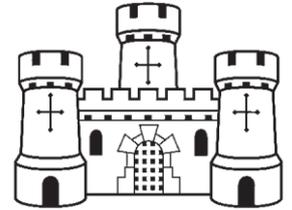


Public Document Pack

Date of meeting Monday, 23rd September, 2019
Time 7.00 pm
Venue Lancaster Buildings, - Ironmarket, Newcastle, Staffs
Contact Geoff Durham



**NEWCASTLE
UNDER LYME**
BOROUGH COUNCIL

Castle House
Barracks Road
Newcastle-under-Lyme
Staffordshire
ST5 1BL

Audit and Standards Committee

AGENDA

PART 1 – OPEN AGENDA

- 1 APOLOGIES**
- 2 DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 3 MINUTES OF PREVIOUS MEETING** (Pages 3 - 6)
To consider the minutes of the previous meeting(s).
- 4 LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER** (Pages 7 - 16)
- 5 CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD APRIL TO JUNE 2019 (Quarter 1 (Q1))** (Pages 17 - 36)
- 6 AUDITED ACCOUNTS FOR 2018/19** (Pages 37 - 70)
- 7 ANNUAL AUDIT LETTER** (Pages 71 - 90)
- 8 INTERNAL AUDIT PROGRESS REPORT - QUARTER ONE - 2019/20**
Report to follow
- 9 QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE - APRIL TO JUNE, 2019**
Report to follow.
- 10 URGENT BUSINESS**
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors P Waring (Chair), S. Dymond, S. Pickup, M. Stubbs, G. Burnett, B. Panter and K.Owen (Vice-Chair)

Members of the Council: If you identify any personal training/development requirements from any of the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Democratic Services Officer at the close of the meeting.

Meeting Quorums :- 16+= 5 Members; 10-15=4 Members; 5-9=3 Members; 5 or less = 2 Members.

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

AUDIT AND STANDARDS COMMITTEE

Monday, 29th July, 2019
Time of Commencement: 7.00 pm

Present:-	Councillor Paul Waring – in the Chair
Councillors	S. Pickup, M. Stubbs, G. Burnett, B. Panter, K.Owen and S. Moffat
Officers	Geoff Durham - Mayor's Secretary / Member Support Officer, Jan Willis - Interim Executive Director - Resources and Support Services and Craig Turner - Principal Accountant
Also in Attendance	Mr Phil Butters – University of Keele Mr Phil Jones – Grant Thornton Mrs Claire Potts – Stoke on Trent City Council

1. **APOLOGIES**

Apologies were received from Councillor Dymond.

2. **DECLARATIONS OF INTEREST**

There were no declarations of interest stated.

3. **MINUTES OF PREVIOUS MEETING**

Resolved: That the minutes of the meeting held on 24 June, 2019 be agreed as a correct record subject to Councillor Panter's apologies being recorded.

4. **EXTERNAL AUDIT OF 2018/19 ACCOUNTS**

Consideration was given to a report updating Members on the progress of the external audit of the accounts for the 2018/19 financial year.

Phil Jones of Grant Thornton introduced the draft Audit Findings Report, drawing Members' attention to page 9 of the agenda with the title 'Headlines' which set the context for this years' audit. There had been a lot of staff changes at Newcastle during the past year and, due to scrutiny from the regulator a lot more focus had been put onto pensions and property, plant and equipment valuations than in previous years.

The audit risks set out on pages 11 to 13 of the agenda impacted upon every local authority. This included the McCloud judgement handed down by the court of Appeal last month which has required the Council to increase the net pensions liability recorded in its accounts

Other significant audit issues included the classification of the Ryecroft site which would need to be adjusted as it was still held as an operational asset. The presence of asbestos within the former Civic Offices would also affect the valuation.

The J2 building valuation figure would also need amending due to Spons issuing incorrect data. Members were advised that this issue also affected 38 other assets which would also need to be revalued, although the amendments would not affect the bottom line.

Councillor Stubbs asked whether the retirement of a key financial officer and lack of resources within the finance team had contributed to the delay in completing the audit and if so why this problem was not foreseen.

The Interim Director of Resources and Support Services explained that the retirement of the previous Head of Finance had been anticipated and a detailed handover of duties and responsibilities had taken place. However, he left with a lot of experience and information in his head, which could never be totally be passed on. Phil Jones added that it was unfortunate that his retirement coincided with a particularly complex set of accounting issues and a number of external developments which created "the perfect audit storm" this year.

Looking to the future his departure presented an opportunity to do things differently. The Council had looked at introducing a computerised Asset Management system to streamline the PPE valuation process but the shorter statutory deadline meant there had not been time to do it. However, it would be a priority to have this in place for next year.

Members were advised that a full time Head of Finance position had just been advertised internally.

Councillor Pickup asked if the valuations of assets had been wrong in previous years.

Members were advised that the revaluations had been wrong this year because Spons had issued incorrect data. However, this did not affect prior year valuations.

Councillor Stubbs enquired about the Auditors suggestion of a £2m amendment to the accounts in connection to the Ryecroft site. Members were advised that the Revaluation reserve would be adjusted to take this into account. It was a non-cash Balance Sheet transaction which did not affect the revenue account

Mr Jones advised Members that no problem areas had been identified in the accounts and that subject to no further issues coming to light when the outstanding work detailed in the report was completed he expected to be able to issue an unqualified opinion on the accounts themselves and an unqualified value for money opinion

Councillor Stubbs enquired about the financial sustainability of the Council asking what had been done, in addition to the budget to ensure that the Council was not at risk of intervention as had happened with some local authorities.

The Interim Executive Director of Resources and Support Services responded that balances and reserves had been increased from £1.3m to £1.548m and a number of long standing structural issues had been dealt with in setting this years budget.

- Resolved:**
- (i) That the progress of the external audit of the accounts for The financial year 2018/19 be noted.
 - (ii) That the Chair of the Committee be given delegated

authority to sign the final audited accounts on completion of the audit.

5. INTERNAL AUDIT ANNUAL REPORT 2018/19

The Head of Internal Audit at Stoke on Trent City Council, Claire Potts introduced a report providing details of the Internal Audit activity for 2018-19. A copy of the report was appended at page 11 of the agenda

Members were advised that a total of 54 audit recommendations had been made during the year and there were currently seven audits in progress.

Councillor Stubbs asked if the two 'high risks' that were identified within the report had been resolved.

Jan Willis confirmed that the audit recommendations had been implemented.

Councillor Pickup asked what the 5 audits were that were not required, as outlined in table 4 of the report.

Claire Potts did not have this information to hand but would circulate a list to Members after the meeting.

Councillor Panter asked if future reports could include a glossary of the abbreviations used. This was noted.

Resolved: That, the Internal Audit Annual Report for 2018/19 be noted.

6. URGENT BUSINESS

There was no Urgent Business.

COUNCILLOR PAUL WARING
Chair

Meeting concluded at 8.00 pm

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT TO AUDIT AND STANDARDS COMMITTEE

23rd September 2019

1. LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER 2018/19

Submitted by: Ombudsman Link Officer

Ward(s) affected: All

Purpose of the Report

To inform the Members of the Committee of the Council's performance in relation to complaints made to the Local Government Ombudsman (LGO) for the year ended 31st March 2019.

RECOMMENDATION:

That the report be received.

Reasons

The aim of the Annual Review Letter is to provide councils with information which will help them assess their performance in handling complaints.

Background

- 1.1 The LGO provides an annual summary of complaints they have received against the Council. This annual letter is distributed to councils in July and covers the 12 month period from April to March. It includes statistics on the number of enquiries and complaints received by the LGO Advice Team.
- 1.2 Decision statements are published on the LGO website no earlier than three months after the date of the final decision. The information published does not name the complainant or any individual involved with the complaint.
- 1.3 Part of being an open and accountable Ombudsman service is having transparent decision making processes. The LGO publishes its decisions so that the public and bodies within its jurisdiction see the full range of decisions and can feel reassured that they are fair, thorough and impartial.
- 1.4 Publishing decisions also recognises the key role the LGO plays in helping to ensure that public services are accountable to the public, who use and fund those services. Greater transparency of the LGO's decisions means greater transparency of public services.
- 1.5 The LGO does however retain discretion not to publish a decision, for example where it would not be in the interests of the person complaining to publish or where there is a reason in law not to.

Issues

2.1 Last year, the total number of complaints and enquiries received by the LGO about the Borough Council was 18. This year the total number is 20. These statistics comprise the data held by the LGO and do not necessarily align with the data held by the Borough Council. For example, some complainants may be signposted back to the Borough Council by the LGO, but the complainant may not choose to do so. In addition, some complaints may have been dealt with by the Borough Council in one financial year, but received by the LGO in the following financial year.

2.2 The LGO categorises complaints using the following headings:

Invalid or incomplete: The LGO were not given enough information by the complainant to consider the issue

Advice given: The LGO provided early advice or explained where to go for the right help

Referred back for local resolution: When a complainant has brought a complaint to the LGO before the organisation involved has been given a chance to consider it

Closed after initial enquiries: The complaint is assessed, but the LGO decided against completing a full investigation. This might be because the law says the LGO is not allowed to investigate it, or because it would not be an effective use of public funds if they did.

The LGO cannot usually consider a complaint if:

- More than 12 months have elapsed since the problem arose
- The matter does not affect a complainant personally or caused them an injustice
- The issue affects most people in a council's area
- The complainant has, or had, a right of appeal or to take legal action and the LGO considers that it is reasonable for them to have done so. This might be to:
 - A tribunal (such as the Housing Benefit Appeals Service)
 - A government minister (such as a planning appeal)
 - The courts
- The complaint is about personnel matters (such as employment or disciplinary issues)

Upheld: The LGO completed a detailed investigation and found evidence of fault, or the organisation accepted fault early on

Not upheld: The LGO completed a detailed investigation but did not find evidence of fault

Public report: There are many reasons why the LGO might issue a public report. The main reason being that they believe it is in the public interest to highlight particular issues or problems. In addition, a public report may be issued because what went wrong was significant or because the impact on the complainant was significant.

The LGO will always issue a public report if an organisation does not agree with their findings or recommendations, or put things right to their satisfaction. The LGO considers that issuing public reports is one way that helps ensure that councils, and other organisations providing public services, remain accountable to people who use those

services. By highlighting the learning from complaints the LGO helps to improve services for others.

2.3 Last year, the total number of decisions made was 18, of which 9 were referred back for local resolution, 4 were closed after initial enquiries, 4 were upheld and one was not upheld. No public reports were issued against the Council. This year, the total number of decisions made has increased slightly to 20, out of which 10 were referred back for local resolution, 7 were closed after initial enquiries, and 3 were not upheld. Again, no public reports have been issued against the Council.

2.4 It is considered overall that the Council is performing extremely well in its response to complaints made to the LGO. The expectation of customers regarding service delivery does not reduce in line with the challenges currently faced by councils, and customers are prepared to elevate their dissatisfaction beyond the Council's own complaints procedure. Complaints to the LGO do not always involve the Council having done anything wrong. Such complaints may come from persons who would have liked something more, or better, or a different outcome. Officers will continue to learn from complaints and use this learning to improve and maintain the quality of the services the Council provides.

3. Outcomes Linked to Sustainable Community Strategy and Corporate Priorities

The LGO service contributes to the Council's priority of delivering high quality community driven services.

4. Legal and Statutory Implications

There are no new legal or statutory implications. The Local Government Ombudsman's powers are defined by the Local Government Act 1974 as amended by the Local Government and Public Involvement in Health Act 2007.

5. Equality Impact Assessment

No differential equality impact issues have been identified.

6. Major Risks

There are no specific risk issues.

7. Financial Implications

There are no financial implications flowing from this report but the Council does face the risk of financial penalty in cases where there has been a finding of fault causing injustice.

8. List of appendices

Year ending 31st March 2019 annual review letter.

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24 July 2019

By email

Martin Hamilton
Chief Executive
Newcastle-under-Lyme Borough Council

Dear Mr Hamilton

Annual Review letter 2019

I write to you with our annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2019. The enclosed tables present the number of complaints and enquiries received about your authority, the decisions we made, and your authority's compliance with recommendations during the period. I hope this information will prove helpful in assessing your authority's performance in handling complaints.

Complaint statistics

As ever, I would stress that the number of complaints, taken alone, is not necessarily a reliable indicator of an authority's performance. The volume of complaints should be considered alongside the uphold rate (how often we found fault when we investigated a complaint), and alongside statistics that indicate your authority's willingness to accept fault and put things right when they go wrong. We also provide a figure for the number of cases where your authority provided a satisfactory remedy before the complaint reached us, and new statistics about your authority's compliance with recommendations we have made; both of which offer a more comprehensive and insightful view of your authority's approach to complaint handling.

The new statistics on compliance are the result of a series of changes we have made to how we make and monitor our recommendations to remedy the fault we find. Our recommendations are specific and often include a time-frame for completion, allowing us to follow up with authorities and seek evidence that recommendations have been implemented. These changes mean we can provide these new statistics about your authority's compliance with our recommendations.

I want to emphasise the statistics in this letter reflect the data we hold and may not necessarily align with the data your authority holds. For example, our numbers include

enquiries from people we signpost back to your authority, some of whom may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website, alongside our annual review of local government complaints. For the first time, this includes data on authorities' compliance with our recommendations. This collated data further aids the scrutiny of local services and we encourage you to share learning from the report, which highlights key cases we have investigated during the year.

New interactive data map

In recent years we have been taking steps to move away from a simplistic focus on complaint volumes and instead focus on the lessons learned and the wider improvements we can achieve through our recommendations to improve services for the many. Our ambition is outlined in our [corporate strategy 2018-21](#) and commits us to publishing the outcomes of our investigations and the occasions our recommendations result in improvements for local services.

The result of this work is the launch of an interactive map of council performance on our website later this month. [Your Council's Performance](#) shows annual performance data for all councils in England, with links to our published decision statements, public interest reports, annual letters and information about service improvements that have been agreed by each council. It also highlights those instances where your authority offered a suitable remedy to resolve a complaint before the matter came to us, and your authority's compliance with the recommendations we have made to remedy complaints.

The intention of this new tool is to place a focus on your authority's compliance with investigations. It is a useful snapshot of the service improvement recommendations your authority has agreed to. It also highlights the wider outcomes of our investigations to the public, advocacy and advice organisations, and others who have a role in holding local councils to account.

I hope you, and colleagues, find the map a useful addition to the data we publish. We are the first UK public sector ombudsman scheme to provide compliance data in such a way and believe the launch of this innovative work will lead to improved scrutiny of councils as well as providing increased recognition to the improvements councils have agreed to make following our interventions.

Complaint handling training

We have a well-established and successful training programme supporting local authorities and independent care providers to help improve local complaint handling. In 2018-19 we delivered 71 courses, training more than 900 people, including our first 'open courses' in Effective Complaint Handling for local authorities. Due to their popularity we are running six more open courses for local authorities in 2019-20, in York, Manchester, Coventry and London. To find out more visit www.lgo.org.uk/training.

Finally, I am conscious of the resource pressures that many authorities are working within, and which are often the context for the problems that we investigate. In response to that situation we have published a significant piece of research this year looking at some of the

common issues we are finding as a result of change and budget constraints. Called, [Under Pressure](#), this report provides a contribution to the debate about how local government can navigate the unprecedented changes affecting the sector. I commend this to you, along with our revised guidance on [Good Administrative Practice](#). I hope that together these are a timely reminder of the value of getting the basics right at a time of great change.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M King', with a horizontal line underneath.

Michael King
Local Government and Social Care Ombudsman
Chair, Commission for Local Administration in England

Local Authority Report: Newcastle-under-Lyme Borough Council
For the Period Ending: 31/03/2019

For further information on how to interpret our statistics, please visit our [website](#)

Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
0	6	2	0	6	0	2	4	0	20

Decisions made

Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Detailed Investigations			Total
				Not Upheld	Upheld	Uphold Rate (%)	
0	0	10	7	3	0	0	20

Note: The uphold rate shows how often we found evidence of fault. It is expressed as a percentage of the total number of detailed investigations we completed.

Satisfactory remedy provided by authority

Upheld cases where the authority had provided a satisfactory remedy before the complaint reached the Ombudsman	% of upheld cases
0	0

Note: These are the cases in which we decided that, while the authority did get things wrong, it offered a satisfactory way to resolve it before the complaint came to us.

Compliance with Ombudsman recommendations

Complaints where compliance with the recommended remedy was recorded during the year*	Complaints where the authority complied with our recommendations on-time	Complaints where the authority complied with our recommendations late	Complaints where the authority has not complied with our recommendations	
0	0	0	0	Number
	0%		-	Compliance rate**
<p>Notes: * This is the number of complaints where we have recorded a response (or failure to respond) to our recommendation for a remedy during the reporting year. This includes complaints that may have been decided in the preceding year but where the data for compliance falls within the current reporting year. ** The compliance rate is based on the number of complaints where the authority has provided evidence of their compliance with our recommendations to remedy a fault. This includes instances where an authority has accepted and implemented our recommendation but provided late evidence of that.</p>				

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**REPORT OF THE EXECUTIVE MANAGEMENT TEAM
TO THE AUDIT AND STANDARDS COMMITTEE**

23 September 2019

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD April to June
2019 (Quarter 1 (Q1))**

Submitted by: Executive Management Team

Portfolio: Corporate and Service Improvement, People and Partnerships

Ward(s) affected: All

Purpose of the Report

To inform Members of the progress made by the Council in enhancing and embedding risk management for the period April to June 2019 (Q1), including progress made in managing identified corporate risks.

Recommendations

The Committee is asked to:-

- (a) Note that there are no overdue risk reviews (point 2.1.1).**
- (b) Note point 2.2.1 advising of the risk level increases.**
- (c) Note point 2.2.2 regarding the new risks identified between January and March 2019.**
- (d) Note that there are no issues outstanding from the previous meeting (point 2.2.4).**
- (e) Note that the updated Risk Management Strategy and Policy have been uploaded to the website and intranet (point 2.2.5).**
- (f) Note that an upgraded web based version of the corporate risk management system (GRACE) has been implemented (point 2.2.6).**
- (g) Note Appendix A and scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable.**
- (h) Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee.**

Reasons

The risk management process previously adopted by the Council has been reviewed to incorporate changes in the way the Council works and to provide continuity and streamlined reporting of risks to allow the process to become further embedded at each level of the authority. This will also aid the identification of key risks that

potentially threaten the delivery of the Council's corporate priorities. The Risk Management Strategy provides a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

1. Background

- 1.1 The Council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software used to record and manage risks.
- 1.2 The Council currently reviews its high (red 9) risks at least monthly and its medium (amber) risks at least quarterly.
- 1.3 The last review of these risks (Q4 2019) was reported to the Council's Audit & Standards Committee in April 2019.
- 1.4 Risk owners are challenged by the Council's Risk Champions in respect of the controls, further actions, ratings and emerging risks related to their risks, and are also challenged on the reasons for inclusion or non-inclusion and amendment of these.
- 1.5 Projects are managed to a high level in relation to risk and are reviewed in accordance with the Risk Management Strategy (i.e. at least monthly).

2. Issues

- 2.1 Further to an Audit Assurance recommendation, your officer has been asked to report on overdue risk reviews that are 6 months out of date.
 - 2.1.1 At the time of running the report, there were no overdue reviews.
- 2.2 Following a previous meeting a brief point is now produced to show any risks where the risk level has increased to a Medium 7, 8 or High 9.
 - 2.2.1 Your officer can report that there were 7 risk level increases. The majority of these increases range between Low 1 to Medium 6 ratings. There are however 2 risk level increases to a rating between Medium 7 to High 9 from existing risks and these are included in Appendix A, numbered 1 – 2.
 - 2.2.2 There have been 22 new risks added to profiles during April to June 2019. The majority fall between Low 1 to Medium 6 ratings. One risk only has a rating of Medium Amber 7, one at Medium Amber 8 and one at High Red 9. These are numbered 3 – 5 in Appendix A. The others are rated below the reporting lines.
 - 2.2.3 Should there be any changes or increases during July to September 2019 these will be reported to the next relevant meeting of the Committee.
 - 2.2.4 There are no outstanding issues from the last meeting.
 - 2.2.5 Since the last meeting where the Risk Management Strategy and Policy were agreed, the updated documents have been uploaded on to the Internet and Intranet.

2.2.6 From April 2019 work has been ongoing and delivered between the Business Improvement Officer (Risk and Insurance), ICT and GRACE, where the operating system has been transferred over to a hosted site which has freed up a server. The system also enables any upgrades and issues to be dealt with by the provider. It has incorporated security measures for users using the Windows security log-in. The system has also been upgraded with additional functions to work in the background for easier report writing; bespoke reports and options to develop the system further using a secure test site.

3. Options Considered

3.1 No options to be considered. EMT, Heads of Service, Business Managers and Officers continue to review risks with the support of Risk Champions (where required).

3.2 The Business Improvement Officer (Risk and Insurance) continues to offer support and direction as part of this process.

4. Proposal - Strategic, Operational, Project and Partnership Risk Registers (Appendices)

4.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.

4.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.

4.3 The risk map below shows the descriptions of the ratings, for ease of use.

L I K E L I H O O D	High	7 Amber	8 Amber	9 High Red
	Medium	4 Green	5 Amber	6 Amber
	Low	1 Green	2 Green	3 Amber
		Low	Medium	High
IMPACT				

4.4 Appendix A now highlights the risks that fall into the top line of the above risk map.

5. Reasons for Preferred Solution

5.1 To offer a continual review process to minimise and mitigate risks.

6. Outcomes Linked to Corporate and Sustainable Community Priorities

6.1 Good risk management is a key part of the overall delivery of the Council's four corporate priorities of:

- Local Services that Work for Local People.
- Growing our People and Places.
- A Healthy, Active and Safe Borough.
- A Town Centre for all.

7. Legal and Statutory Implications

7.1 The Accounts and Audit (England) Regulations 2015, state that:

*“The relevant body **is** responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control, which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk”*

8. Equality Impact Assessment

8.1 There are no differential equality impact issues in relation to this report.

9. Financial and Resource Implications

9.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

10. Major Risks

10.1 As highlighted in Section 4.

11. Sustainability and Climate Change Implications

11.1 Officers assess sustainability and climate change implications as part of their local services.

12. Key Decision Information

12.1 This report is for information and there are no key decision requirements pertaining to the information contained within the report.

13. Earlier Cabinet/Committee Resolutions

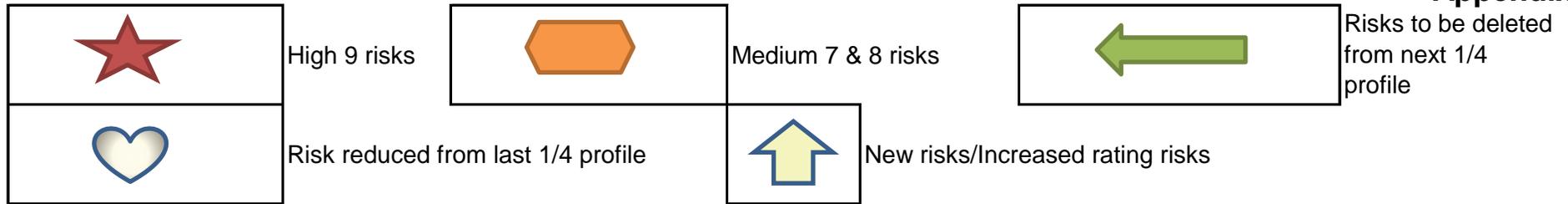
13.1 Previous Minutes from Committee meeting held on 15 April 2019.

14. List of Appendices

14.1 Appendix A – Notable High and Medium risks

15. Background Papers

15.1 Previous Minutes and reports have been circulated to relevant Members and Officers.



Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
 1  Illegal or unsafe customer access to taxi's at Newcastle Bus Station	Licensing Enforcement	In-house taxi monitoring Future of bus station use	Sep-19	Operational	Staffs Police funded monitoring concluded 31/3/19 as no approval to extend, and unable to show best value. Seeking agreement to look at other enforcement options.		I = H L = M Medium 6	I = H L = H High 9

Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Failure of air conditioning in Communication Room in Castle House	Comms Room Castle House	in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
Lack of engagement from Morgan Sindall in respect of the Aqua Sauna issues	Leisure	Roles and responsibilities to be defined and agreed Engage Legal Representatives	Aug-19	Operational	Legal Representation engaged		I = L L = L Low 1	I = L L = H Medium 7 I = H L = H High 9



2



3



Appendix A								
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
 4  Authority Public Protection Resource support unavailable	Digital Delivery	Identify alternative support until new system is running	Aug-19	Project / Operational	The immediate priority for APP resource is to assist with the Lagan CRM replacement to Jadu, by September 2019. External support has been secured however is now unlikely to be required. Longer term options for ensuring suitable development skills are currently under review.			I = M L = H Medium 8
 5  The risk of a building wide power loss within each of the Communication rooms at Castle House for more than 30 minutes.	Comms Room Castle House			Operational	Devices in the comms room can be powered down safely. All data is stored off-site and should not be lost in the event of a power failure. Staff can work in an agile way - other sites or at home			I = L L = H Medium 7



Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
<p>Potential Claims growth - a trend towards greater public awareness and 'claims culture' and the impact of the economic climate means claims may increase</p>	<p>Chief Executive</p>	<p>The Council has robust systems in place both to deal with claims when they happen and also to prevent, where possible, the circumstances where claims could arise. In doing so, the Council has in place policies and procedures designed to enhance safety at work and also to advise staff and others when driving or operating machinery. The Council checks, on a regular basis, that it is up to date on best practice in this area and that systems reflect changes in the local, national or international environments</p>		<p>Strategic</p>	<p>Risk reviewed and noted that this area is of growing significance with the number and value of claims increasing. The risk is somewhat outside of the Council's control, however the internal management of processes and procedures can provide a defence should the need arise.</p>	<p>I = H L = H High 9</p>	<p>I = H L = H High 9</p>	<p>I = H L = H High 9</p>

Appendix A									
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19	
 7	Fire risk occurrence	Corporate Health and Safety		Operational	Risk will remain high due to 2 occurrences in the past 12 months. Another incident occurred during this quarter so will remain on the report for the next 12 months	I = H L = H High 9	I = H L = H High 9	I = H L = H High 9	
 8	Failure to comply with relevant health and safety legislation	Regeneration and Development and Chief Executive	Corporate mandate for scheduled diary dates to update Target100 (Health and Safety system)	Ongoing	Strategic	There have been 4 RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1995 as amended) reportable incidents during April and May. A focussed effort upon reviewing risk assessments is expected to improve the Council resilience, however it does not affect accidents that happen and the time off due to injury.	I = H L = H High 9	I = H L = H High 9	I = H L = H High 9



Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
Failure to achieve income targets	Recycling and Waste	Continue to monitor the current global downturn in recycled material values	Ongoing	Operational	The 2019/20 income budget for recycled materials has been significantly reduced reflecting the current challenging market conditions. Income levels have stabilised in the first half of the year, however they remain largely outside of the Council's control. The position is being closely monitored.	I = H L = H High 9	I = H L = H High 9	I = H L = H High 9

Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
<p>10</p> <p>★</p> <p>Failure to deliver Local Air Quality Management action plans function in line with statutory requirements - annual reporting</p>	Environmental Protection	<p>Procure appropriate consultancy support for development of Local Plan model</p> <p>Establish agreed governance and reporting arrangements</p> <p>Outline and or full business case to be delivered to JAQU</p> <p>Regular submissions of finding requests to be made to JAQU</p> <p>To formalise procurement / legal / financial and delivery arrangements for measures identified as securing compliance in shortest time possible</p>	<p>Aug-19</p> <p>Aug-19</p> <p>Oct-19</p> <p>Oct-19</p> <p>Dec-19</p>	Operational	<p>Regular monthly submissions made and requests for financial assistance made July 2019. Awaiting details of further grant award from JAQU.</p> <p>Consultants have revised project plan and this is showing as of 04/06/19 that OBC/FBC will not now be delivered until early 2020. Project team is concerned to ensure that outcomes are evidenced based and justifiable.</p>	<p>I = H</p> <p>L = H</p> <p>Low 2</p>	<p>I = H</p> <p>L = H</p> <p>High 9</p>	<p>I = H</p> <p>L = H</p> <p>High 9</p>



Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 05/09/2019	Status as at Dec 18	Status as at March 19	Current Rating as at June 19
<p>Ministerial Direction served on NULBC ON 5th October 2018 requiring buses running on specified census ID's equating to (A53 between Sandy Lane and Etruria/A500 roundabout) to be either retrofitted to bring upto Euro 6 or Euro 6 buses to be used no later than 1st Jan 2021 or in the shortest possible time. Reliant on First Bus and First Group fully engaging and supporting project.</p>	<p>Environmental Protection Service</p>	<p>Retrofit project plan to be developed.</p> <p>Potential sale of First Bus and impacts on delivery of direction requirements. Meeting arranged with First Group Directors to understand how this may impact and also to explore current progress in identifying suitable vehicles. First Potteries / First Bus have still yet to commit to project</p>	<p>Sept-19</p> <p>Nov-19</p>	<p>Operational</p>	<p>Meeting with First Group held. Currently confirmed operations are business as usual. To be kept under review.</p>	<p>I = H L = H High 9</p>	<p>I = H L = H High 9</p>	<p>I = H L = H High 9</p>



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Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 05/09/2019	Status as at Dec 18	Status as at March 19	Current Rating as at June 19
Failure of the Borough Council (both officers and Members) to recognise both a moral and legal obligation to ensure a duty of care for children and adults across its services. The Borough Council is committed to ensuring that all children and adults are protected and kept safe from harm whilst engaged in services organised and provided by the Council. Safeguarding is everybody's responsibility.	Safeguarding	To drive across the Council business support by the Executive Management Team, the need for strengthening safeguarding through training and awareness of staff, Members and partners; recording any training on personal files; providing safeguarding champions and the support of; inclusion in Service planning; use of Communications and social media to raise awareness; further HR awareness support in the recruitment process; support for Whistleblowing situations; inclusion in appraisal process and Team Meetings.	Aug-19	Operational	A control measure updated with new protocol which has reduced the likelihood - resulting in final risk rating reduction.	I = H L = H High 9	I = H L = H High 9	I = H L = M Medium 6



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Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Criminal Exploitation - Failure to coordinate and contribute to the prevention and early intervention of any incident or pattern of incidents of controlling, coercive or threatening behaviour, violence or abuse of vulnerable people, forcing them to engage in various forms of criminal activity such as begging, gang activity and drugs supply; modern slavery and human trafficking etc.	Safeguarding	Final sign off of new protocols to take place - MARAC and Vulnerability Hub Information sharing protocols to be approved to support the process. The process is reviewed separately each quarter to look at outcomes achieved.	Mar-20	Operational	Control measure updated. Likelihood reduced due to no incidents in the past 12 months - resulting in final risk rating reduction.	I = H L = H High 9	I = H L = H High 9	I = H L = M Medium 6



Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Safeguarding Children - the safeguarding duties apply to any child who is experiencing, or at risk of, abuse or neglect.	Safeguarding	Final sign off of new protocols to take place - MARAC and Vulnerability Hub Information sharing protocols to be approved to support the process. The process is reviewed separately each quarter to look at outcomes achieved.	Mar-20	Operational	Control measure updated. Likelihood reduced due to no incidents in the past 12 months - resulting in final risk rating reduction.	I = H L = H High 9	I = H L = H High 9	I = H L = M Medium 6



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Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Partners failing to share relevant information to assist the council in their Safeguarding obligations.	Safeguarding	Final sign off of new protocols to take place - MARAC and Vulnerability Hub Information sharing protocols to be approved to support the process. The process is reviewed separately each quarter to look at outcomes achieved.	Mar-20	Operational	Control measure updated. Likelihood reduced due to no incidents in the past 12 months - resulting in final risk rating reduction.	I = H L = H High 9	I = H L = H High 9	I = H L = M Medium 6

Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
 16  Lack of capacity due to failure to replace key staff or provide resources to cover the work of other staff	Human Resources	Workforce plan to be developed to coincide with the recruitment to the vacant posts	Oct-19	Operational	Final rating reduced due to the advertising of vacant posts	I = M L = L Low 2	I = H L = H High 9	I = M L = H Medium 8
 17  Cost of service may exceed budget	Recycling and Waste	Continual monitoring of the market for companies to obtain the best off-take prices	Ongoing	Operational	The additional income over and above recycling credit shortfall from the garden waste scheme will help to offset budget overspend to some degree.	I = H L = H High 9	I = H L = M Medium 6	I = H L = M Medium 6

Appendix A Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
  18 	Audit	Collaboration with local council for reporting and support in the audit plans. Contract in place and will be reviewed annually.		Operational	The new arrangement with SOTCC is working well and satisfactory progress is being made against the audit plan.	I = M L = H Medium 8	I = M L = H Medium 8	I = M L = M Medium 5
  19 	Revenue Services	Staff awareness training. Review of Procedures	Dec-18	Operational	Although the training and review of procedures has reduced the likelihood, the risk remains on the profile as there has been an occurrence during the past 12 months.	I = M L = H Medium 8	I = M L = H Medium 8	I = M L = M Medium 5

Appendix A								
Risks and Action Plan	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Risk Identified		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 05/09/2019	as at Dec 18	as at March 19	as at June 19
20	Increased energy useage at Jubilee2	Asset Management Strategy		Operational	The building is staying open for longer than the original operational design case for Jubilee 2, hence more energy usage		I = L L = H Medium 7	I = L L = H Medium 7
21	UPS hardware failure	Castle House Communication Room		Operational	Comprehensive monitoring of the electrical input to the UPS devices has been taking place. This has identified the cause of the frequent power fluctuations, and discussions are ongoing with SCC about steps that now need to be taken to rectify this.	I = L L = L Low 1	I = L L = H Medium 7	I = L L = H Medium 7
	Failure to train and develop employees to meet the needs of the council	Human Resources	Nov-19	Operational	Final rating reduced due to the advertising of vacant posts and acting up appointments to senior roles.	I = H L = M Medium 6	I = M L = H Medium 8	I = M L = M Medium 5



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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM
TO THE AUDIT & STANDARDS COMMITTEE**

23rd September 2019

AUDITED ACCOUNTS FOR 2018/19

Submitted by: Interim Executive Director Resources & Support Services

Portfolio: Finance and Efficiency

Ward(s) affected: All

Purpose of the Report

To receive the final accounts and audit findings report for the financial year 2018/19.

Recommendations

A That the final accounts for the financial year 2018/19 be received.

B That the audit findings report for the financial year 2018/19 be received.

C That the additional fee estimate of £20,000 in respect of additional audit work arising from national and local issues be noted.

Reasons

The Council is required to publish its audited accounts for the financial year 2018/19 by 31st July 2019. Due to a number of issues outside of the Council's control the Committee was advised at its last meeting that completion of the audit would be delayed beyond the statutory deadline. The audit has now been completed and the Committee is asked to receive the final audited accounts and audit findings report.

1. Background

- 1.1 The Accounts and Audit Regulations 2015 govern the way in which a local authority should present its financial affairs. The regulations require the Council to produce a statement of accounts for the financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Standards Committee, by 31 July. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines. They set out procedures which must be followed with regard to public inspection rights, audit, approval and publication of the statement.
- 1.2 The Regulations require the draft Statement of Accounts to be certified by the responsible financial officer, the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 31 May and this was done on 30 May. The period during which the public have the right to inspect the accounts commenced on 3 June 2019 and closed on 12 July.

1.3 At the last meeting of the Audit & Standards Committee officers advised that the 31st July deadline for publication of the accounts for 2018/19 would not be met due to external developments and ongoing discussions with the external auditors regarding a number of complex accounting issues. The Committee delegated authority to the Chair of the Committee to sign the final audited accounts on completion of the audit in order to allow them to be published at the earliest possible date.

1.4 All of the outstanding audit issues have now been resolved and the audit of the accounts was completed on 5th September. An unqualified opinion has been issued on the financial statements and on the Council's arrangements for ensuring economy, efficiency and effectiveness in the use of resources.

2. **Details**

2.1 Since the last meeting of this Committee officers have continued to work closely with the external auditors to resolve all of the following issues:

- Changes to the Council's pension fund liabilities and net assets arising from the McCloud Supreme Court judgement.
- Revisions to property valuations necessitated by the publication of incorrect SPONS indices.
- The appropriate accounting treatment of Castle House.
- The appropriate valuation of the Civic Offices.

2.2 The external audit has now been completed and unqualified opinions on the financial statements and the Council's value for money arrangements were issued on 5th September 2019. The amended accounts have been recertified by the Council's s151 officer, the Interim Director of Resources and Support Services, approved by the Chair of Audit & Standards Committee and published on the Council's website.

2.3 The Committee are now asked to formally receive the audited accounts and the final audit findings report. The annual audit letter is presented as a separate item on the Committee's agenda.

2.4 At the Committee's July meeting Grant Thornton indicated that they would be seeking supplementary audit fees of £4,500 in respect of additional audit work arising from national issues and that they would also be levying a supplementary fee request for the significant additional work arising from local issues. They have now confirmed that the local element of this supplementary fee request will be £15,500. This relates to additional audit resources required for the following:

- Consideration of complex accounting and valuation issues, specifically in relation to Castle House, Jubilee2 and the old civic centre
- Use of Grant Thornton expert, technical and valuation staff to support our consideration of the above issues
- Discussions and agreement of audit adjustments in relation to the above issues which required additional meetings with officers
- Obtaining comprehensive explanations in relation to issues uncovered during the audit including requesting additional and appropriate working papers.

- 2.4 In order to identify improvements to the planning and delivery of the 2019-20 audit officers will now be arranging a “lessons learned” session with the external auditors. This will include establishing clear standards for working papers. Priority will also be given to implementing a computerised capital asset register to overcome the difficulties experienced this year in providing timely and detailed working papers to support Plant, Property and Equipment valuations.

3. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

- 3.1 The publication of the Council’s annual accounts supports the principles of openness, transparency and public accountability. The external audit opinion on the financial statements and compliance with the duty to deliver value for money assists the Audit & Standards Committee and the Executive Management Team to discharge their roles of accountability and stewardship which represent a key element within the Authority’s governance framework.

4. **Legal and Statutory Implications**

- 7.1 The Council is required to approve the final accounts in accordance with the requirements of the Accounts and Audit Regulations. The Committee delegated authority to approve the accounts to the Chair of the Committee at their July meeting.

8. **Equality Impact Assessment**

- 8.1 There are no equality impact issues identified.

9. **Financial and Resource Implications**

- 9.1 The supplementary fee request of £20,000 will be met from the Resources & Support Services directorate budget.

10. **Major Risks**

- 10.1 The key risk to be considered is the reputational risk to the Council arising from failure to meet the statutory deadline for publication of the annual accounts.

11. **Sustainability and Climate Change Implications**

- 11.1 There are no sustainability or climate change implications.

12. **Key Decision Information**

- 12.1 This report is not a key decision as defined by the Council’s Constitution.

13. **Earlier Cabinet/Committee Resolutions**

- 13.1 This report is not in reference to previous Cabinet or Committee resolutions.

14. **List of Appendices**

Appendix A Audited Statement of Accounts for the Financial Year 2018-19

15. **Background Papers**

- 15.1 Audit & Standards Committee 24th June 2019 – Draft Statement of Accounts 2018/19.
Audit & Standards Committee 29th July 2019 – External Audit of the 2018/19 Accounts

The Audit Findings for Newcastle under Lyme Borough Council

Year ended 31 March 2019

September 2019





Your key Grant Thornton team members are:

Phil Jones

Key Audit Partner

T: 0121 232 5232

E: phil.w.jones@uk.gt.com

Tess Barker-Phillips

Manager

T: 0121 232 5428

E: tess.s.barker-phillips@uk.gt.com

Matthew Berrisford

Executive

T: 0121 232 5352

E: matthew.j.berrisford@uk.gt.com

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Appendices

- A. Action plan
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

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 findings and other matters arising from the statutory audit of Newcastle under Lyme Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council income and expenditure for the year; and • 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. <p>We are also required to report whether other information published together with the audited financial statements (including the 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>The audit involved consideration of some complex accounting issues that have not arisen in previous years, resulting in some significant adjustments to the draft accounts relating to one-off valuation issues. The additional working papers required at audit arising from these issues were not all produced to the necessary standard and explanations to audit queries were not always obtained timeously. In addition, completion of the audit was impacted by a number of national issues and external factors. As a result, our work was not completed by the end of July 2019 and we did not issue an opinion on the Council's financial statements including the value for money opinion by the 31st July deadline. We agreed with management that we would seek to conclude our on-site work during the first two weeks of August 2019, on the assumption that our work identifies no further errors and other outstanding issues are addressed.</p> <p>Our work is now substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix D;</p> <p>Our findings are summarised on pages 3 to 18. Audit adjustments are detailed in Appendix B.</p> <p>Our anticipated audit report opinion will be unmodified</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Newcastle Under Lyme Borough 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 D. Our findings are summarised on pages 13 to 17.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties in respect to the 2018/19 financial year.</p> <p>Our audit work remains ongoing under the Code and we expect to be able to certify the completion of the audit when we give our audit opinion.</p>

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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 Report 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) and the Code, 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

We have not had to alter or change our audit plan, as communicated to you in January 2019.

Conclusion

Our work is now substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix D;

Our findings are summarised on pages 3 to 18. Audit adjustments are detailed in Appendix B.

Our anticipated audit report opinion will be unmodified

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.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,250,000	Based on a proportion of forecast gross expenditure (2%) for the financial year. In the prior year we used the same benchmark.
Performance materiality	875,000	Quality of financial systems and processes and the nature of the Council's income and expenditure streams. Quality of accounts and working papers in previous years and level of amendments arising from audit process.
Trivial matters	62,000	Set at 5% of materiality.
Materiality for specific transactions, balances or disclosures	100,000	Lower materiality applied to remuneration disclosures due to their sensitive nature and public interest.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could 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. • the culture and ethical frameworks of local authorities, including Newcastle under Lyme Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Newcastle under Lyme Borough Council.</p> <p>There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.</p> <p>Whilst not a significant risk, as part of our audit work we are undertaking work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.</p>
<p>2 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>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates, critical judgements applied and decisions made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p data-bbox="73 331 748 384">3 Valuation of property, plant and equipment (land and buildings)</p> <p data-bbox="147 424 748 759">The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p data-bbox="147 799 748 919">We therefore identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p data-bbox="786 331 1039 355">Auditor commentary</p> <p data-bbox="786 395 898 419">We have:</p> <ul data-bbox="786 427 2172 794" style="list-style-type: none"> • evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to the valuations experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • Contacted the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code were met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Authority’s asset register and accounted for correctly; and • evaluated the assumptions made by management for those assets not revalued during the year, as well as any assets revalued during the year but prior to year end, and how management have satisfied themselves that these are not materially different to current value at year end. <p data-bbox="786 834 2172 890">Our audit work has identified a number of issues in respect of valuation of land and buildings. These are set out page 8 under Significant Findings – Other Issues.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified the valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's net pension fund liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions using the report of a consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- Obtained assurances from the auditor of the Staffordshire Pension Fund to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Impact of the McCloud judgement

The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. The LGPS Scheme Advisory Board (with the consent of the Ministry of Housing, Communities and Local Government) commissioned GAD to prepare an assessment of the financial impact of the McCloud judgement on an LGPS scheme-wide basis to inform the financial reporting of participating entities. The report shows the estimates of the cost of the remedy if the LGPS underpin was found to result in unlawful age discrimination.

As a result of the ruling we have worked with the Authority to consider the implications and as a result the Authority commissioned a further actuarial assessment to include the impact of the case. This resulted in an increase in the net pensions liability recorded in the Authority's accounts, with the liability increasing by £2.330 million, as a result of McCloud £554k, GMP equalisation £387k and impact of actual asset returns £1,389k. We have carried out additional work locally and nationally to assess the approach and assumptions used by the actuary in providing this updated estimate.

Conclusion

The Authority proposes to adjust its pensions liability in its financial statements to incorporate the estimated impact of the McCloud judgement. Our audit procedures confirmed that the updated estimate is reasonable.

Significant findings - other issues

Page 48

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 and a summary of any significant control deficiencies identified during the year.

Issue

1 Castle House Valuation

The Council occupies part of Castle House, new purpose built offices in Newcastle town centre. The land is owned by Newcastle-under-Lyme BC (NuLBC) and leased to Staffordshire County Council (SCC) under a headlease. SCC arranged for the construction of the building on this land. NuLBC then leased a portion of the building back from SCC via an underlease (the building is shared between SCC, NuLBC and the Police).

Both leases are on the basis of a peppercorn rent. No amount is payable by NuLBC to SCC because the Council contributed towards the cost of constructing Castle House on the basis of the amount of the building which it would occupy, in return for which it would not be charged a rent. Payments to SCC towards the construction costs were mostly in 2016/17 (£2.159m) and 2017/18 (£2.035m); there may be a small amount payable in 2018/19 to cover outstanding payments to contractors but this is not expected to be material. In previous years the Council treated the expenditure in relation to the payments to SCC as REFCUS. Materiality for the 2018/19 audit is £1.25m.

The Council moved into Castle House in 2018/19. On review of the arrangement during the year, the Council has determined that it should be classified as a finance lease and recognised on balance sheet. It has also determined that the amounts paid in prior year were upfront payments related to the lease and therefore the treatment as REFCUS in previous years was incorrect and a PPA was required.

The building has been valued in 2018/19 by VOA, on the basis of it being held under a finance lease.

Commentary

We discussed with the Council the evidence required to allow us to determine the answers to a number of questions including:

- Is the assessment that the portion of the building that NuLBC has the right to use is a finance lease appropriate?
- Is the accounting treatment of the building as an Asset Under Construction (AUC) prior to the lease commencement in 2018/19 appropriate, given its assessment as a finance lease but then accounted for as an owned asset i.e. AUC prior to the lease commencement date?
- If treatment as AUC is not appropriate, would treatment as a prepayment be the most appropriate treatment prior to the lease commencement, with recognition in PPE (OL&B) then taking place as an addition in 2018/19 following the commencement of the lease?

The key to the accounting treatment is determining the Council's obligations – sufficient to support its rationale that the Council has 'control' over the asset at each of the balance sheet dates, such that it would be appropriate for it to account for it as an asset under construction.

The Council has provided a copy of the specific terms of agreement and we have reviewed these in arriving at our view.

Auditor view

The Council has provided us with a paper setting out its proposed accounting treatment for Castle House for both prior and post the lease commencement date.

The Council proposed accounting treatment is that Castle House should be accounted for as a AUC prior to lease commencement and as a finance lease post lease commencement.

We have reviewed this accounting treatment and also consulted with our technical department.

Based on our review we agree with the Council's accounting treatment.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>2 Ryecroft Site (former Council Offices)</p> <p>Our review of the accounts identified that the valuation for the Former Civic Offices - £2,232,950 Operational Land and Buildings had not changed from the prior year.</p> <p>The Council had not valued this asset as at the 31st March 2019 and continued to hold it as an operational asset.</p>	<p>We have discussed our concerns with the Interim Executive Director (Resources and Support Services) and agreed that a revaluation of the former Civic Offices is required because:</p> <ul style="list-style-type: none"> The offices were not operational and were in fact vacant and boarded up as at the 31st March 2019. The Council was aware of asbestos issues which would have a direct impact on the valuation of the building. <p>The Council is in discussions with a private developer and this could impact the valuation.</p> <p>The Council has reviewed the valuation and provided us with a paper setting out its proposed accounting treatment.</p>	<p>The Council has reviewed the valuation and provided us with a paper setting out its proposed accounting treatment.</p> <p>We have reviewed and agreed the accounting treatment proposed by the Council. The accounts have been amended for the revised valuation and the adjustments are included in the Audit Adjustments section of our report.</p>
<p>3 Jubilee 2 Leisure Centre</p> <p>In 2017/18 desktop valuations were carried out in respect of Jubilee 2 to establish whether it was considered there was material change in the previous years valuation figure of £8.9m.</p> <p>The valuation has been reviewed and revised in 2018/19. This valuation has been based on the build costs set out in Spons (Architects and Builders Price book) 2019, arriving at a valuation of £12m.</p>	<p>We have been in discussions with the Council's internal valuer and have found that:</p> <ul style="list-style-type: none"> The Council has applied the Spons indices. However incorrect data was published by Spons. This was identified as a consequence of our challenge of the significant increase in prices. The error, caused by the incorrect Spons data, extended to 38 other assets owned by the Council that used the same valuation methodology. <p>The Council has updated its valuations and provided responses to our challenge questions on the valuations of individual assets. We have also requested additional evidence to demonstrate how valuations carried out at April 2018, have been updated, to reflect movement in values up to 31 March 2019.</p>	<p>Auditor view</p> <p>We have reviewed the responses provided by the Council and have agreed the valuations. The accounts have been amended for the revised valuations and the adjustments are included in the Audit Adjustments section of our report.</p>

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																							
Net pension liability – £76.1m	<p>PwC was engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.</p>	 Green																							
<table border="1"> <thead> <tr> <th data-bbox="808 592 1429 655">Assumption</th> <th data-bbox="1429 592 1675 655">Actuary Value</th> <th data-bbox="1675 592 1957 655">PwC range</th> <th data-bbox="1957 592 2168 655">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="808 655 1429 715">Discount rate</td> <td data-bbox="1429 655 1675 715">2.4%</td> <td data-bbox="1675 655 1957 715">2.4 – 2.5%</td> <td data-bbox="1957 655 2168 715"> (G)</td> </tr> <tr> <td data-bbox="808 715 1429 774">Pension increase rate</td> <td data-bbox="1429 715 1675 774">2.5%</td> <td data-bbox="1675 715 1957 774">2.4 – 2.5%</td> <td data-bbox="1957 715 2168 774"> (G)</td> </tr> <tr> <td data-bbox="808 774 1429 863">Salary growth</td> <td data-bbox="1429 774 1675 863">2.9%</td> <td data-bbox="1675 774 1957 863">Scheme & Employer specific</td> <td data-bbox="1957 774 2168 863"> (G)</td> </tr> <tr> <td data-bbox="808 863 1429 952">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1429 863 1675 952">24.1 / 22.1 years</td> <td data-bbox="1675 863 1957 952">23.7–24.4 / 21.5-22.8 years</td> <td data-bbox="1957 863 2168 952"> (G)</td> </tr> <tr> <td data-bbox="808 952 1429 1031">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1429 952 1675 1031">26.4 /24.4 years</td> <td data-bbox="1675 952 1957 1031">26.2-26.8 / 24.1-25.1 years</td> <td data-bbox="1957 952 2168 1031"> (G)</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4 – 2.5%	 (G)	Pension increase rate	2.5%	2.4 – 2.5%	 (G)	Salary growth	2.9%	Scheme & Employer specific	 (G)	Life expectancy – Males currently aged 45 / 65	24.1 / 22.1 years	23.7–24.4 / 21.5-22.8 years	 (G)	Life expectancy – Females currently aged 45 / 65	26.4 /24.4 years	26.2-26.8 / 24.1-25.1 years	 (G)	
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The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMP) have had on members benefits. The Government announced an “interim solution” for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and April 2021. We have reviewed the approach of the scheme's actuary, Hymans Robertson (HR), in estimating the impact of these on the Council's pension liability.

We have also reviewed the:

- the completeness and accuracy of the underlying information used to determine the estimate
- the impact of any changes to valuation method
- the reasonableness of the Council's share of LPS pension assets.
- the reasonableness of the increase/decrease in estimate from the prior year
- the adequacy of disclosure of estimate in the financial statements

and have no findings to be brought to your attention in this regard.

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 Standards Committee. We have not been made aware of any cases currently under investigation by the Council that could have a material impact on the financial statements. No other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	We are not aware of any related parties or 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 letter of representation will be requested from the Council. We will consider the need for specific representations after the completion of our fieldwork.
⑤ Confirmation requests from third parties	We requested from management permission to send requests to confirm year end bank and investment balances. This permission was granted and the requests were sent, and all received to confirm year end balances.
⑥ Disclosures	Our review found no material omissions in the financial statements, based on the work to date.
⑦ Audit evidence and explanations/significant difficulties	We encountered significant difficulties in the delivery of our audit due to a number of complex accounting issues. Additionally some of the additional working papers presented at audit in relation to these issues were not all produced to the necessary standard.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement 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, based on the work to date. We expect to issue an unmodified opinion in this respect – refer to appendix D.</p>
2 Matters on which we report by exception	<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"> • 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; and • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<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 is not required at Newcastle under Lyme Borough Council as the Council does not exceed the threshold for 2018/19.</p>
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Newcastle under Lyme Borough Council in the audit opinion, as detailed in Appendix D, following the completion of our audit.</p>

Value for Money

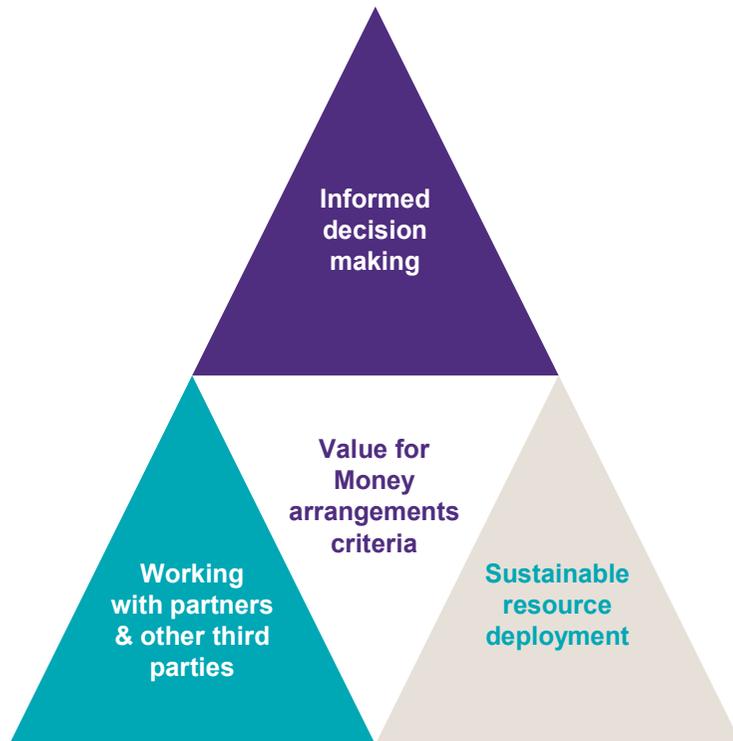
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

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



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2019.

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.

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

Review of the MTFs and the 2019/20 budget and assessment of the Authority's savings/income generation plans.

Consideration of the independent investigations and the Council's response.

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 pages 14 to 16.

Recommendations for improvement

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

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.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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.

1	Significant risk	Findings	Conclusion
	<p>Financial sustainability The Medium Term Financial Strategy approved in October 2018 identified budgetary shortfalls of £1.9m in 2019/20 with further shortfalls in the years to 2023/24 totalling £3m. The 2019/20 budget has since been revised and now indicates an increased forecast shortfall of £2.2m, with £2.5m of potential savings identified in order to meet his.</p> <p>We will review the MTFs and the 2019/20 budget and assess the Authority's savings/income generation plans.</p> <p>We will review the outturn for 2018/19 and the Authority's track record of addressing budget shortfalls.</p>	<p><u>2018-19 Outturn:</u> The unaudited outturn in respect of the General Fund Revenue Account was a surplus of £8,155 compared to the budget of £13,335,420. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.</p> <p><u>2019-20 Position:</u> The Council set a balanced budget for 2019-20 in line with requirements after developing plans to address the remaining budget deficit of £2.220 million. Management has confirmed that as at the end of June 2019 the Council is on track to achieve the savings approved as part of the 2019/20 budget setting process. However, significant spend pressures resulted from:</p> <ul style="list-style-type: none"> • Overspends in waste and leisure from 2018-19. • Sickness management leading to increased use of agency staff and therefore incurring higher costs. <p>This suggests the need to strengthen sickness management and monitoring procedures and to develop a corporate dashboard which includes a KPI in relation to sickness absence. The Council has subsequently agreed a new Attendance Management Policy and Procedure and developed a corporate dashboard including a KPI for sickness absence</p> <p>In addition, the new Chief Executive has been consulting Heads of Service about changes to management structure. The Council is recruiting to a number of senior posts including an Executive Director of Regeneration, Head of HR, Head of Planning, Head of Legal and Governance (Monitoring Officer). In addition the Council has appointed a full time Head of Finance (deputy S151) and a Head of Customer and Digital Service. There will be some cost savings required at levels below Head of Service to fund these.</p> <p>The Council's Section 151 Officer has recommended that a minimum level of un-earmarked reserves and contingencies of £1.548m be held to reflect the levels of revenue risk. Therefore, the Council's Balances and Reserves Strategy for 2019/20 is that there should be a minimum General Fund balance of £1.448m and a Contingency Reserve of £100,000. Management have identified that there are a number of spend pressures emerging for the year but mitigating action is being taken where possible and increased savings and/or income generation opportunities have also been identified.</p>	<p>Auditor view Like most of local government, the authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care.</p> <p>The authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.</p>

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	Findings	Conclusion
<p>2 Governance and capacity There has been an independent investigation into the arrangements at the last general election, and across-party investigation and disciplinary panel was setup to review the arrangements in place. Due to an unrelated matter the Executive Director (Resources and Support Services) is also currently suspended.</p> <p>The Authority needs to ensure such investigations are concluded in a timely manner, as well as ensuring that sufficient management capacity is maintained within the Authority to ensure effective and appropriate governance is maintained.</p> <p>We will monitor the investigations and the Council response to determine whether there are any implications for our VFM conclusion.</p>	<p>Arrangements at last general election</p> <p>The Council has received an independent report into the arrangements at the last general election and have been provided with a series of recommendations for implementation.</p> <p>Following the resignation of the Chief Executive in August 2018, the internal disciplinary investigation was suspended.</p> <p>A new Chief Executive has been subsequently been appointed, who commenced in post in February 2019.</p> <p>Our discussions with the Council have not identified any implications for our VFM conclusion.</p> <p>Executive Director - Resources</p> <p>The Council suspended the Executive Director (Resources & Support Services) in October 2018. The Council appointed external investigators to review the matters raised. The Council made an interim appointment during the investigation. The investigation has proved to be a lengthy process, but has now concluded. A negotiated end to the Executive Director's appointment was agreed on 31 August 2019. We have reviewed the proposed settlement, which we will consider as part of the audit of the 2019/20 year of accounts. However, based upon a review of evidence presented to us, we are not minded to challenge the decision at this stage.</p> <p>The investigation process has revealed ambiguities in the Council's Constitution in relation to powers of delegation in dealing with settlement cases such as these. The Council should define more clearly the scheme of delegation within its Pay Policy Statement, which should apply to payments on termination.</p> <p>Notwithstanding the lack of clarity identified above, our discussions with the Council have not identified any implications for our VFM conclusion.</p> <p>Statement of Accounts Preparation</p> <p>The difficulties experienced in carrying out the audit this year suggest that there is a need to strengthen arrangements for the planning, oversight and delivery of the final accounts preparation process going into 2019-20. This does not, however, impact our overall VFM conclusion.</p>	<p>Auditor view</p> <p>The Council have put in place arrangements to ensure that there is sufficient management capacity to maintain appropriate and effective governance.</p>	

Value for Money – Financial Resilience & Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process

Management have responded to the questions we set out on going concern in our “Informing the Audit Risk Assessment” document which confirms:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Council's ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Council monitor cash flow on a daily basis, including maintaining an up to date forecast position for at least the next 12 months. The cash flow forecast provided to March 2020 does not indicate any material uncertainty relating to the Council's continuing ability to meet financial obligations.

Work performed

Management's assessment was subject to arithmetical checks and reviewed for reasonableness of assumptions and predictions.

Concluding comments

Auditor commentary

CIPFA Code of Practice 2018/19 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".

The presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the authority, failure to set a balanced budget, external assessment concludes unsustainable, financial plans show unable to meet obligations for foreseeable future or significant doubts over forward financial planning arrangements.

Management's assessment has considered these areas and concluded that no material uncertainty in respect of going concern exists. In addition based on our own knowledge of the Council we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan. The cashflow forecast provided to March 2020 does not indicate any signs of significant financial difficulty that would cause concern.

We will require a cashflow forecast covering the 12 month period from the date of signing prior to our issuing of the opinion on the financial statements.

As such we consider that the assessment undertaken by the Council on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Auditor commentary

Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.

The Council set a budget in line with local government requirements for 2019-20 and whilst it's initial funding gap increased from £1.891 million to £2.220 million, it has identified potential savings of £2.468 million to mitigate this risk.

Management have confirmed as part of regular updates with them that at the end of June the Council is on track to achieve the savings approved as part of the 2019/20 budget setting process. However, management have identified that there are a number of spend pressures emerging for the year but mitigating action is being taken where possible and increased savings and/or income generation opportunities have also been identified.

Auditor commentary

We expect to issue an unmodified opinion for 2018/19, following completion of our work.

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. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing benefit grant claim.	9,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £42,352 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit & Standards Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 4 recommendations to date for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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>Financial Statements Closedown</p> <p>The difficulties experienced in carrying out the audit this year suggest that there is a need to strengthen arrangements for the planning, oversight and delivery of the final accounts preparation process going into 2019-20.</p>	<p>The Council should review their accounts closedown process and ensure that improvements are made to ensure a smoother final statements audit in 2019-20.</p> <p>Management response:</p> <p>A “lessons learned” session will be arranged with the external auditors following the conclusion of the 2018-19 audit in order to identify improvements. This will include establishing clear standards for working papers.</p>
2	<p>Quality of Working Papers</p> <p>Working papers provided to audit were not all of the standard expected and in some cases needed to be reworked.</p>	<p>The Council should review the quality of their working papers prior to making them available to audit.</p> <p>Management response:</p> <p>PPE working papers will be strengthened for next year. The procurement of an asset register system during 2019/20 will alleviate some of the issues that were encountered during 2018/19</p>
3	<p>Sickness Management Procedures</p> <p>High levels of sickness have lead to increased use of agency staff and therefore incurring higher costs for the Council.</p> <p>This suggests the need to strengthen sickness management and monitoring procedures and to develop a corporate dashboard which includes a KPI in relation to sickness absence</p>	<p>The Council should strengthen sickness management and monitoring procedures and develop a corporate dashboard which includes a KPI in relation to sickness absence.</p> <p>Management response</p> <p>A new Attendance Management Policy and Procedure has been approved.</p> <p>Payroll is in the process of being outsourced, a new system will enable managers to review absence via a dashboard system available on their desktop.</p>
4	<p>Asset Register</p> <p>The Council does not have a formal capital asset register instead operating a spreadsheet based recording system.</p>	<p>The Council should consider investing in capital asset register software that meets the requirements of the Council going forward.</p> <p>Management response</p> <p>An Asset Management System will be procured during 2019/20 as a priority.</p>
5	<p>Pay Settlements</p>	<p>The Council should define more clearly the scheme of delegation within its Pay Policy Statement, which should apply to payments on termination.</p> <p>Management response</p> <p>This will be incorporated in the work programme of the Constitution Working Group.</p>

Controls

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

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 ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>1 PPE disposals</p> <p>Audit testing of PPE disposals identified the following errors:</p> <p>(i) The Council incorrectly recognised a disposal for the IT servers £697k. These were not disposed of when the Council moved to their new offices but were instead, transferred to a new location.</p> <p>(iv) The Council reclassified 3/10 St Georges Chambers £104,800 as an Investment Property during the year, and inclusion on the PPE disposal line is incorrect. In addition the associated accumulated depreciation £3,327 has not been removed from the PPE balance.</p> <p>Update: Following a full review of asset disposals by the Authority a number of similar errors were also identified. In summary the total errors are as follows:</p> <ul style="list-style-type: none"> - Transfers to Investment Property recognised as disposals, rather than on the transfer line within the PPE note £156,652 (3/10 St Georges Chambers and 77-79 Knutton Lane) - ICT assets incorrectly disposed of following the move from Civic Offices to Castle House (Cost £946,340) 	(£946)	£946	(£946)
<p>2 Investment Property - Loss on Disposal</p> <p>Disposals of Investment property during 2018/19 resulted in a loss of £199,500. This loss has been posted to the 'Other operating expenditure' line in the CIES. The Code and the Council's own accounting policy states that gains/(losses) on disposal of Investment Properties should properly be posted to the 'Financing and Investment income and expenditure' line in the CIES. A transfer of £199,500 should therefore be made between these two lines within the CIES.</p>	£0	£0	£0

3	OGPS - Net Pension Liability	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
3	<p>The Council have received a revised IAS19 report in order to account for the impact of the recent McCloud ruling and GMP equalisation, as well as allowance for actual returns over the period 18-19 as advised by the Administering Authority. The reported liability has increased by £2,330k as a result of McCloud £554k, £387k GMP equalisation and £1,389k for impact of actual asset returns.</p> <p>The expected accounting entries to reflect this are:</p> <p>CR Pension liability £2,330k DR Remeasurments CIES £1,377k DR Investment exp CIES £12k DR Cost of Services CIES £941k</p>	£2,330	(£2,330)	£2,330
4	<p>DRC Valuations</p> <p>The Council's valuer identified that the SPONS build costs used to value a number of DRC assets were incorrect. The published SPONS rates used by the Council were incorrect, and were subsequently amended. As a result those assets subject to valuation during 18-19, on a DRC basis were overstated. The overstated assets comprise:</p> <p>Jubilee 2 - £3,777,034 Other DRC assets (Pavilions, Community Centres) - £1,572,159 Total overstatement - £5,349,193</p>	£5,349	(£5,349)	£5,349
5	<p>Valuation - Former Civic Offices</p> <p>The former Civic Offices are included within operational Land and Buildings at a value of £2,232,950. Following audit challenge on the classification/valuation of this asset the Council have determined that the asset should be classified as a 'surplus asset' at a value of £1. Land and buildings are therefore overstated by £2,232,950.</p>	£2,232	(£2,232)	£2,232
6	<p>PPE Revaluations - Reversal of accumulated depreciation</p> <p>When processing the 2018-19 revaluations, the Council did not properly reverse out the accum dep'n b/f at 1.4.18 when calculating the associated revaluation gains/losses. PPE is therefore understated by £1,747k, and revaluation gains understated by £1,747k.</p>	(£1,747)	£1,747	(£1,747)
7	<p>Depreciation Charge</p> <p>The depreciation charge recognised in the draft financial statements was £1,146k. After initial audit review it was identified that the calculation included a number of shortcomings. The Council therefore revised their calculation resulting in an additional depreciation charge of £355k.</p>	£355	(£355)	£355

Audit Adjustments

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 omission	Detail	Auditor recommendations	Adjusted?
Balance Sheet and Note 20 Investment Properties	<p>Investment Property</p> <p>The following errors have been identified within Investment Property</p> <ul style="list-style-type: none"> - The balance included £346k in relation to the former Sainsbury's car park that should be classified as a surplus asset within PPE - Downward revaluations included £62k relating to asset 0320/003/040/41 Business Centre Winpenny Road. However this asset is held within operational Land and Buildings, and not Investment Property. - Within Note 20, there were a number of misclassification errors between headings. Final amended amounts should read Fair value adjustments (£553k) and transfers to PPE (£181k). 	That the balance sheet and Note 20 are updated to correct the errors identified.	✓
Balance Sheet – PPE & Revaluation Reserve	<p>Asset Register error - Knutton Depot</p> <p>Following a review of the asset register the Authority identified an error in the carrying value of their Knutton depot. The value recognised in the asset register did not include the value of the Land in error. The value of the Land as per the valuers report is £273k. As a result PPE Land and Buildings and the revaluation reserve are understated by £273k.</p>	That PPE & the revaluation reserve balances are amended for the correct carrying value for Knutton Depot.	✓
Note 19 Property, Plant & Equipment	Vehicle, Plant Furniture & equipment disposals are recorded as (£1,518k) at Note 19. From a review of the supporting working papers this includes an amount of (£137k) relating to the downward valuation of asset additions in year not deemed to add value, and should therefore be recognised on the revaluation (decreases) - surplus/deficit on provision of services line instead.	That Note 19 is amended to separate disposals and downward revaluations	✓
Note 19 Property, Plant & Equipment	The depreciation charge line within Note 19 is net of the reversal of accumulated depreciation following revaluation of a number of assets during 2018-19. This entry £222k should not be netted off the depreciation charge, but instead shown on its own separate line.	That Note 19 is amended to correctly show reversals of accumulated depreciation and the annual depreciation charge separately.	✓
CIES	The 'Other operating expenditure' line within the CIES shows negative income of (£1,227k) comprising loss on disposal of non-current assets £1,603k, and capital income not arising from asset sales (£375k). The loss on disposal element should properly be recorded as expenditure, as opposed to negative income.	That the CIES is amended to remove the loss on disposal from income and correctly included within expenditure.	✓

Audit Adjustments

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 omission	Detail	Auditor recommendations	Adjusted?
Note 3 Critical judgements in applying Accounting Policies	Castle House - Critical Judgement The critical judgement in relation to Castle house does not include the period prior to the lease commencement.	The Council should update the 'Critical Judgement' disclosure to make reference to their judgement that they had control/rights and obligations over the asset during the construction phase, and as such accounting for spend as asset under construction.	✓
Restatement Note	PPA - Castle House The restatement disclosure included in the accounts is not sufficiently detailed, and doesn't meet the Code requirements. Para 3.3.4.5 of the Code states that where a prior period error is corrected, an authority shall disclose the following: - the nature of the prior period error - for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and - the amount of the correction at the beginning of the earliest prior period presented. In the main financial statements the Council have not included a balance sheet as at the beginning of the preceding period (i.e. a third Balance Sheet), and all comparative columns in the primary statements/notes that are affected by the PPA should be headed up 'restated'.	That the restatement note is updated to meet the Code requirements and that a third balance sheet is included in the statement of accounts.	✓
Restatement Note	PPA - Castle House The Council has included a restatement note for the prior period adjustment in relation to Castle House. This has been included in the accounts prior to the primary financial statements	The positioning of the restatement disclosure should be amended so that it is included as a note to the accounts and not included prior to the core financial statements	X

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 REFCUS – Disabled Facilities Grants (DFG) Audit testing identified that the current REFCUS DFG expenditure recognised as expenditure within the CIES of £1,574k can not be substantiated against evidence of DFG works undertaken by Millbrook Healthcare whom the Council have contracted with to deliver their DFG works. The Council have recognised a DFG spend amount to match the level of DFG grant allocation received in 2018-19. Millbrook have provided evidence to show that £891k has been spent during the year. This leave £683k of DFG that has not been spent and should be accounted for as capital grants unapplied and not expenditure.</p>	(£683)	£683	(£683)	The Council is still in discussion with Millbrook, if monies that have been accrued are not payable to Millbrook they will be payable to Staffordshire County Council – there will be no impact on the accounts regardless of who the money is payable to.
<p>2 DEFRA Accrual The Authority have recognised grant income from DEFRA of £450k, and have incurred expenditure of £19k up to the end of the year. An accrual has been recognised in the accounts to reflect the fact that the balance of this grant expenditure will be paid in 19/20, relating to expenditure incurred in 2019/20. Accruals should not be recognised in anticipation of expenditure expected to be incurred in future years, and accruals/expenditure are therefore both overstated by £430,744.</p>	(£430)	£430	(£430)	It is not proposed to change this treatment, it is below the materiality threshold. Alternative treatments will result in the same bottom line on the Income and Expenditure Statement and the same bottom line on the Balance Sheet.
<p>3 Income Cut-Off - From our testing we identified that the council had recognised rental income for one of their properties covering the period 25/03/19-25/06/19 in March '19, but no adjustments had been made to reverse the element relating to 2019/20. The invoice amount was £1,200 and therefore 12/13 should have been reversed out as income in advance. We have quantified this error by obtaining all similar invoices raised in advance, and this amounted to £192k.</p>	£192	(£192)	£192	It is not proposed to change this treatment, 12 months of income is included in the 2018-19 accounts as it has been for at least the previous 6 years.
Overall impact	(£921)	£921	(£921)	

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

Audit Fees

	Proposed fee	Final fee
Council Audit – as reported in our fee letter	£42,352	£42,352
Total audit fees (excluding VAT)	£42,352	£42,352
Fee Variations – National Issues:		
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	£1,500	TBC
Pensions – IAS 19 - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	£1,500	TBC
PPE Valuation – work of experts - The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500	TBC
Revised total audit fee (excluding VAT)	£46,852	TBC
Fee Variations – Local Issues		
The Newcastle under Lyme Borough Council has required significant additional audit resources as a result of the following: <ul style="list-style-type: none"> • Consideration of complex accounting and valuation issues, specifically in relation to Castle House, Jubilee2 and the old civic centre • Use of Grant Thornton expert, technical and valuation staff to support our consideration of the above issues • Discussions and agreement of audit adjustments in relation to the above issues which required additional meetings with officers • Obtaining comprehensive explanations in relation to issues uncovered during the audit including requesting additional and appropriate working papers 	£15,500	TBC
Revised total audit fee (excluding VAT)	£62,352	TBC

All of the national fee variations above have been driven by additional work required as the result of either sector challenges or in response to FRC feedback not as the result of weaknesses in the Council's arrangements in the preparation of its financial statements. In contrast, the local fee variations relate directly to issues at Newcastle under Lyme Borough Council, which required the audit team to carry out additional work. The revised fee for the year is subject to approval by Public Sector Appointments Ltd (PSAA).

Non Audit Fees

Grant Certification

	Fees £
Certification of Housing benefit grant claim.	9,000

Fees £

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Audit opinion

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

Independent auditor's report to the members of Newcastle Under Lyme Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Newcastle Under Lyme Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Restatement Note, the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements and Notes to the Collection Fund Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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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.

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 Executive Director (Resources and Support Services)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director (Resources and Support Services) 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 Executive Director (Resources and Support Services) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, 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.

Audit opinion

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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 audit 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Executive Director (Resources and Support Services) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 14, 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 Executive Director (Resources and Support Services). The Executive Director (Resources and Support Services) 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director (Resources and Support Services) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Audit opinion

In preparing the financial statements, the Executive Director (Resources and Support Services) 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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. 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 2019.

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 2019.

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.

Audit opinion

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Report on other legal and regulatory requirements - Certificate

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

Use of our report

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.

Phil Jones, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Xx September 2019

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The Annual Audit Letter for Newcastle Under Lyme Borough Council

Year ended 31 March 2019

September 2019





**Your key Grant Thornton
team members are:**

Phil Jones

Key Audit Partner

T: 0121 232 5232

E: phil.w.jones@uk.gt.com

Tess Barker-Phillips

Manager

T: 0121 232 5428

E: tess.s.barker-phillips@uk.gt.com

Matthew Berrisford

Executive

T: 0121 232 5352

E: matthew.j.berrisford@uk.gt.com

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Appendices

- A Reports issued and fees
- B Recommendations and Action Plan

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Newcastle Under Lyme Borough Council (the Council) for the year ended 31 March 2019.

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 Standards Committee as those charged with governance in our Audit Findings Report on 29 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,250,000, 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 05 September 2019.
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.
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 29 July 2019.
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 2019. We will report the results of this work to the Audit and Standards Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Newcastle Under Lyme Borough Council in accordance with the requirements of the Code of Audit Practice on 05 September 2019.

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.

Executive Summary

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Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

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
September 2019

Audit of the Financial Statements

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 financial statements to be £1,250,000, 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.

We also set a lower level of specific materiality for senior officer remuneration of £100,000, which we consider to be sensitive and of interest to the public.

We set a lower threshold of £62,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

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 financial statements and the narrative report and, annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 was 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 Financial Statements

Significant Audit Risks

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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable 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 the Council, we determined that the risk of fraud arising from revenue recognition could 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. • the culture and ethical frameworks of local authorities, including Newcastle under Lyme Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Newcastle under Lyme Borough Council.</p>	<p>We have not altered our assessment as reported in the audit plan and, whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect. We therefore have no issues to report in this regard</p>
<p>Management override of internal 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>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates, critical judgements applied and decisions made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's net pension fund liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions using the report of a consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtained assurances from the auditor of the Staffordshire Pension Fund to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement in respect of age discrimination. The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits, such as the Local Government Pension Scheme (LGPS). Our Grant Thornton view was that the McCloud judgement gave rise to a past service cost and liability which should be recognised as the ruling created a new obligation.</p> <p>This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote extracted and shown below is of greatest interest as it recognises remedies will need to be applied to the LGPS and hence supports the Council's stance in the recognition of increased liabilities:</p> <p>"As 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members."</p> <p>https://www.parliament.uk/business/publications/written-questions-answersstatements/written-statement/Commons/2019-07-15/HCWS1725/</p> <p>As a result of the ruling the Council requested an estimate from its actuary of the potential impact upon the Council. This was provided in July and the accounts updated accordingly. The net pension liability on the balance sheet has moved by £2.3m. There is no immediate, direct, impact upon useable general fund balances.</p> <p>We are satisfied that these adjustments have been reflected in the revised financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to the valuations experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; Contacted the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code were met; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; tested revaluations made during the year to see if they had been input correctly into the Authority’s asset register and accounted for correctly; and evaluated the assumptions made by management for those assets not revalued during the year, as well as any assets revalued during the year but prior to year end, and how management have satisfied themselves that these are not materially different to current value at year end. 	<p>Our audit identified a number of issues in relation to the valuation of land and buildings, these included:</p> <p>Valuation of the Ryecroft Site (former Council Offices)</p> <p>Valuation of the Jubilee 2 Leisure Centre</p> <p>Valuation and Accounting Treatment of Castle House</p> <p>Our findings in relation to these issues are shown on the following pages.</p> <p>We are satisfied that these issues have been reflected in the revised financial statements.</p>

Audit of the Financial Statements

Issue	Commentary	Auditor view
<p>Ryecroft Site (former Council Offices)</p> <p>Our review of the accounts identified that the valuation for the Former Civic Offices - £2,232,950 Operational Land and Buildings had not changed from the prior year.</p> <p>The Council had not valued this asset as at the 31st March 2019 and continued to hold it as an operational asset.</p>	<p>We discussed our concerns with the Interim Executive Director (Resources and Support Services) and agreed that a revaluation of the former Civic Offices is required because:</p> <ul style="list-style-type: none">• The offices were not operational and were in fact vacant and boarded up as at the 31st March 2019.• The Council was aware of asbestos issues which would have a direct impact on the valuation of the building. <p>The Council is in discussions with a private developer and this may impact the valuation.</p> <p>The Council has reviewed the valuation and provided us with a paper setting out its proposed accounting treatment.</p>	<p>Auditor view</p> <p>The Council reviewed the valuation and provided us with a paper setting out its proposed accounting treatment.</p> <p>We reviewed and agreed the accounting treatment proposed by the Council.</p>
<p>Jubilee 2 Leisure Centre</p> <p>In 2017/18 desktop valuations were carried out in respect of Jubilee 2 to establish whether it was considered there was material change in the previous years valuation figure of £8.9m.</p> <p>The valuation has been reviewed and revised in 2018/19. This valuation has been based on the build costs set out in Spons (Architects and Builders Price book) 2019, arriving at a valuation of £12m.</p>	<p>We had discussions with the Council's internal valuer and found that:</p> <ul style="list-style-type: none">• The Council applied the Spons indices. However incorrect data was published by Spons. This was identified as a consequence of our challenge of the significant increase in prices.• The error, caused by the incorrect Spons data, extended to 38 other assets owned by the Council that used the same valuation methodology. <p>The Council updated its valuations and provided responses to our challenge questions on the valuations of individual assets. We also requested additional evidence to demonstrate how valuations carried out at April 2018, have been updated, to reflect movement in values up to 31 March 2019.</p>	<p>Auditor view</p> <p>We reviewed the responses provided by the Council and agreed the valuations.</p>

Castle House Valuation

The Council occupies part of Castle House, new purpose built offices in Newcastle town centre. The land is owned by Newcastle-under-Lyme BC (NuLBC) and leased to Staffordshire County Council (SCC) under a headlease. SCC arranged for the construction of the building on this land. NuLBC then leased a portion of the building back from SCC via an underlease (the building is shared between SCC, NuLBC and the Police).

Both leases are on the basis of a peppercorn rent. No amount is payable by NuLBC to SCC because the Council contributed towards the cost of constructing Castle House on the basis of the amount of the building which it would occupy, in return for which it would not be charged a rent. Payments to SCC towards the construction costs were mostly in 2016/17 (£2.159m) and 2017/18 (£2.035m); there may be a small amount payable in 2018/19 to cover outstanding payments to contractors but this is not expected to be material. In previous years the Council treated the expenditure in relation to the payments to SCC as REFCUS. Materiality for the 2018/19 audit is £1.25m.

The Council moved into Castle House in 2018/19. On review of the arrangement during the year, the Council has determined that it should be classified as a finance lease and recognised on balance sheet. It has also determined that the amounts paid in prior year were upfront payments related to the lease and therefore the treatment as REFCUS in previous years was incorrect and a PPA was required.

The building has been valued in 2018/19 by VOA, on the basis of it being held under a finance lease.

Commentary

We discussed with the Council the evidence required to allow us to determine the answers to a number of questions including:

- Is the assessment that the portion of the building that NuLBC has the right to use is a finance lease appropriate?
- Is the accounting treatment of the building as an Asset Under Construction (AUC) prior to the lease commencement in 2018/19 appropriate, given its assessment as a finance lease but then accounted for as an owned asset i.e. AUC prior to the lease commencement date?
- If treatment as AUC is not appropriate, would treatment as a prepayment be the most appropriate treatment prior to the lease commencement, with recognition in PPE (OL&B) then taking place as an addition in 2018/19 following the commencement of the lease?

The key to the accounting treatment is determining the Council's obligations – sufficient to support its rationale that the Council has 'control' over the asset at each of the balance sheet dates, such that it would be appropriate for it to account for it as an asset under construction.

The Council provided a copy of the specific terms of agreement and we have reviewed these in arriving at our view.

Auditor view

The Council provided us with a paper setting out its proposed accounting treatment for Castle House for both prior and post the lease commencement date.

The Council's proposed accounting treatment was that Castle House should be accounted for as a AUC prior to lease commencement and as a finance lease post lease commencement.

We reviewed this accounting treatment and also consulted with our technical department.

Based on our review we agreed with the Council's accounting treatment.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 05 September 2019.

Preparation of the financial statements

The audit involved consideration of some complex accounting issues that have not arisen in previous years, resulting in some significant adjustments to the draft accounts relating to one-off valuation issues. The additional working papers required at audit arising from these issues were not all produced to the necessary standard and explanations to audit queries were not always obtained timeously.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Standards Committee on 29 July 2019.

In addition to the key audit risks reported above, we identified a number of issues throughout our audit that we have asked the Council's management to address for the next financial year. Details of these issues and our recommendations including responses from management can be found in Appendix B.

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.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of [name of Council] in accordance with the requirements of the Code of Audit Practice on 05 September 2019.

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in September 2019, we agreed recommendations to address our findings. These recommendations are included within Appendix B

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 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability The Medium Term Financial Strategy approved in October 2018 identified budgetary shortfalls of £1.9m in 2019/20 with further shortfalls in the years to 2023/24 totalling £3m. The 2019/20 budget has since been revised and now indicates an increased forecast shortfall of £2.2m, with £2.5m of potential savings identified in order to meet his.</p>	<p>As part of our work we have:</p> <p>Reviewed the MTFs and the 2019/20 budget and assess the Authority's savings/income generation plans.</p> <p>Reviewed the outturn for 2018/19 and the Authority's track record of addressing budget shortfalls</p>	<p><u>2018-19 Outturn:</u> The unaudited outturn in respect of the General Fund Revenue Account was a surplus of £8,155 compared to the budget of £13,335,420. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.</p> <p><u>2019-20 Position:</u> The Council set a balanced budget for 2019-20 in line with requirements after developing plans to address the remaining budget deficit of £2.220 million. Management has confirmed that as at the end of June 2019 the Council is on track to achieve the savings approved as part of the 2019/20 budget setting process. However, significant spend pressures resulted from:</p> <ul style="list-style-type: none"> • Overspends in waste and leisure from 2018-19. • Sickness management leading to increased use of agency staff and therefore incurring higher costs. <p>This suggests the need to strengthen sickness management and monitoring procedures and to develop a corporate dashboard which includes a KPI in relation to sickness absence. The Council has subsequently agreed a new Attendance Management Policy and Procedure and developed a corporate dashboard including a KPI for sickness absence</p> <p>In addition, the new Chief Executive has been consulting Heads of Service about changes to management structure. The Council is recruiting to a number of senior posts including an Executive Director of Regeneration, Head of HR, Head of Planning, Head of Legal and Governance (Monitoring Officer). In addition the Council has appointed a full time Head of Finance (deputy S151) and a Head of Customer and Digital Service. There will be some cost savings required at levels below Head of Service to fund these.</p> <p>The Council's Section 151 Officer has recommended that a minimum level of un-earmarked reserves and contingencies of £1.548m be held to reflect the levels of revenue risk. Therefore, the Council's Balances and Reserves Strategy for 2019/20 is that there should be a minimum General Fund balance of £1.448m and a Contingency Reserve of £100,000. Management have identified that there are a number of spend pressures emerging for the year but mitigating action is being taken where possible and increased savings and/or income generation opportunities have also been identified.</p> <p><u>Auditor view</u> Like most of local government, the authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care. The authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Governance and capacity There has been an independent investigation into the arrangements at the last general election, and across-party investigation and disciplinary panel was setup to review the arrangements in place. Due to an unrelated matter the Executive Director (Resources and Support Services) is also currently suspended.</p> <p>The Authority needs to ensure such investigations are concluded in a timely manner, as well as ensuring that sufficient management capacity is maintained within the Authority to ensure effective and appropriate governance is maintained.</p>	<p>As part of our work we have: monitored the investigations and the Council response to determine whether there are any implications for our VFM conclusion.</p>	<p>Arrangements at last general election</p> <p>The Council has received an independent report into the arrangements at the last general election and have been provided with a series of recommendations for implementation.</p> <p>Following the resignation of the Chief Executive in August 2018, the internal disciplinary investigation was suspended.</p> <p>A new Chief Executive has been subsequently been appointed, who commenced in post in February 2019. Our discussions with the Council have not identified any implications for our VFM conclusion.</p> <p>Executive Director - Resources</p> <p>The Council suspended the Executive Director (Resources & Support Services) in October 2018. The Council appointed external investigators to review the matters raised. The Council made an interim appointment during the investigation. The investigation has proved to be a lengthy process, but has now concluded. A negotiated end to the Executive Director's appointment was agreed on 31 August 2019. We have reviewed the proposed settlement, which we will consider as part of the audit of the 2019/20 year of accounts. However, based upon a review of evidence presented to us, we are not minded to challenge the decision at this stage.</p> <p>The investigation process has revealed ambiguities in the Council's Constitution in relation to powers of delegation in dealing with settlement cases such as these. The Council should define more clearly the scheme of delegation within its Pay Policy Statement, which should apply to payments on termination.</p> <p>Notwithstanding the lack of clarity identified above, our discussions with the Council have not identified any implications for our VFM conclusion.</p> <p>Statement of Accounts Preparation</p> <p>The difficulties experienced in carrying out the audit this year suggest that there is a need to strengthen arrangements for the planning, oversight and delivery of the final accounts preparation process going into 2019-20. This does not, however, impact our overall VFM conclusion.</p> <p>Auditor view</p> <p>The Council have put in place arrangements to ensure that there is sufficient management capacity to maintain appropriate and effective governance.</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 2019
Audit Findings Report	July 2019 & September 2019
Annual Audit Letter	September 2019

Fees

	Planned fees £	Actual fees £	2016/17 fees £
Statutory audit	£42,352	£62,352	£55,002
Non-audit services	£9,000	TBC	
Total fees	£51,352	TBC	

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £42,352 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500

A Reports issued and fees continued

Area	Reason	Fee proposed
Local Issues	<p>The Newcastle under Lyme Borough Council has required significant additional audit resources as a result of the following:</p> <ul style="list-style-type: none"> • Consideration of complex accounting and valuation issues, specifically in relation to Castle House, Jubilee2 and the old civic centre • Use of Grant Thornton expert, technical and valuation staff to support our consideration of the above issues • Discussions and agreement of audit adjustments in relation to the above issues which required additional meetings with officers • Obtaining comprehensive explanations in relation to issues uncovered during the audit including requesting additional and appropriate working papers 	£15,500
Total		£20,000

Fee variations are subject to PSAA approval.

Fees for non-audit services

Service	Fees £
Audit related services	Nil
- None	
Non-Audit related services	
- Housing benefit (Subsidy) Assurance Process	£9,000

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.

B. Recommendations and Action Plan

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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>Financial Statements Closedown</p> <p>The difficulties experienced in carrying out the audit this year suggest that there is a need to strengthen arrangements for the planning, oversight and delivery of the final accounts preparation process going into 2019-20.</p>	<p>The Council should review their accounts closedown process and ensure that improvements are made to ensure a smoother final statements audit in 2019-20.</p> <p>Management response:</p> <p>A “lessons learned” session will be arranged with the external auditors following the conclusion of the 2018-19 audit in order to identify improvements. This will include establishing clear standards for working papers.</p>
2	●	<p>Quality of Working Papers</p> <p>Working papers provided to audit were not all of the standard expected and in some cases needed to be reworked.</p>	<p>The Council should review the quality of their working papers prior to making them available to audit.</p> <p>Management response:</p> <p>PPE working papers will be strengthened for next year. The procurement of an asset register system during 2019/20 will alleviate some of the issues that were encountered during 2018/19</p>
3	●	<p>Sickness Management Procedures</p> <p>High levels of sickness have lead to increased use of agency staff and therefore incurring higher costs for the Council.</p> <p>This suggests the need to strengthen sickness management and monitoring procedures and to develop a corporate dashboard which includes a KPI in relation to sickness absence</p>	<p>The Council should strengthen sickness management and monitoring procedures and develop a corporate dashboard which includes a KPI in relation to sickness absence.</p> <p>Management response</p> <p>A new Attendance Management Policy and Procedure has been approved.</p> <p>Payroll is in the process of being outsourced, a new system will enable managers to review absence via a dashboard system available on their desktop.</p>
4	●	<p>Asset Register</p> <p>The Council does not have a formal capital asset register instead operating a spreadsheet based recording system.</p>	<p>The Council should consider investing in capital asset register software that meets the requirements of the Council going forward.</p> <p>Management response</p> <p>An Asset Management System will be procured during 2019/20 as a priority.</p>
5	●	<p>Pay Settlements</p>	<p>The Council should define more clearly the scheme of delegation within its Pay Policy Statement, which should apply to payments on termination.</p> <p>Management response</p> <p>This will be incorporated into the work programme of the Constitution Working Group.</p>

Controls

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

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

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