



The Annual Audit Letter for Newcastle Under Lyme Borough Council

Year ended 31 March 2019

September 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at 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

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>

Audit of the Financial Statements

Issue

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 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. Following the resignation of the Chief Executive in August 2018, the internal disciplinary investigation was suspended. 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 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. 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. 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 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 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 £	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 AQRT

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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