

The Audit Findings for Lichfield District Council

Year ended 31 March 2017

26 September 2017

John Gregory

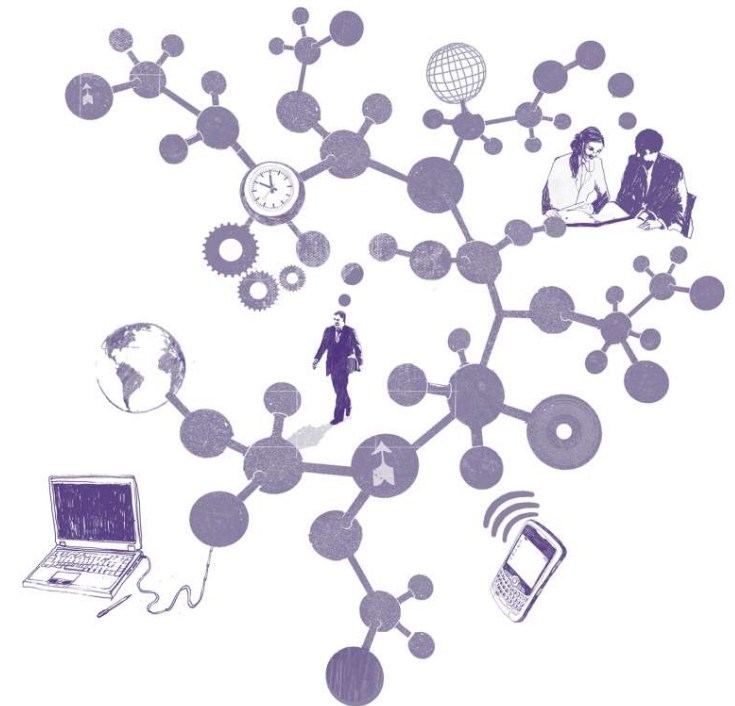
Director
T 0121 232 5333
E john.gregory@uk.gt.com

Laurelin Griffiths

Assistant Manager
T 0121 232 5409
E laurelin.h.griffiths@uk.gt.com

Bethany Hincks

Executive
T 0121 232 5364
E bethany.c.hincks@uk.gt.com



Lichfield District Council
Frog Lane
Lichfield
Staffordshire
WS13 6YY

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

T +44 (0)121 212 4000
www.grant-thornton.co.uk

26 September 2017

Dear Members of the Audit and Member Standards Committee

Audit Findings for Lichfield District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Lichfield District Council, the Audit and Member Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

John Gregory

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Lichfield District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In carrying out our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Review of the approved version of the financial statements;
- Obtaining and reviewing the signed management letter of representation; and
- Updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- draft statement of accounts and working papers were of good quality and finance staff were very responsive to subsequent audit requests;
- the statement of accounts were produced earlier than in previous years and the audit was substantially complete on 14 July 2017.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Audit and Member Standards Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance and Procurement.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and Procurement and the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £842,000 (being 2% of estimated gross revenue expenditure). We have considered whether this level remained appropriate upon receipt of the draft accounts, and during the course of the audit and have revised our overall materiality to £865,000 (being 2% of actual gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £43,000. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
Disclosure of related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made. Related party transactions have to be disclosed if they are material to the Council or to the related party	£20,000, but with due regard given to the nature of the error, its potential impact on users of the financial statements, and taking into account the materiality level of the related party

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lichfield District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken:</p> <ul style="list-style-type: none"> • a review of accounting estimates, judgements and decisions made by management • a review of journal entry processes and control environment • selection of unusual journal entries for testing back to supporting documentation • a review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • identified and documented the key controls put in place by management to ensure that the pension fund liability was not materially misstated. • walked through these key controls to assess whether they were implemented as expected and whether they mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • gained an understanding of the basis on which the valuation was carried out. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the Council's pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding performed a reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements tested a sample of employee remuneration payments to ensure these have been calculated and accounted for correctly performed a monthly trend analysis of payroll and employer contributions 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle and undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding held discussions with appropriate personnel to obtain a detailed understanding of the accruals process. tested a sample of payments made after the year end to ensure that liabilities have been recorded in the correct period. a sample of goods received but not yet invoiced was tested to identify any items which have not been accrued properly. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them."
(ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our review of the restatement of the CIES for the purposes of 'Telling the Story' has not raised any issues. The segments disclosed are in line with the Council's internal reporting methods, and are in line with our understanding of the management of the Council.</p> <p>The Council have included explanation of the changes in the presentation of the CIES in the financial statements. The Code requires a Prior Period Adjustment note to be included to provide a full trail from the figures reported in the 2015/16 accounts to the restated 2015/16 figures in the 2016/17 accounts. Management do not believe that such a detailed disclosure would benefit the reader and that this runs counter to the 'decluttering' agenda. The Council has not fully complied with the Code, but we are satisfied that this does not have an overall impact on the user of the accounts and therefore impact on our audit opinion.</p>

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there is not a going concern issue for 2016/17. The Council has a healthy level of reserves and income generation plans for the future.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The revenue recognition policy has been included in the accruals of income and expenditure section of the accounting policies. There are also separate policies for the recognition of Council Tax and NDR.	Our review of the revenue recognition policies has not highlighted any issues that we wish to bring to your attention. The policies are appropriate under the relevant accounting framework.	● Green
Judgements and estimates - PPE	Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments 	<p>The Council rightly relies primarily on its external valuer when making judgements on the revaluation and impairment of its asset base. We have recommended that officers more explicitly evaluate and challenge the valuer's conclusions to satisfy themselves that values of those assets not formally valued in the year are still fairly stated.</p> <p>Our review and testing of the work performed by the valuer has highlighted that the Council's investment properties have not been formally valued since 2014. The Code requires that investment properties are held at Fair Value at the balance sheet date. We are satisfied that the values of these assets are not misstated, however we have recommended that these assets be valued annually going forward to ensure compliance with the Code.</p> <p>We consider the disclosures around useful economic lives of assets to be appropriate.</p>	● Amber
Judgements and estimates - other	Key estimates and judgements include: <ul style="list-style-type: none"> – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Bad debt provisions 	<p>We have placed reliance on the work of the pension fund actuary for estimates relating to the pension fund valuation settlements</p> <p>We have reviewed the Council's approach and methodology for the business rate appeal provision and are satisfied the approach is reasonable and the provision is reasonably estimated and compliant with the accounting framework.</p> <p>We consider the disclosures around accruals and the bad debt policy to be appropriate.</p>	● Green
Going concern	The s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green
Other accounting policies		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.	● Green

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.	Matters in relation to fraud	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.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	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.	Written representations	A standard letter of representation has been requested from the Council, which is included in the Committee papers. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for valuations.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to your banks. This permission was granted and the requests were sent. Responses for all of these requests have been received.
6.	Disclosures	Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: 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 information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. No issues have been noted during our audit that required reporting.
8.	Specified procedures for Whole of Government Accounts	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. Detailed work is not required as the Council does not exceed the threshold.

Internal controls

Controls were found to be operating effectively at the Council and we have no matters to report to the Audit and Member Standards Committee.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

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

We have not identified any adjustments to the Council's draft accounts during the audit process. No such adjustments have been made by management.

Unadjusted misstatements

Those charged with governance are required to approve management's proposed treatment of any adjustments that are not adjusted.

There are no such unadjusted items as a result of our audit.

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Presentation	n/a	Expenditure and Funding Analysis	The Expenditure and Funding Analysis (EFA) has been included within the primary statements in the Council's draft accounts. The Code does not classify the EFA as a primary statement. However management consider that its current placement, within the primary statements, best meets the Code requirement to give the EFA due prominence. Narrative has been added to the top of the disclosure to clarify that it is a note to the accounts.
2 Presentation	645	Other Operating Expenditure	The Council disposed of a community asset in year, the proceeds of which (£645k) were incorrectly included in unattached capital receipts in the draft accounts, and not within gain/loss on disposal of non current assets. This has now been adjusted within Note 9, meaning that there is an overall gain on disposal of non current assets of £237k, and unattached capital receipts are £396k.
3 Disclosure	n/a	Senior Officers' Remuneration	A number of amendments have been made to the disclosure of Senior Officers' Remuneration to correct misallocations between salary and expense allowances, and to remove mileage expenses from the disclosure, as these are not taxable benefits.
4 Disclosure	n/a	Exit Packages	The disclosure has been updated to include amounts of pension strain costs and pay in lieu of notice that were omitted from the draft accounts.
5 Disclosure	4,670	Operating Leases	The disclosure note has been updated so that it is consistent with supporting records. This has led to an increase in the total liability disclosed of £449k.
6 Disclosure	n/a	Various	A small number of minor changes have been made to the wording and presentation of disclosure notes throughout the Financial Statements to improve their clarity.

Section 3: Value for Money

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our Audit Plan dated 27 March 2017.

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

Overall conclusion

Based on the work we performed, 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 B.

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

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

Fees

	Proposed fee £	Final fee £
Council audit	45,990	45,990
Grant certification	5,423	TBC
Total audit fees (excluding VAT)	51,413	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.
- No non-audit or audited related services have been undertaken for the Council.

Section 5: Communication of audit matters

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Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

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

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
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.		We will identify any improvement necessary to the valuation process with the external auditors and discuss and agree these with the external valuer	31 May 2018 Head of Finance and Procurement
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.		<p>The Council has instructed the external valuer to undertake Investment Property valuations in accordance with the IFRS as interpreted and applied by the CIPFA Code of practice for Local Authority Accounting from 1 April 2015 onwards. These valuations will also accord with the requirements of the RICS valuation – Professional Standards 2014 UK Edition (known as the Red Book) in so far as these are consistent with the IFRS and CIPFA Guidance.</p> <p>The Valuation Report provided by the external valuer details the valuations undertaken in line with the Council's instructions and professional standards. This valuation report indicates "I am of the opinion that the aggregate value for accounting purposes of the properties detailed in the accompanying schedule is fairly stated at: Investment Properties: £5,572,250. I confirm that these valuations have been carried out by an external RICS Registered Valuer in accordance with the RICS Valuation - Professional Standards, May 2014 Edition, subject to any departures and special assumptions detailed in this report, and there are considered to be no conflicts of interest."</p> <p>Therefore we need to discuss with the external valuer the approach applied to provide the valuation to determine if this needs to be refined to ensure full compliance with the Code.</p>	31 October 2017 Head of Finance and Procurement

B: 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

We have audited the financial statements of Lichfield District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes, which include the Expenditure and Funding Analysis on page 40. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

John Gregory
for and on behalf of Grant Thornton UK LLP



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