independent investigation has been commissioned

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Member Standards Committee and management. Management, with the oversight of the Audit and Member Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Member Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Lichfield District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Member Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Member Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Member Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses Lichfield District Council's management.

Fraud risk assessment

Question	Management response								
<p>1. Have Lichfield District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Lichfield District Council's risk management processes link to financial reporting?</p>	<p>The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council, clear and effective arrangements are in place to prevent and detect fraud. No material instances of fraud have been identified in 2020/21.</p> <p>The maintenance of an internal control environment that is subject to a risk based internal audit assurance programme that is monitored by the Audit and Member Standards Committee.</p> <p>The Council utilises the Best Practice three lines of assurance model for risk management:</p> <table border="1" data-bbox="896 790 1765 933"> <thead> <tr> <th colspan="2">Key to 3 lines of assurance:</th> </tr> </thead> <tbody> <tr> <td>1st Line</td> <td>Day to day operations of internal control systems</td> </tr> <tr> <td>2nd Line</td> <td>Management oversight and monitoring controls</td> </tr> <tr> <td>3rd Line</td> <td>Independent assurance from Internal / external audit and other independent assurance sources (e.g. HSE, BFI)</td> </tr> </tbody> </table>	Key to 3 lines of assurance:		1 st Line	Day to day operations of internal control systems	2 nd Line	Management oversight and monitoring controls	3 rd Line	Independent assurance from Internal / external audit and other independent assurance sources (e.g. HSE, BFI)
Key to 3 lines of assurance:									
1 st Line	Day to day operations of internal control systems								
2 nd Line	Management oversight and monitoring controls								
3 rd Line	Independent assurance from Internal / external audit and other independent assurance sources (e.g. HSE, BFI)								
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>There are some areas</p> <ul style="list-style-type: none"> • Council Tax • Single person discount • Income streams such as sales, fees and charges. • Cyber related fraud. • Procurement. <p>Lichfield District Council is a participant in the National Fraud Initiative and review matches as they become available (NFI data sets and app check).</p>								

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lichfield District Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council, clear and effective arrangements are in place to prevent and detect fraud. No material instances of fraud have been identified in 2020/21.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Lichfield District Council where fraud is more likely to occur?</p>	<p>None.</p> <p>None.</p> <p>None.</p>
<p>5. What processes do Lichfield District Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has in place strong controls over the sales and purchase ledger in order to prevent fraud. Internal audit are used to carry out work on overall fraud risk areas including Council Tax and Housing benefit. Internal audit also give an opinion on their work on controls.</p> <p>The Council has recruited a new in house procurement Team.</p> <p>The Council at Audit and Member Standards Committee on 12 November 2020 recently approved an updated Counter Fraud Framework. That included the following:</p> <ul style="list-style-type: none"> • The Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes • Confidential Reporting (Whistleblowing) Policy • Anti-Money Laundering Policy • Prevention of the Facilitation of Tax Evasion policy

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Lichfield District Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Council has in place strong controls over the sales and purchase ledger in order to prevent fraud. Internal audit are used to carry out work on overall fraud risk areas including Council Tax and Housing benefit.</p> <p>Internal audit undertake a risk based assurance plan with individual audit reports providing an overall level of assurance together with prioritised actions to address weaknesses identified.</p> <p>Internal Audit also provide an overall opinion on their work on the internal control environment.</p> <p>All systems and processes include risk based internal controls such as segregation of duties and management oversight.</p> <p>Not aware of any area where there is a potential of override of controls or inappropriate influence over the financial reporting process.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not aware of any area where there is a potential for misreporting..</p>

Fraud risk assessment

Question	Management response
<p>8. How do Lichfield District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Code of Practice is available on the Council's intranet along with the whistleblowing policy. All employees are required to read this as part of their induction process.</p> <p>The Whistleblowing Policy encourages employees to report any suspicions of fraud or irregularity, and explains the procedures to follow. This policy is available to all staff via the Council's intranet, and is included as part of the induction programme for new staff.</p> <p>None.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Council does not directly deliver services in some of the traditionally higher risk areas such as Council Housing and Leisure Centre operation. The higher risk areas are now likely to be related to digital/cyber related areas.</p> <p>The Internal Audit assurance plan is risk based and therefore will reflect the prevailing risk and control environment.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Council sets out related party transactions within the annual accounts. Declarations and conflicts of interest are recorded on an annual basis through a return required to be submitted by members. Any additional interests are required to be declared before meetings and on an ad hoc basis throughout the year.</p> <p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> • Maintenance of a Register of interests for Members • Annual declaration of interest • Councillors and officers do not participate in decisions where they are a related party • Annual accounts disclosures for related parties and transactions are reviewed for completeness by senior finance officers

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Member Standards Committee?</p> <p>How does the Audit and Member Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit and Member Standards Committee receives an update report from Internal Audit which is a summary of the work completed by Internal Audit. This highlights the number of recommendations made. It also highlights implementation reviews completed and highlights where there are recommendations not implemented.</p> <p>The Audit and Member Standards Committee receive copies of all finalised internal reports and finalised implementation reviews carried out.</p> <p>Any frauds identified will be reported to the Audit and Member Standards Committee.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We are not aware of any whistleblowing reports since 1 April 2010</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>We are not aware of any reports under the Bribery Act since 1 April 2020.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Member Standards Committee, is responsible for ensuring that Lichfield District Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Member Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Lichfield District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> • complying with the law of the land (including any relevant Codes of Conduct); • complying with any General Guidance issued, from time to time, by the Monitoring Officer; • making lawful and proportionate decisions; and • generally, not taking action that would bring the Council, their offices or professions into disrepute. This officer has access to all Council committee reports. <p>The Monitoring Officer raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the monitoring officer would get involved at an early stage.</p> <p>Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.</p>
<p>2. How is the Audit and Member Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.</p> <p>The Monitoring Officer (or representative) attends Audit and Member Standards Committee meetings and advises members on any areas of concern.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No. There is currently an independent investigation for the disposal of an area of Public Open Space.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>See 3 above.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Lichfield District Council have in place to identify, evaluate and account for litigation or claims?	The process is consistent with the prior year. The Monitoring Officer is responsible for identifying and evaluating claims in the first instance. Up to 1 January 2020, if the Council could not deal with claims in-house then an external solicitor would have been contacted. Post 1 January 2020, any claims will be sent to South Staffordshire District Council Legal Shared Services for legal advice.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None

Related Parties

Issue

Matters in relation to Related Parties

Lichfield District Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Lichfield District Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the [type of body], or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Lichfield District Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Lichfield District Council whether Lichfield District Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No changes are expected to those related parties disclosed in the 2019/20 financial statements.</p>
<p>2. What controls does Lichfield District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> Maintenance of a Register of interests for Members Annual declaration of interest Councillors and officers do not participate in decisions where they are a related party Annual accounts disclosures for related parties and transactions are reviewed for completeness by senior finance officers
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Constitution and the related Governance process where a key decision limit of £75k has been established.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Constitution and the related Governance process.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Member Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Member Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Business Rate Appeals, Pension Liability, Bad Debt Provisions and Non Current Assets (including Investment Properties). Financial Instruments related to loans and investments are relatively 'vanilla'.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	They are identified as part of normal financial reporting and are considered as part of the Statement of Accounts process. A specific area of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions. The Report to Audit and Member Standards Committee on 25 March 2021 identifies the accounting estimates together with the impact of changes in key assumptions.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	We utilise a number of external (treasury management advisors, actuary and valuer) and internal experts (corporate debt and estates team) to inform these estimates.
4. How do management review the outcomes of previous accounting estimates?	We are reliant the Pension Fund Audit and internal experts to provide assurance on the outcomes of previous accounting estimates in material areas such as the pension fund and property valuations.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	The only potential change is to utilise external support to evaluate the impact on the Business Rate Appeals provision of potential material Change of Circumstances in higher risk valuation areas such as retail.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	It is a judgement based on materiality, skills set required and capacity/information available.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	It is judgement based primarily on materiality but will also take into account changes in the regulatory/accounting environment and best practice.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	We are reliant on assurance from the Pensions Team at the Administering Authority and the internal Estates Team at the Council.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	A specific area of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions. The Report to Audit and Member Standards Committee on 25 March 2021 identifies the accounting estimates together with the impact of changes in key assumptions.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>The Check, Challenge and Appeal Process and the paucity of information will mean there will be significant estimates and judgement on the level of the appeals provision at 31 March 2021.</p> <p>The impact on the Business Rate Appeals provision of potential material Change of Circumstances in higher risk valuation areas such as retail will need to be considered.</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes- Accounting estimates are made by members of the finance team with sufficient skill and knowledge. The finance team at LDC is experienced and there have been no issues in prior year audits surrounding estimates.</p> <p>Accounting treatment used by the Council is in line with IFRS and the Code of Practice.</p> <p>The Council has an estates team who are able to validate the estimates for the valuation and asset lives of non current assets.</p>
<p>12. How is the Audit and Member Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Experienced finance staff are responsible for making the estimates and are done so in line with accounting standards.</p> <p>Assurance is also provided by internal and external audit.</p> <p>A specific area of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions. The Report to Audit and Member Standards Committee on 25 March 2021 identifies the accounting estimates together with the impact of changes in key assumptions.</p>



grantthornton.co.uk

© 2021 Grant Thornton UK LLP

'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.