



Annual Audit Letter

Year ending 31 March 2018

Lichfield District Council

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lichfield District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Member Standards Committee as those charged with governance in our Audit Findings Report on 25 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £864,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 25 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Member Standards Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Lichfield District Council in accordance with the requirements of the Code of Audit Practice.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £864,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks for the Council

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment and investment properties</p> <p>The Council revalues its land and buildings on a 5 year basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>Investment properties were historically included in the Council's rolling valuation programme along with other land and buildings. Following 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 considered investment properties separately for the 2017/18 year.</p> <p>We identified revaluations and impairments of both land and buildings and investment properties as risks requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work did not identify any issues in respect of the valuation of the Council's property, plant and equipment or investment properties.</p>

Audit of the Accounts

Significant Audit Risks for the Council (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> • 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; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary. 	<p>At the time of writing the Audit Findings Report that was presented to Audit and Member Standards Committee on 25 July 2018, discussions were still ongoing as to the correct treatment of the pension liability relating to staff who had been transferred from the Council to a leisure service provider during 2017/18.</p> <p>A verbal update was provided to the Committee prior to the approval of the financial statements and the issuing of our audit opinion. We are satisfied that the Council's decision to exclude the staff in question from their actuarial calculations, and from the liability in the Council's balance sheet as at 31 March 2018, was appropriate.</p> <p>Our audit work did not identify any issues in respect of the valuation of the Council's pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Member Standards Committee on 25 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Lichfield District Council in accordance with the requirements of the Code of Audit Practice. We certified the closure of the audit within our audit report issued on 25 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We carried out an initial risk assessment in February 2018 using the guidance contained in AGN03. The key risk we identified and the work we performed are set out overleaf.

We continued our review of relevant documents up to the date of giving our audit report, and did not identify any additional significant risks requiring us to perform further work.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Friarsgate development</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>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.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned fees £	Actual fees £
Statutory audit	45,990	45,990
Housing Benefit Grant Certification	6,123	TBC
Total fees	52,113	TBC

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

Fees for non-audit services

Service	Fees £
Audit related services	
None	-
Non-Audit related services	
None	-

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. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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