



# Audit Findings

*Year ending 31 March 2018*

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Lichfield District Council  
25 July 2018



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Lichfield District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 13. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Member Standards Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items are detailed on the next page.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li></ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Lichfield District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 16.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>certify the closure of the audit</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

## Audit approach

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

- An evaluation of the Council's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Member Standards Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include:

- obtaining and reviewing remaining third party investment confirmations;
- final quality assurance checks of the audit file;
- receipt of the signed management representation letter; and
- review of the final, approved set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail our assessment of materiality in the table to the right.

	Amount
<b>Materiality for the financial statements</b>	£864k
<b>Performance materiality</b>	£648k
<b>Trivial matters</b>	£43k
Materiality for specific transactions, balances or disclosures:	
<b>Senior officers' remuneration and exit packages</b>	£100k

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- The culture and ethical frameworks of local authorities, including Lichfield District Council, mean that all forms of fraud are seen as unacceptable.

**Therefore we do not consider this to be a significant risk for Lichfield District Council.**

### Work performed

We have:

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

### Key findings

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

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.

The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

Management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;
- obtained a full listing of journal entries, identified and tested unusual and significant journal entries for appropriateness; and
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

### Key findings

Our audit work has not identified any issues in respect of management override of controls.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of property, plant and equipment

Previously the Council has revalued its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from current value. This year the Council have changed their approach and revalued the vast majority of their land and buildings and surplus assets. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

### Work performed

We have undertaken the following work in relation to this risk:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- considered the competence, expertise and objectivity of any management experts used;
- reviewed the basis on which the valuation is carried out and challenged the key assumptions;
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;
- tested revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

### Key findings

Our audit work has not identified any issues in respect of the valuation of the Council's property, plant and equipment.

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### Valuation of investment properties

Investment properties were historically included in the Council's rolling valuation programme along with other land and buildings. Following on from previous audit recommendations due to the Council's highly material investment property balance and the differing valuation requirements of PPE and investment properties, the Council are considering investment properties separately for the 2017/18 year.

We identified investment property revaluations and impairments as a risk requiring special audit consideration.

### Work performed

We have undertaken the following work in relation to this risk:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- considered the competence, expertise and objectivity of any management experts used;
- reviewed the basis on which the valuation is carried out and challenged the key assumptions;
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;
- tested revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current fair value.

### Key findings

Our audit work has not identified any issues in respect of the valuation of the Council's investment properties.

# Significant audit risks

## Risks identified in our Audit Plan

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### Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

In addition, the Council has outsourced the provision of leisure services during the 2017/18 year, resulting in a number of staff transferring to the new provider under TUPE. The agreement in place surrounding this transfer includes specific clauses relating to the pensions of these individuals.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

## Commentary

### Work performed

We have undertaken the following work in relation to this risk:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;
- evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;
- gained an understanding of the basis on which the valuation is carried out;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made;
- checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary; and
- reviewed the agreements in place around the staff who have transferred under TUPE, and management's assessment of how these are best treated in the financial statements.

### Key findings

At the time of writing this report, work is still ongoing to determine whether the Council's approach to accounting for the pension liability relating to the staff that transferred under TUPE is correct. Further information on this is included on page 9 of this report.

Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

### Employee remuneration

Payroll expenditure represents a significant percentage (30%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with the CHRIS21 sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (64%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention.

## Commentary

### Work performed

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls;
- agree that payroll costs are complete within the financial statements via review of the reconciliations between the payroll system and the General Ledger; and
- undertake a trend analysis and detailed analytics to ensure pay is materially complete.

### Key findings

Our audit work has not identified any issues in respect of the completeness of the Council's employee remuneration costs.

### Work performed

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- performed detailed substantive testing on operating expenditure recorded for the financial year; and
- tested operating expenditure to ensure cut-off has been correctly applied.

### Key findings

Our audit work has not identified any significant issues in respect of the completeness of the Council's operating expenditure costs.



# Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.




Significant matter	Commentary	Outcome
<p>The Council has outsourced the provision of leisure services during the 2017/18 year, resulting in a number of staff transferring to the new provider under TUPE.</p> <p>The agreement put into place surrounding the transfer of these members of staff includes specific clauses relating to the LGPS pensions of these individuals.</p>	<p>There are fundamentally two treatments that could be applied:</p> <ul style="list-style-type: none"> <li>• <b>Option 1 – (actuarial risk retained by the Council)</b> The Council include the staff transferred under TUPE within the Council's net pension liability; or</li> <li>• <b>Option 2 – (actuarial risk passed to the service provider)</b> The Council exclude the staff transferred under TUPE from the Council's net pension liability, and instead review the need to recognise a liability for a pension guarantee in the financial statements.</li> </ul> <p>Management have determined that the second option is the most appropriate for the Council, and is in line with guidance currently available. The Council requested that their actuary prepare an IAS19 report that excluded the staff that were no longer employees of the Council at the end of the year.</p> <p>The Council's draft financial statements were prepared on the basis that actuarial risk for the individuals transferred to the provider was no longer the Council's risk, and so the Council no longer has any liability for their pension.</p>	<p>At the time of writing this report, discussions are still ongoing as to the correct treatment of this pension liability.</p> <p>As part of their evaluation of the two available accounting treatments, the Council have obtained two separate actuarial valuations (one including the staff transferred under TUPE and one excluding them). The Council discussed the issue with us at an early stage and the two valuations provide assurance that, even if the Council's current treatment is incorrect, the maximum potential misstatement of the liability in the 2017/18 accounts is £600k. We are therefore satisfied that the potential mistreatment of this liability will not give rise to a material misstatement in the Council's financial statements this year.</p> <p>We will finalise our view on the correct treatment of this balance prior to the Audit and Member Standards Committee, in order to provide a verbal update prior to the approval of the financial statements.</p> <p>Management have decided that, should we determine that an error has been made in the accounting treatment applied, they will not amend for this issue due to the resource that would be required to action the potential adjustment prior to the reporting deadline of 31 July 2018 and the non-material nature of the error. We have therefore included reference to it in Appendix C.</p>

## Other issues




This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	
Impact of IFRS 9	<p>The Council have included a statement in Note 2 to the financial statements that they are electing to present changes in the fair value of equity investments in other comprehensive income from 1 April 2018.</p> <p>If the election is deemed ineffective and a statutory override is not confirmed the Council will be required to recognise all gains and losses and impairment charges as income and expenditure in year and will need to finance any losses from general funds.</p>	<p>We do not consider that this election is available for the type of investments that the Council holds. However there is currently no guidance available on the application of the standard to the public sector, and there is the possibility of a statutory override to IFRS 9 being issued.</p> <p>This issue has no impact on the Council's performance or position for the 2017/18 financial year, and so has not affected our opinion.</p>

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Council's revenue recognition policies are disclosed within Note 1 of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services, and government grants and contributions, along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.</p> <p>Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.</p> <p>The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year.</p> <p>Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received. Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached have been satisfied.</p>	<p>The revenue recognition policy is consistent with the Code of Practice on Local Authority Accounting.</p> <p>Management have followed the policy in accounting for the Council's revenue streams.</p>	 <b>(Green)</b>
<b>Judgements and estimates</b>	<p>Key judgements and estimates include:</p> <ul style="list-style-type: none"> <li>– Valuation and useful life of PPE</li> <li>– Fair value measurement of investment property</li> <li>– Valuation of the pension fund net liability</li> <li>– Accruals of income and expenditure</li> <li>– Provision for NNDR appeals</li> <li>– Provision for bad debts</li> </ul>	<p>Disclosures of critical judgements and assumptions used in Notes 3 and 4 to the Financial Statements are considered to be clear.</p> <p>The policies adopted for material accounting estimates are consistent with the Code of Practice on Local Authority Accounting.</p> <p>We have reviewed your Business Rate Appeals provision and are satisfied with the approach taken.</p>	 <b>(Green)</b>
<b>Other critical policies</b>		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	 <b>(Green)</b>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Member Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ <b>Written representations</b>	A standard letter of representation has been requested from the Council, which is included in the Audit and Member Standards Committee papers.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to banks and investment and debt counterparties. This permission was granted and the requests were sent. At the time of writing this report, a small number of these requests were outstanding. Should these remain outstanding we will undertake alternative procedures to gain assurance over these balances.
⑥ <b>Disclosures</b>	Issues and omissions found during our review are summarised in Appendix C.
⑦ <b>Significant difficulties</b>	No significant difficulties were encountered during the completion of our work.

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E.</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This work is not required for Lichfield District Council, as the Council does not exceed the threshold.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Lichfield District Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

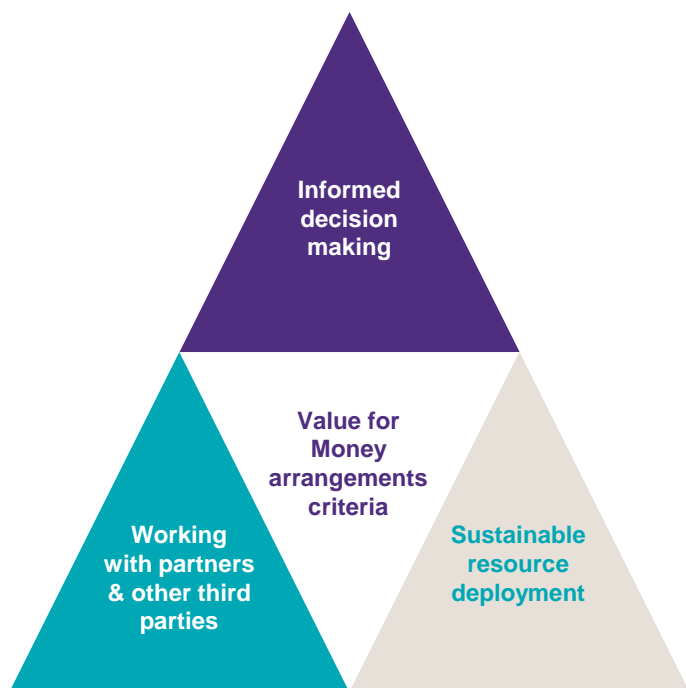
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified one significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Committee Update in March 2018.

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

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council had a clear governance and reporting structure in place for the project;
- key decisions relating to the project were clearly documented and communicated; and
- the Council's risk management procedures were appropriately followed.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the next page.

## Overall conclusion

Based on the work we performed to address the significant risk, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work Performed	Findings
<p><b>Friarsgate development</b></p> <p>Friarsgate was the Council's city centre regeneration project, which was intended to improve the retail and leisure offerings in the City, as well as replace existing Council infrastructure including the Bus station, Public toilets and the Multi Storey Car Park.</p> <p>The infrastructure requires considerable updating and investment. Projects within the programme needed to be effectively managed to ensure they are completed to time, budget and quality.</p> <p>During the course of 2017/18, the Council and its development partner were unable to secure funding for the project, and on 26 June 2018, the Council made the decision to walk away from the development agreement.</p>	<p>We reviewed the project management structure and governance structure for the project, and the processes and controls in place to monitor them.</p> <p>We considered how these processes and controls fed into Member scrutiny by the Environment and Development (Overview and Scrutiny) Committee.</p> <p>We maintained an understanding of the progress made on the project, the issues faced by the Council, and how these fed into future plans. We discussed with management how they were ensuring that the Council attained Value for Money on the development.</p> <p>We have reviewed key papers that were presented to decision-making bodies, and the information that they contained.</p>	<p>We are satisfied that the Council had a clear chain of reporting and governance structure in place regarding the Friarsgate development, led by the Environment and Development (Overview and Scrutiny) Committee.</p> <p>Regular updates were provided to this Committee, as well as to Audit and Member Standards, Cabinet and Council, detailing the progress on the development, the risks it faced and key decisions to be made.</p> <p>The Council's forward financial planning was not reliant on the success of the development, and so the decision to walk away from the agreement has no detrimental effect on the Council's financial plans.</p> <p>At the end of March 2018, the Council had spent approximately £4.35m on the development, of which £2.2m related to land acquisitions.</p> <p>We have maintained a watching brief over the events since the end of the financial year, and are satisfied that nothing has occurred that indicates that there was a weakness in arrangements in 2017/18.</p> <p><b>We have concluded that for the 2017/18 year the risk is sufficiently mitigated and the Authority had proper arrangements in place to secure value for money.</b></p>



# Independence and ethics

## **Independence and ethics**

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.


Details of fees charged are detailed in Appendix D.

## **Audit and Non-audit services**




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

# Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	<p data-bbox="198 472 234 505"></p> <p data-bbox="327 465 965 518"><b>Consideration of a de-minimis level for manual year-end accruals and adjustments</b></p> <p data-bbox="327 534 1000 668">Our testing of income and expenditure accruals identified a number of small value items. Processing of low-value accruals can create extra work for the Council's finance team during the close-down process and is unlikely to have a material impact on the financial statements if the accruals were incorrect.</p>	<p data-bbox="1058 465 1980 629">Management might consider a de-minimis threshold for manual accruals and adjustments at year-end as part of closedown procedures. Any smaller items under this level could then be excluded from the financial statements in line with accounting policies as there would be no material impact. Thought would need to be given to the de-minimis level such that exclusion of items below this would not create a material omission.</p> <p data-bbox="1058 648 1317 668"><b>Management response</b></p> <p data-bbox="1058 686 1939 796">We will consider the application of a de-minimis to manual year end accruals and adjustments in 2018/19 in terms of the potential impact to the Financial Statements, General Fund financial performance and the resources required to implement any change.</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We made two recommendations in our 2016/17 Audit Findings report following the audit of the Council's financial statements in the previous year. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Officers should more explicitly evaluate the judgements made by the external valuer and satisfy themselves that where assets are not formally valued in year, their value is still fairly stated at the end of each financial year.	The Council have considered the risk of material misstatement arising from assets not formally revalued in the year and have revised the valuation programme to address this. Officers are satisfied with the assumptions and estimates used by the valuer.
2	✓	The Code requires that investment properties be held at Fair Value at the balance sheet date. These properties should be formally valued every year in order to ensure compliance with the Code.	Investment properties are now treated as a separate class of assets, and do not form part of the PPE valuation rolling program. All but one investment properties were formally revalued by the external valuer in 2017/18. The remaining property was reviewed by the valuer and was considered to be at an appropriate fair value.

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1 During our review of the Council's provision for appeals relating to National Non-Domestic Rates (NNDR) revenues, we noted that the whole of the provision was included as 'current' in the Balance Sheet (ie expected to fall due before 31 March 2019). Using information available from historic trends, and known changes to the NNDR appeals process, the Council have adjusted the face of the balance sheet as follows:		
Dr Short Term Provisions		1,180
Cr Long Term Provisions		(1,180)
The prior year balances have also been amended for comparability.		
<b>Overall impact</b>	<b>£nil</b>	<b>£nil</b>

## Misclassification and disclosure changes

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

Disclosure	Detail	Adjusted?
<b>Grant Income</b> (Note 33)	An item of grant funding for £86k was disclosed twice in the Grant Income disclosure note. The Council have amended the financial statements to correct this. We have confirmed that this misstatement only impacted on the disclosure, and there was not an error in the Council's Comprehensive Income and Expenditure Statement.	✓
<b>Various</b>	A number of minor disclosure amendments were proposed as a result of our review of the draft financial statements.	✓

# Audit Adjustments

## **Error identified in sample testing**

During sample testing of creditors, we identified an item of £9,850 which relates to 2018/19. This had been reversed out of the Council's 2017/18 expenditure by accruing for it as a prepayment. This resulted in the item being included in both Short Term Creditors and Short Term Debtors in the Council's Balance Sheet, when it should not have been included in the 2017/18 financial statements at all.

Our audit approach required us to extrapolate the results of this error across the relevant population and this confirmed that the projected error of £244k was well below our materiality level, and hence we were not required to do any additional testing.

## **Potential understatement of the Council's IAS19 liability**

As discussed on page 9, the Council outsourced the provision of leisure services during the 2017/18 year, resulting in a number of staff transferring to the new provider under TUPE. The Council have not included the IAS19 liability relating to these individuals in the draft financial statements, as management do not consider that the Council has any liability for individuals who are not employees of the Council.

At the time of writing this report we have yet to conclude our work in this area, but are satisfied that the impact of any potential error in the treatment of this liability would not be material. We will provide a verbal update the Audit and Member Standards Committee on this matter.

# Fees

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

## Audit Fees

	Proposed fee	Final fee
Council Audit	£45,990	£45,990
Grant Certification relating to the Housing Benefit Subsidy Claim	£6,123	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£52,113</b>	<b>TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

## Non Audit Fees

We confirm that no non-audit or audited related services have been undertaken for the Council.

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report.**

## Independent auditor's report to the members of Lichfield District Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Lichfield District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Statement and notes to the financial statements, including the Expenditure and Funding Analysis on page 54 and a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 53 and 126 to 129, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Responsibilities for the Statement of Accounts set out on page 3, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Member Standards Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

#### Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.





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