



Annual Audit Letter

Year ending 31 March 2018

Newcastle-under-Lyme Borough Council

August 2018



Contents



Your key Grant Thornton team members are:

Phil Jones

Engagement Lead

T: 0121 232 5232

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

Paul Harvey

Engagement Manager

T: 0121 232 5329

E: paul.m.Harvey@uk.gt.com

Matthew Berrisford

Audit Executive

T: 0121 232 5352

E: matther.j.Berrisford@uk.gt.com

Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
10

Appendices

- A Reports issued and fees
- B Recommendations

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 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,243,000, 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 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Newcastle-under-Lyme Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts before the deadline, releasing your finance team for other work.
- 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

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

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,243,000, 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.

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 Statement of Accounts and the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Accounts

Significant Audit Risks

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>Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</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>We did not consider this to be a significant risk for Newcastle-Under-Lyme Borough Council. 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 that the rebuttal was incorrect.</p>
<p>Management override of controls 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. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness. • reviewed the journal entry process and the control environment around journal entries. • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness. • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. The journals testing that we have performed has identified that journals posted by authorised users are reviewed by another person, including those posted by the Financial Services Manager.</p>

Audit of the Accounts

Significant Audit Risks (Continued)

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>Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling five year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Consideration of the competence, expertise and objectivity of any management experts used. • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our work identified that 1 asset (value £8.936m) has not been revalued within the last 5 years as required by the CIPFA Code of Practice. 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 the year end and concluded that there was no material movements in value between these dates. Based on our work there is no indication that the value of these assets is materially misstated.</p>

Audit of the Accounts

Significant Audit Risks (Continued)

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>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out. Undertook procedures to confirm the reasonableness of the actuarial assumptions made. Tested accuracy of data provided to the actuary. Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our work has not identified any significant issues in respect of this risk.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

Preparation of the accounts

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

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Standards Committee on 30 July 2018.

In addition to the key audit risks reported above, we identified the one issue that we have asked management to address for the next financial year. Details of this recommendation and management response 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.

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 are also required to certify that we have completed the audit of the accounts of Newcastle-under-Lyme Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

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

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in July 2018, we agreed recommendations to address our findings. Details of these recommendations and management responses can be found in 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings	Conclusions
<p>Financial sustainability The medium term financial strategy (MTFS) 2018/19 to 2022/23 indicates a forecast budget shortfall of £1.535m for 2018/19, with additional shortfalls across 2019/20 to 2022/23 totalling £3.43m.</p>	<p>We have reviewed the MTFS, assessed the realism of savings/income generation plans, reviewed the outturn for 2017/18 and the Council's track record of addressing budget shortfalls.</p>	<p>Overall our work concluded that the Council has appropriate arrangements for delivering economy, efficiency and effectiveness.</p> <p>The Council has continued to deliver services broadly in line with its budget plan for 2017-18, in line with its past record of sound financial control.</p> <p>The Council has set a balanced budget for 2018/19 and has identified funding gaps to 2022/23 in its medium term financial strategy. The Council has already identified actions to address around 50% of these funding gaps and has an efficiency and savings programme in place to identify further savings.</p>
<p>Arrangements for voting at the last general election</p> <p>There has been an independent investigation into arrangements at the last general election. The council has now set up a cross-party investigation and disciplinary panel to look into arrangements.</p>	<p>We have monitored the investigation and the Council response to determine whether there are any implications for our VFM conclusion.</p>	<p>As the Council's cross-party investigation and disciplinary panel process are still underway we do not consider there to be any implications for our 2017/18 Vfm conclusion.</p> <p>However we have the following recommendations:</p> <p>The Council needs to ensure that the momentum of investigation is maintained and is concluded in a timely manner.</p> <p>The Council also needs to ensure that sufficient management capacity is maintained within the Council during the investigation and disciplinary panel to ensure effective and appropriate governance is maintained.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	55,002	55,002	55,002
Housing Benefit Grant Certification	7,552	TBC	6,210
Total fees	62,554	55,002	61,212

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

Fees for non-audit services

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

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 2 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 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	The Council is currently undertaking a cross-party investigation and disciplinary panel in relation to the issues arising from the Council's delivery of the voting for the General Election in June 2017.	<ul style="list-style-type: none">The Council needs to ensure that the momentum of investigation is maintained and is concluded in a timely manner.The Council also needs to ensure that the sufficient capacity is maintained within the Council during the investigation and disciplinary panel to ensure effective and appropriate governance is maintained. <p>Management response</p> <ul style="list-style-type: none">The Council understands the importance of concluding things in a timely manner but also needs to ensure that a thorough and proper investigation has been undertaken. The investigation is reaching a conclusion and reports are currently being prepared for the investigation and disciplinary panel. It is envisaged that a meeting of the panel will be held in August / September 2018.
2	●	Our work identified that 1 asset (value £8.936m) that has not been revalued within the last 5 years as required by the CIPFA Code of Practice.	<ul style="list-style-type: none">The Council should ensure that all PPE assets are revalued on a five year rolling basis to comply with the requirements of the CIPFA Code of Practice. <p>Management response</p> <ul style="list-style-type: none">The Council will ensure that the requirements of the CIPFA Code of Practice are adhered to for 2018/19.

Controls

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



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.