

Lichfield District Council

Auditor's Annual Report

Year ended 31 March 2024

November 2024



We are required to satisfy ourselves under s20(1)(c) of the Local Audit and Accountability Act 2014 that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report to you if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements are operating effectively.

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Detailed findings from our audit of the financial statements are communicated in the following reports:

- audit opinion on the financial statements for the year ended 31 March 2024
- audit findings (ISA 260) report to Those Charged with Governance

We performed our audit in accordance with International Standards on Auditing (UK). This report has been prepared in line with the National Audit Office's Code of Audit Practice 2024 (the "Code") and is required to be published by the Council alongside the annual report and accounts. Our reports are prepared in accordance with ISAs (UK), the Code, all associated Audit Guidance Notes issued by the National Audit Office and relevant requirements of the Local Audit and Accountability Act 2014.

Key messages

The purpose of the Auditor's Annual report is to bring together all the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the members and the wider public relevant issues, recommendations arising from the auditor's work and the auditor's view on whether previous recommendations have been implemented satisfactorily.

We have undertaken our work in accordance with the Audit Plan issued earlier in the year and reported to Those Charged with Governance. We have complied with the National Audit Office (NAO) Code of Audit Practice 2024, other guidance issued by the NAO, and International Standards on Auditing (UK).

Area of work	Our responsibilities	Conclusions
Financial statements	<p>We are required to audit the financial statements of the Council under the Local Audit and Accountability Act 2014. We express an opinion as to whether the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and of its expenditure and income for the year;• have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023/24; and• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014. <p>We conduct our audit in accordance with International Standards on Auditing (UK), the Code of Audit Practice (2024) published by the National Audit Office and applicable law.</p>	<p>We anticipate our audit opinion will be unqualified on the Council's financial statements. This means that we consider the financial statements give a true and fair view of the financial performance and position of the Council.</p>

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Key messages

Area of work	Our responsibilities	Conclusions
Narrative report and annual governance statement	<p>We are required to read and report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is materially inconsistent with the financial statements and our knowledge obtained from the audit, or otherwise appears to be materially misstated.</p> <p>We are also required to assess whether the Annual Governance Statement complies with the disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.</p>	We did not identify any significant inconsistencies between the information presented in the Narrative Report and Annual Governance Statement and our knowledge of the Council.
Value for money	<p>We are required under Section 20(1)c of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our commentary relating to proper arrangements.</p> <p>We assess the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.</p> <p>We are required to report our commentary under specified criteria: Financial sustainability, Governance and Improving economy, efficiency and effectiveness.</p>	<p>We have not identified any significant weaknesses in the arrangements for securing economy, efficiency and effectiveness in the use of resources at the Council.</p> <p>We have made "other" recommendations to support the Council's ongoing improvement.</p>
Key recommendations	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their review of the Council's arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Council. We consider these to be key, or essential, recommendations.	We did not identify any key recommendations.

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Key messages

Area of work	Our responsibilities	Conclusions
Public interest report	Under Section 24, Schedule 7(1)(1) of the Local Audit and Accountability Act 2014 the auditor of the Council must consider whether to make a report in the public interest if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public.	We did not identify any matters for which we considered a public interest report to be required as part of our external audit for 2023/24.
Statutory recommendations	Under Section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014 the auditor of a Council can make written recommendations to the Council which need to be considered by the Council and responded to publicly.	We did not identify any matters for which we considered statutory recommendations are required as part of our external audit for 2023/24.
Application to the court	Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think than an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the court.
Advisory notice	Under Section 29, Schedule 8 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if they think that the Council, or an officer of the Council, is about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices
Judicial review	Under Section 31, Schedule 8 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure to act by an authority, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Financial statements

The Statement of Accounts and financial statements included therein are an important tool for the Council to show how it has used public money and how it can demonstrate its financial health.

We provide an independent opinion on whether the Council's financial statements:

- *give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended;*
- *have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023/24; and*
- *have been prepared in accordance with the Local Audit and Accountability Act 2014.*

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Area of work	Conclusions
Audit opinion on the financial statements	We propose to give an unqualified opinion on the Council's financial statements in November 2024.
Audit Findings (ISA260) report	More details can be found in our final ISA260 report, which was reported to the Council's Audit Committee on 26 November 2024.
Whole of Government accounts	<p>We are required to carry out specified procedures on behalf of the NAO on the WGA consolidation pack under WGA group audit instructions.</p> <p>The Council does not exceed the threshold for detailed testing.</p> <p>We will submit our assurance statement to the NAO after the audit has been concluded. However, the NAO have reserved the right to ask for additional work to be completed on bodies below the threshold due to the low numbers of LA's with signed financial statements. We will therefore be issuing a delayed certificate in our auditor's report.</p>
Preparation of the accounts	The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and supporting working papers was good.

Financial statements

Significant risks

Detailed findings from the audit of the 2023/24 financial statements are set out in our final Audit Findings (ISA260) report, reported to the Council's audit committee on 26 November 2024. Requests for this report should be directed to the Council. This report set out the significant risks identified for the 2023/24 financial statements audit, along with the procedures performed to address each risk and the conclusions reached following the performance of those procedures.

One material reclassification adjustment was made to the 2023/24 financial statements submitted for audit. This related to a reclassification between other land and buildings and assets held for sale.

The significant risks we identified as part of our audit, and the conclusions from our work are set out in Appendix I. The main recommendations we made as a result of the financial statements audit are set out in Appendix II of this report. None of the recommendations we made reflected significant weaknesses in the arrangements to secure economy, efficiency and effectiveness in the Council's use of resources and, as such, are not considered key recommendations.

Value for money

We are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources, as set out in the NAO Code of Practice (2024) and the requirements of Auditor Guidance Note 3 ('AGN 03').

In undertaking our work we have not identified any significant weaknesses in arrangements. Our detailed commentary is set out on the following pages.

Reporting criteria	Planning – risk of significant weakness identified?	Final – significant weakness identified?	Key recommendations made?	Other recommendations made?
Financial sustainability How the body plans and manages its resources to ensure it can continue to deliver its services	No	No	No	No
Governance How the body ensures it makes informed decisions and properly manages risk	No	No	No	No
Improving economy, efficiency and effectiveness How the body uses information about its costs and performance to improve the way it manages and delivers its services	No	No	No	Yes

Value for money

In addition to our financial statements work we performed a range of procedures to inform our value for money commentary, including:

- Meeting with management and regular meetings with senior officers
- Interviews as appropriate with other executive officers and management
- Review of Council and committee reports and attendance at audit committee meetings
- Reviewing reports from third parties
- Considering the findings from our audit work on the financial statements
- Review of the Council's Annual Governance Statement and Narrative Report and other publications
- Considering the work of internal audit
- Consideration of other sources of external evidence.

Councils are responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This includes managing key operational and financial risks and taking properly informed decisions so that they can deliver their objectives and safeguard public money.

As auditors, we are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We performed risk assessment procedures at the audit planning stage to identify any potential areas of significant weakness which could result in value for money not being achieved. This included considering the findings from other regulators and internal auditors, reviewing records at the Council and performing procedures to gain an understanding of the high-level arrangements in place. The resulting risk areas we identified were set out in our audit plan.

For each identified risk area, we performed further procedures during our audit to consider whether there were significant weaknesses in the processes in place at the Council to achieve value for money.

The NAO Code of Audit Practice requires us to structure our commentary on VFM arrangements under three reporting criteria: financial sustainability, governance and improving economy, efficiency and effectiveness.

We have set out on the following pages our commentary and findings on the arrangements at the Council in each area.

Summary of findings

Based on the audit work performed, we have not identified any significant weaknesses in the Council's arrangements for achieving value for money and have therefore not raised any key recommendations. We have raised other recommendations relating to understanding the cost drivers of services.

Financial sustainability

This relates to how the Council plans and manages its resources to ensure it can continue to deliver its services.

We considered the following areas:

- how the Council identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into the plans;
- how the Council plans to bridge its funding gaps and identifies achievable savings;
- how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- how the Council ensures that its financial plan is consistent with workforce, capital, investment, and other operational plans, which may include working with other local public bodies as part of a wider system; and
- how the Council identifies and manages risks to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

The Council has in place a Medium-Term Financial Strategy (MTFS) which covers a rolling five-year period up until 2028/29. The MTFS has been developed amongst ongoing uncertainty of future funding relating to New Homes Bonus and Non-Domestic Rates. The assumptions used within the MTFS are reasonable, and a more pessimistic and a more optimistic scenario has been included alongside the most likely forecast.

The minimum approved level of general reserves is £2m which could be used to bridge the anticipated funding gaps in 2026/27 and 2027/28 of £826k and £1,862k respectively. However, if the Council were to solely rely on use of reserves to bridge funding shortfalls, then, at current forecasts, reserve levels would drop below £2m in 2028/29 and these would not be sufficient to bridge the forecasted funding gap of £2,971k for this year.

At present, due to the strong reserves position, the Council have not had to develop a programme of savings. This is something that the Section 151 Office is aware may become a priority depending on the outcome of future local government funding settlements.

The Council has formed a joint venture with Evolve Estates Ltd as part of the redevelopment of the previous Debenhams site into a cinema and entertainment complex. Evolve will project manage the development, and the eventual buy back of Evolve's share of the project has been reflected in the Council's financial forecasts for 2027/28.

We have reviewed the process undertaken by the council in the establishment of the joint venture and we are satisfied that the Council has taken appropriate advice on the legality, the value and the associated benefits of this project to ensure that they will be achieving value for money and the desired outcomes.

Use of capital resources supports the achievement of the Council's strategic priorities, such as development of the new cinema and entertainment complex, and the new sports pitch. There was some slippage of the capital plan in 2023/24, however reasons for this have been sufficiently provided to Cabinet and the funding has been included in the budget for 2024/25. The Council are confident that this slippage will be recovered in 2024/25 and mainly relates to the key development projects for the City, including the cinema redevelopment and Bakers Lane.

Governance

This relates to the arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- how the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Annual Governance Statement adequately sets out the procedures that the Council implements to monitor risks and assess the effectiveness of internal controls, including the prevention and detection of fraud.

The Council shares an internal audit service with Tamworth Borough Council, however LDC does have a dedicated audit resource. Due to capacity issues within the internal audit function, additional resource was sought from external providers to help deliver the 2023/24 audit plan.

The Head of Internal Audit's opinion for 2023/24 concluded that the Council's framework of governance, risk management and internal control is reasonable in its design and effectiveness. We have reviewed the internal audit reports issued throughout the year and have not identified any indications of significant weaknesses in governance arrangements.

Local elections resulted in some turnover of those charged with governance, however the Chair and Vice Chair have been members of the audit committee for a number of years ensuring that there is a sound level of knowledge amongst committee members.

An assessment of Audit Committee effectiveness was undertaken in April 2024. The review did not identify any significant weaknesses in the committee's ability to discharge its duties.

The strategic risk register is reviewed at every senior leadership team meeting, and updates are provided to the Audit Committee on a regular basis. The Audit Committee's annual report to Cabinet provides a summary of risk management activity during the year.

Service managers and directors have two financial objectives as part of their annual objective scored card and as such are engaged in the budget setting process. Budget holders receive monthly monitoring packs which are reviewed with the finance business advisors to understand any variances and whether forecasts require updating.

Money Matters reports are presented to Cabinet on a quarterly basis and provide information about financial performance and any variances to the forecasted position. The MTFS includes a most likely, a more pessimistic and a more optimistic scenario for members to consider which are based on potential budget pressures identified by the finance team and budget holders. Heads of service and budget holders are engaged in the budget setting process so that the Council's key priorities, along with expected levels of growth or pressures, can be incorporated into financial plans.

The induction process following the recent local elections included a session delivered by the Monitoring Officer regarding member codes of conduct and the constitution. A review of the constitution has been commissioned to take place in 2024 to ensure it is still fit for purpose.

The Member Standards committee has been separated from the Audit Committee and will meet for the first time as a separate group in October 2024.

Improving economy, efficiency and effectiveness

This relates to how the Council seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- how financial and performance information has been used to assess performance and identify areas for improvement;
- how the Council evaluates service quality to assess performance and identify areas for improvement;
- how the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the Council commissions or procures services, how it ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how it assesses whether it is realising the expected benefits.

The Council is involved in a number of partnership arrangements with other Local Authorities, in addition to its commercial venture with Evolve Estates Ltd, to help deliver its strategic goals. These arrangements are monitored throughout the year by attendance at joint boards to ensure the Council is receiving the services it needs.

Since the approval of the procurement strategy in 2020, social value has become a more fundamental consideration in the Council's procurement activities and a coordinator has been recruited to implement social value and contract management strategies across the organisation. The Council has also established an internal procurement commissioning team which will manage the procurement of high value items/services.

To measure the success of the Procurement Strategy a balanced scorecard of Key Performance Indicators (KPIs) was developed based on strategic, financial, operational and compliance/risk themes.

A suite of KPIs has been designed in addition to those relating to procurement to measure the Council's performance against a range of metrics across all services. The Council also participates in a range of benchmarking exercises which differ per the service. They are reviewed against wider regional data, national data and then other districts where appropriate. However, the Council currently does not have data available to reliably monitor the costs of delivering its services, and as such it is difficult to determine whether they represent value for money.

The management of leisure centres, which was previously outsourced to an external provider, was brought back in house on 01 April 2023 and is now being overseen by LWMTS. Performance of this service is reported to Cabinet on an annual basis. The 2023/24 LWMTS annual report presented to Cabinet on 10 September noted that since leisure centres have been operated by LWMTS there has been a 12% growth in income.

Social Value is becoming a more fundamental consideration in procurement and is a high priority area for the Council. As a result, a part time co-ordinator has been recruited to implement social value and contract management strategies across the organisation. To measure the success of the procurement strategy a balanced scorecard of Key Performance Indicators (KPIs) has been developed based on strategic, financial, operational and compliance/risk themes. Performance against these KPIs is reported to Cabinet.

Other recommendations

These recommendations relate to less significant deficiencies or opportunities for improvement we have identified during the course of our work. Progressing the actions management has identified to address the recommendations made will support the Council in realising the improvement opportunities identified from our work.

Criteria	Recommendation	Observation and implication / impact	Management response
Improving economy, efficiency and effectiveness	The Council should improve how they review and monitor the cost effectiveness of existing activities, identifying those which do not contribute sufficient value, and consider alternative, lower cost options for service delivery.	The Council has previously considered the cost of delivering services only as part of transformation programmes rather than as part of regular performance monitoring. Understanding the costs associated with delivering specific services will allow the Council to prioritise how it uses its resources and enable members to make more informed decisions.	Management will consider how this can best be implemented.

Follow up of prior recommendations

The below recommendations were made by Grant Thornton and included in their Annual Auditor's Report for 2022/23:



Governance

Recommendation 1

The Council should review its arrangements for the appointment of directors to its wholly-owned company to minimise the potential for conflicts of interest.



Improving economy, efficiency and effectiveness

Recommendation 2

The Council should complete the development of its performance framework to meet its aspiration of a high support/high challenge culture through the development and reporting of high-quality performance data including performance benchmarking.



Improving economy, efficiency and effectiveness

Recommendation 3

The Council should develop clear protocols and guidance on contract and relationship management.

The Council have taken on board the recommendations made by previous auditors and have implemented changes as appropriate. We have no further follow up in relation to these recommendations.

Appendices

Appendix I: Financial statements audit risks and findings

Appendix II: Internal control recommendations arising from the audit

Financial statements audit risks and findings

Significant risks at the financial statement level

The table below summarises conclusions in relation to significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Significant risks	Audit approach	Audit findings and conclusion
<p>Management override of controls</p> <p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p> <p>Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none">• Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals;• Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals;• Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy;• Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud; and• Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.	<p>Our audit work has not identified any significant issues in respect of this risk.</p>

Financial statements audit risks and findings

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Significant risks	Audit approach	Audit findings and conclusion
<p>Valuation of the defined pension fund net liability (key accounting estimate)</p> <p>An actuarial estimate of the net defined pension liability is calculated on an annual basis under IAS 19 'Employee Benefits', and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code.</p> <p>The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset (where relevant). ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Defined pension fund net liability (valuation): High 	<p>Procedures performed to mitigate risks of material misstatement in this area include:</p> <ul style="list-style-type: none"> • Evaluating management's processes for the calculation of the estimate, the instructions issued to management's expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors' expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing whether any asset ceiling was appropriately considered in the prior year and if there are any potential adjustments required to the prior year accounts; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council's share of the investment valuations in the audited pension fund accounts' and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements. 	<p>Subject to the receipt of the pension fund assurances and final review, our audit work has not identified any significant issues in respect of this risk.</p>

Financial statements audit risks and findings

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Significant risks	Audit approach	Audit findings and conclusion
<p>Valuation of other land and buildings and investment property (key accounting estimate)</p> <p>Revaluation of other land and buildings and investment property should be performed with sufficient regularity so that carrying amounts are not materially misstated.</p> <p>The council carries out a full revaluation each year. Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations as of 31 March 2024.</p> <p>The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates.</p> <p>Investment property is valued annually at fair value, in line with the CIPFA Code. Fair values are categorised by their level in the fair value hierarchy where the Council's investment property portfolio has been assessed as either level 2 or level 3 for valuation purposes.</p>	<p>Procedures performed to mitigate risks of material misstatement in this area include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Considering whether year on year variances resulting from a change in the approach by management's expert indicate any errors in previous year's valuations; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. 	<p>Aside from a reclassification adjustment noted previously in the report, our audit work has not identified any significant issues in respect of this risk.</p>

Financial statements audit risks and findings

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Significant risks	Audit approach	Audit findings and conclusion
<p>Valuation of other land and buildings and investment property (key accounting estimate) continued.</p> <p>These valuations represent key accounting estimates made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of other land and buildings and investment property as a significant risk.</p> <p>We have pinpointed the significant risk around the following:</p> <ul style="list-style-type: none">- Assets where the valuation movement differs to what we would expect based on market movements;- Assets where the inputs used have changed compared to those used in the prior year;- Assets that are new this year;- Any other factors which in our auditor judgement increases the risk of material misstatement in an asset. <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none">• Land and buildings and investment property (valuation): High	<ul style="list-style-type: none">• Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.• We engaged an auditor's expert to support our work in relation to this risk.	<p>As above, aside from a reclassification adjustment noted previously in the report, our audit work has not identified any significant issues in respect of this risk.</p>

Internal control recommendations

We set out here the recommendations we have identified during the course of our audit. The matters reported here are limited to deficiencies we have identified during the course of our audit which we feel are of sufficient importance to merit reporting to you under the auditing standards.

Assessment	Issue	Recommendation	Management response
Amber	<p>The Section 151 (S151) officer does not have the rights to post journals within the Civica Financials system which is a control measure to prevent management override of control.</p> <p>Our journals testing identified a small number of journals which were prepared and posted by a member of the finance team after being asked to do so by the S151, effectively circumnavigating the above control.</p> <p>The journals that the S151 officer requested to be posted were in relation to specific areas of the statement of accounts, could be properly supported by working papers, and were not deemed to be unusual or outside of the normal course of business. There are compensating reconciliation controls performed by other members of the finance team that would detect any unusual movements in the ledger accounts for which the S151 requested journal postings. We did not observe any evidence of management override of controls through such journals.</p>	<p>Management should remove the need for the S151 to prepare journals.</p> <p>Alternatively, management should consider assigning journal posting rights to the S151 officer to allow them to post the journals that they require whilst also implementing a more rigorous review process for any journals posted by the S151 officer.</p>	<p>Due to lack of capacity within the finance team, Anthony has to complete areas such as the collection fund, which is not ideal. There is a new member of staff starting that should increase capacity and allow this to be taken back off of Anthony. The finance team have been gradually taking responsibilities off Anthony for work that may require journals, such as PPE.</p> <p>The following mitigating controls exist currently:</p> <ul style="list-style-type: none"> - The Financial Systems Advisor enters and reconciles the Collection Fund journal entries throughout the year using the RRV 403 reports and the bank reconciliation without my involvement. - The year-end journal entries I am involved in are generated by the CIPFA model and the year-end Collection Fund balances are reconciled to the CIPFA model. - All other areas of the financial statements are reconciled and managed by Business Advisors to ensure no erroneous or incorrect journal are entered and posted. - In addition, for Business Rates we complete the NNDR3 for Government that is reconciled to the financial statements.

Key: **Significant deficiency** in internal control **Other deficiency** in internal control **Other observations**

Internal control recommendations

Assessment	Issue	Recommendation	Management response
Amber	There is not a formalised process for removal of users from the finance system (Civica) once they leave the Council. As a result leavers may still have access to applications relevant to financial reporting processes and/or a leaver's account may be accessible to other users if not timely removed.	We recommend that a formal process is put in place for user deprovisioning, this should involve being notified of users leaving the organisation and their access being removed in timely manner.	Single Sign On means that such systems use our Microsoft Azure Active Directory accounts for identity. If an active account does not exist in our Microsoft Azure Active Directory then access will not be granted. This is a standard of cloud-based systems and something we encourage be used wherever cloud-based systems are in use. In practice it means that as soon as ICT are informed that some has left the business then their accounts are disabled and that includes access to financial systems.
Amber	There are a range of system administrator accounts in place which are used by the supplier, Civica, to provide support to the finance system when required, including those actions which would be limited to privileged access accounts. However, Civica staff are not required to provide prior notice before accessing the system. As access to systems relevant to financial reporting processes is not attributable to individual users, this reduces the ability to monitor appropriate and/or inappropriate activities in the system.	We recommend that any supplier accounts a restricted from accessing the system without out prior notice through the introduction of technical restrictions, such as requiring MFA provided by the Council prior to accessing the accounts.	We will disable these accounts and Civica will have to get in touch when they need access.

Key: **Significant deficiency** in internal control **Other deficiency** in internal control **Other observations**



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