



The Audit Findings for Newcastle Under Lyme Borough Council

Year ended 31 March 2017

September 2017

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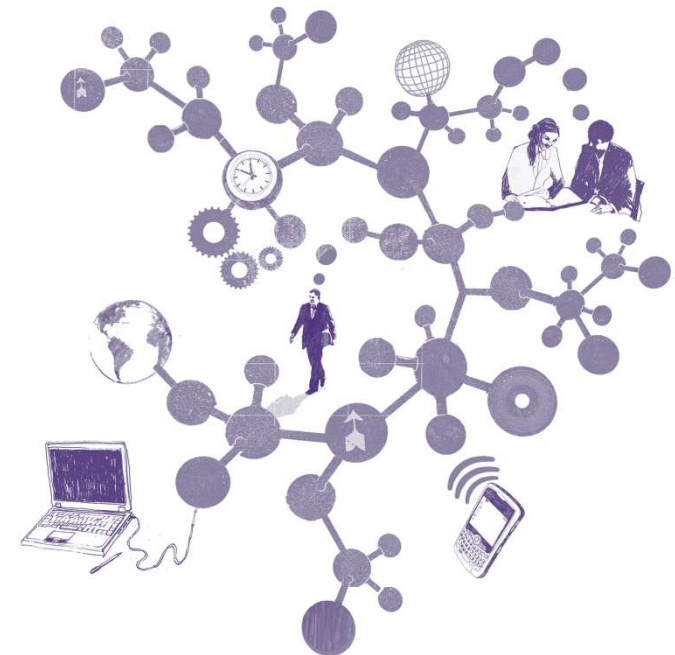
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September 2017

Dear Members of the Audit and Standards Committee

Audit Findings for Newcastle Under Lyme Borough Council for the year ending 31 March 2017

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

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Section 1: Executive summary

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02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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Purpose of this report

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

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

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

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

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

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

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

Introduction

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

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

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion; and
- submission of the Assurance Statement to the NAO in respect of the Whole of Government Accounts

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

Key audit and financial reporting issues

Financial statements opinion

The audit has gone well overall. The Council has made four adjustments to the accounts, none of which affect the Council's reported net expenditure for the year, as well as making a number of adjustments to improve the presentation of the financial statements.

Management have declined to make an adjustment in respect of one further issue we raised, which would have affected the reported net expenditure position but not to a material extent.

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

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

Other financial statement responsibilities

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

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

Controls

Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to the Council's key financial IT systems. Further details are provided within the 'Internal Controls' section of this report.

Value for Money

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

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

Other statutory powers and duties

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

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

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

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director (Resources and Support Services).

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Executive Director (Resources and Support Services) and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

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

As we reported in our audit plan, we determined overall materiality to be £1,290k (being 2% of expected gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £1,243k (being 2% of outturn gross revenue expenditure of £62,160k in the draft accounts as presented for audit).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £62,150. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

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

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	£20k. Individual misstatements will also be evaluated with reference to how material they are to the other party.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

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

Audit findings against significant risks

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Newcastle Under Lyme Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Newcastle Under Lyme Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>Financing & Investment expenditure of £2,176k has been recognised within the Comprehensive Income and Expenditure Statement. From a review of the analysis of the expenditure we have identified that it includes a net credit entry of £4,303k representing the net revaluation movement on Investment Property. This credit entry should properly be recorded as income rather than a reduction in expenditure. (The same issue applies for 2015/16 whereby the reported expenditure of £4,616k includes a credit of £1,471k representing revaluation gains).</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have</p> <ul style="list-style-type: none"> • Reviewed entity controls • Reviewed the journal entry process and selection of unusual journal entries for testing back to supporting documentation • reviewed accounting estimates, judgements and decisions made by management • Reviewed any unusual significant transactions identified 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of the Council's internal valuer. Reviewed the instructions issued to valuation experts and the scope of their work. Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Tested revaluations made during the year to ensure they were input correctly into the Council's asset register. Evaluated of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>During 2016/17 the Council elected to amend the date of valuation from 31 March to 1 April. Therefore those assets scheduled for valuation at 31 March 17 under the rolling programme (last revalued 31 March 12), will now be valued at 1 April 17, and therefore the revaluations are not reflected in the 2016/17 financial statements. Therefore they will have not been valued within a 5 year period with the result that the requirements of the CIPFA code are not being complied with in this regard.</p> <p>The internal valuer has undertaken an impairment review of all properties at the year end to identify any significant variations in carrying value between the date that they were valued and year end. We have compared this to the Gerald Eve expected movements and overall the difference is just above our trivial value. There is no indication that the value in the accounts is materially misstated. This issue will be addressed in 2017/18 when the assets are revalued at 1 April 2017.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of pension fund liability.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Obtained an understanding of the accruals process and test accruals • Reviewed post year end payments to identify unrecorded liabilities • Reviewed GRNI reports to identify any items which have not been properly accrued • Substantively tested a sample of expenditure transactions 	<p>We identified that the trade creditors reconciliation includes a debit entry for invoices paid in 2016/17 of £358,719.32 where the service will not be delivered until 2017/18. These are therefore prepayments and should be treated as such. An adjustment has been proposed in this regard which will have the effect of reducing the creditors balance by £356k and increasing the debtors balance by £356k. There is no impact on the Council's reported net expenditure position.</p> <p>Provisions include the Council's calculated employee leave accrual of £372k. This does not meet the definition of a 'provision' and should therefore be included in creditors, within current liabilities.</p> <p>This will have a net nil impact on the Council's reported net expenditure position as it is a reclassification within liabilities.</p>

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

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Reviewed and tested the reconciliation between the payroll and the general ledger Produced and reviewed a monthly trend analysis of total payroll Substantively tested a sample of payroll transactions reviewed remuneration disclosures and agreed them to supporting documentation 	<p>From our review of disclosures we identified that:</p> <p>The salary disclosed for the Head of Finance was the WTE amount, but should be amended to reflect the actual salary paid during the year.</p> <p>In respect of members' allowances the disclosure presented for audit did not include members' expenses, which is a requirement of the Code.</p> <p>These adjustments have both been made.</p>


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

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>We recommended adjustments to ensure that the Council was fully compliant with the Code; specifically paragraph 3.4.2.38. This resulted in the following adjustments being made to the 2015/16 comparatives, such that the financial statements more accurately reflect both the Code and the Council's internal reporting arrangements.</p> <ul style="list-style-type: none"> Increase Financing and Investment Income by £401k. <p>We also recommended that the Council should amend the format of the note such that the entries in the top half of the note for net expenditure in the CIES mirror those in the Cost of Services section of the CIES.</p> <p>These amendments have had a net nil impact on the Council's reported net expenditure position.</p>

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract. While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an Authority's precept or demand for the year, plus or minus the Authority's share of the surplus/deficit on the Collection Fund for the previous year. The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year. The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return. The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return. 	<p>We have reviewed the Council's policy against the requirements of the Code and are satisfied that the policy is appropriate and adequate disclosures have been made in the financial statements.</p>	

Assessment


● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Bad debt provisions – Other provisions 	<p>We have considered the key estimates and judgements included in the accounts and note the following.</p> <ul style="list-style-type: none"> • The Council have used Inform CPI Ltd to provide them with an estimate of the effect of outstanding proposal and appeal records. The third party have estimated a total liability of £4.18m with the Council's share being £1.67m; however the Council have only recognised a provision of £725k. There is a risk therefore that the business rates appeal provision is understated by £946k. 	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	N/A	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	
Going concern	The Executive Director (Resources and Support Services), s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have asked the Council to disclose its relationship with SubLyme and pertinent information that may be necessary.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is appended in the Audit and Standards Committee papers.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to those organisations with which it banks. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> We have made a number of recommendations to improve the disclosures in the financial statements. See table on page 23.

Other communication requirements continued


	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	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>In respect of Newcastle Under Lyme Borough Council we note that work is not required as the Council does not exceed the threshold. However, we are still required to submit an Assurance Statement to the NAO which we will do upon completion of our audit.</p>

Internal controls

	Assessment	Issue and risk	Recommendations
1.		<p>Proactive Reviews of Logical Access</p> <p>During the audit of the design effectiveness of IT general controls, we noted that user accounts and associated permissions on Chris21-Payroll application system are not formally and proactively reviewed for appropriateness.</p>	<p>There is a need for management to perform periodic, formal reviews of the user accounts and permissions on Chris21 application systems. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties)</p>
2.		<p>No requirement for existing to formally acknowledge any IT Security documentation following periodic updates</p> <p>During the audit of the design effectiveness of IT general controls, we noted that Information Security policies are updated in line with changes to IT environment, however, there was no formally established process and requirements for existing employees to acknowledge the IT security policy following the periodic updates.</p>	<p>Management should establish a formal process for existing employees to formally acknowledge updates or changes to the IT security documentation. This process could be done in the form of mandatory reading/acknowledgement of updates prior to logon to the network and access to resources. Alternatively, this can be delivered in the form of refresher user IT security training courses.</p>

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

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
<p>1 Trade Creditors reconciliation The trade creditors reconciliation includes a debit entry for invoices paid in 2016/17 of £359k for services not due to be delivered until 2017/18. This therefore constitutes a prepayment and should be treated as such.</p>		<p>CR creditors £359k DR prepayments £359k</p>	£0
<p>2 Employee leave accrual This has been classified as a provision when it should be classified as an accrual</p>		<p>DR provisions £372k CR accruals £372k</p>	£0
<p>3 Financing & Investment expenditure From a review of the analysis of the financing and investment expenditure we have identified that it includes a net credit entry of £4,303k representing the net revaluation movement on Investment Property. This credit entry should properly be recorded as income rather than a reduction in expenditure.</p>	<p>CR income £4,303k DR expenditure £4,303k</p>		£0
<p>4 Cost of services Amendments required to cost of services to ensure full compliance with the Code and alignment with internal reporting practices.</p>	<p>CR income £485k DR expenditure £485k</p>		
Overall impact	£0	£0	£0

Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 NDR appeals provision The Council have used Inform CPI Ltd to provide them with an estimate of the effect of outstanding proposal and appeal records. The third party have estimated a total liability of £4.18m, with the Council's share being £1.67m; however the Council have only recognised a provision of £725k. There is a risk therefore that the business rates appeal provision is understated by £947k.</p>	DR expenditure £947k	CR provisions £947k	<p>Officers have stated that they have chosen to provide for all appeals likely to be settled during 2017/18 (i.e. £1.812m). They intend to provide for all appeals that may be settled during 2018/19 and 2019/20 at the close of the financial years 2017/18 and 2018/19 respectively due to the relative uncertainty and timeline of those appeals. They consider that this approach does not unnecessarily remove business rates income from the public sector, and, that this approach is in line with both the CIPFA Accounting Code of Practice 2016/17 and IAS 37. In our view, the 2016/17 provision should have allowed for appeals likely to be settled beyond 2017/18.</p>
Overall impact	£947k	£947k	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. None of these changes had an impact on the net expenditure position reported by the Council.

Adjustment type	Value £'000	Account balance	Description
1 Disclosure	£1,270k	Provisions	Provisions are all classified as long term liabilities, and have not been analysed across short term/Long term based on future expected cash flows.
2 Disclosure	£319k	Members' Allowances	The draft disclosure only reports the total members allowances when the Code requires that members' expenses (£3k) are also disclosed.
3 Misclassification	£42k £17k	Collection Fund allocation of surplus	The Allocation of the Collection Fund Balance at 31 March 2017 has been incorrectly allocated between OPCC and Stoke & Staffs Fire. OPCC share has been amended to be £42k and Staffs Fire £17k
4 Misclassification and Disclosure	Various	Reserves	Our consistency review of movements across reserves has identified several issues, which required amendment such that the financial statements were internally consistent. Notes affected were: <ul style="list-style-type: none"> • Adjustments between Accounting Basis and Funding Basis • Capital Adjustment Account • Movement in Reserves Statement • Investment Properties Note • Property, Plant and Equipment Note
5 Disclosure	Various	Earmarked Reserves	This disclosure note only includes movements in 2016/17. Prior year comparatives are required to disclose the movements in 2015/16.
6 Comparatives	£401k	CIES	Telling the Story amendments required to prior year comparatives to ensure full compliance with the Code and alignment with internal reporting practices.
7 Disclosure	Various	Expenditure Funding Analysis	The format of the note has been amended to reflect the Cost of Services Section of the CIES to comply with the Code.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

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

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

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

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

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

Risk assessment

We carried out an initial risk assessment in March 2017 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 March 2017.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

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:

- the Council's arrangements for medium term financial planning and identifying savings

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 27 to 28.

Overall conclusion

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

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

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

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Financial Standing The medium term financial strategy (MTFS) 2017/18 to 2021/22 indicates a forecast budget shortfall of £2.728m for 2017/18, with additional shortfalls across 2018/19 to 2021/22 totalling £3.235m. The Budget Review Group, along with officers are building upon the work already done to identify savings opportunities as part of the 2020 project, to find ways of eliminating the shortfall.</p> <p>This links to the Council's arrangements for understanding and using appropriate cost and performance information to support informed decision making; and planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<p>We reviewed the MTFS, assess the realism of savings/income generation plans, reviewing the outturn for 2016/17 and the Council's track record of addressing budget shortfalls.</p>	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • set a balanced budget for 2017/18 • identified and taken account of funding cuts in its medium term financial plans including responding to consultations on changes to the New Home Bonus and 100% Business Rate Retention, both of which will have an impact on the Council. • identified actions to address over 50% of these shortfalls and have developed a efficiency and savings programme to identify further savings. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

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

Section 4: Other statutory powers and duties

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04. Other statutory powers and duties

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06. Communication of audit matters

Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty

Section 5: Fees, non-audit services and independence

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06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	55,002	55,002
Grant certification	6,210	6,210
Total audit fees (excluding VAT)	61,212	61,212

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

Grant certification

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

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.
- No non-audit or audit related services have been undertaken by the Council.

Section 6: Communication of audit matters

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05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
	There is a need for management to perform periodic, formal reviews of the user accounts and permissions on Chris21 application systems. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties)		<p>As part of ICT Services proposals to meet the requirements of the forthcoming General Data Protection Regulations, plans are currently being drawn up to accommodate much more stringent enforcement and review regimes for the control of access privileges.</p> <p>ICT have already begun reviewing and updating the Council's current Account and Access Control policy to ensure that the periodic review of logical access controls for both storage and application systems are addressed in a more effective manner at agreed periods.</p> <p>ICT see this activity as being crucial to maintaining the Confidentiality, Integrity and Availability of our systems and data.</p> <p>At present, the risk presented by the Chris21 payroll system is quite low as only a very small number of known users have access to the system. However, this does not relieve any responsibility to ensure these accounts are managed appropriately.</p> <p>ICT will ensure that more proactive steps are taken in light of this recommendation.</p>	<p>March 2018</p> <p>Executive Director (Resources and Support Services)</p>
	Management should establish a formal process for existing employees to formally acknowledge updates or changes to the IT security documentation. This process could be done in the form of mandatory reading/acknowledgement of updates prior to logon to the network and access to resources. Alternatively, this can be delivered in the form of refresher user IT security training courses.		<p>ICT will work with the Council's Information Security Group and Human Resources team to find an acceptable method of recording acceptance and acknowledgement of policy updates.</p> <p>Whilst technical solutions may be readily available to accommodate such activities, ICT consider it essential that such utilities are backed up by appropriate policies and controls that would allow the Council to act effectively against any member of staff who would not comply.</p>	<p>March 2018</p> <p>Executive Director (Resources and Support Services)</p>

Controls

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

B: 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

We have audited the financial statements of Newcastle Under Lyme Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the related notes and Appendix 1 - Accounting Policies, Standards, Judgements, Assumptions and Adjustments. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Executive Director (Resources and Support Services) and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

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

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:

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

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

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

Respective responsibilities of the Authority and auditor

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
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Xx September 2017



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