The Audit Findings for Newcastle under Lyme Borough Council

Year ended 31 March 2019

September 2019

Contents

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Headlines

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

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	The audit involved consideration of some complex accounting issues that have not arisen in previous years, resulting in some significant adjustments to the draft accounts relating to one-off valuation issues. The additional working papers required at audit arising from these issues were not all produced to the necessary standard and explanations to audit queries were not always obtained timeously. In addition, completion of the audit was impacted by a number of national issues and external factors. As a result, our work was not completed by the end of July 2019 and we did not issue an opinion on the Council's financial statements including the value for money opinion by the 31st July deadline. We agreed with management that we would seek to conclude our on-site work during the first two weeks of August 2019, on the assumption that our work identifies no further errors and other outstanding issues are addressed. Our work is now substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix D; Our findings are summarised on pages 3 to 18. Audit adjustments are detailed in Appendix B. Our anticipated audit report opinion will be unmodified
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Newcastle Under Lyme Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 13 to 17.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties in respect to the 2018/19 financial year. Our audit work remains ongoing under the Code and we expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

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

Conclusion

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

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

Our anticipated audit report opinion will be unmodified

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our Audit Plan.

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

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable 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 frau relating to revenue recognition.	**Auditor commentary** 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: • 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. Therefore we did not consider this to be a significant risk for Newcastle under Lyme Borough Council. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention. Whilst not a significant risk, as part of our audit work we are undertaking work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.
2	**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. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have: • 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. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment (land and buildings)** 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. 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.	**Auditor commentary** We have: • 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. Our audit work has identified a number of issues in respect of valuation of land and buildings. These are set out page 8 under Significant Findings – Other Issues.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified the valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** **We have** • updated our understanding of the processes and controls put in place by management to ensure that the Authority's net pension fund liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions using the report of a consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtained assurances from the auditor of the Staffordshire Pension Fund to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. The LGPS Scheme Advisory Board (with the consent of the Ministry of Housing, Communities and Local Government) commissioned GAD to prepare an assessment of the financial impact of the McCloud judgement on an LGPS scheme-wide basis to inform the financial reporting of participating entities. The report shows the estimates of the cost of the remedy if the LGPS underpin was found to result in unlawful age discrimination. As a result of the ruling we have worked with the Authority to consider the implications and as a result the Authority commissioned a further actuarial assessment to include the impact of the case. This resulted in an increase in the net pensions liability recorded in the Authority's accounts, with the liability increasing by £2.330 million, as a result of McCloud £554k, GMP equalisation £387k and impact of actual asset returns £1,389k. We have carried out additional work locally and nationally to assess the approach and assumptions used by the actuary in providing this updated estimate. **Conclusion** The Authority proposes to adjust its pensions liability in its financial statements to incorporate the estimated impact of the McCloud judgement. Our audit procedures confirmed that the updated estimate is reasonable.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
1	**Castle House Valuation** The Council occupies part of Castle House, new purpose built offices in Newcastle town centre. The land is owned by Newcastle-under-Lyme BC (NuLBC) and leased to Staffordshire County Council (SCC) under a headlease. SCC arranged for the construction of the building on this land. NuLBC then leased a portion of the building back from SCC via an underlease (the building is shared between SCC, NuLBC and the Police). Both leases are on the basis of a peppercorn rent. No amount is payable by NuLBC to SCC because the Council contributed towards the cost of constructing Castle House on the basis of the amount of the building which it would occupy, in return for which it would not be charged a rent. Payments to SCC towards the construction costs were mostly in 2016/17 (£2.159m) and 2017/18 (£2.035m); there may be a small amount payable in 2018/19 to cover outstanding payments to contractors but this is not expected to be material. In previous years the Council treated the expenditure in relation to the payments to SCC as REFCUS. Materiality for the 2018/19 audit is £1.25m. The Council moved into Castle House in 2018/19. On review of the arrangement during the year, the Council has determined that it should be classified as a finance lease and recognised on balance sheet. It has also determined that the amounts paid in prior year were upfront payments related to the lease and therefore the treatment as REFCUS in previous years was incorrect and a PPA was required. The building has been valued in 2018/19 by VOA, on the basis of it being held under a finance lease.	We discussed with the Council the evidence required to allow us to determine the answers to a number of questions including: • Is the assessment that the portion of the building that NuLBC has the right to use is a finance lease appropriate? • Is the accounting treatment of the building as an Asset Under Construction (AUC) prior to the lease commencement in 2018/19 appropriate, given its assessment as a finance lease but then accounted for as an owned asset i.e. AUC prior to the lease commencement date? • If treatment as AUC is not appropriate, would treatment as a prepayment be the most appropriate treatment prior to the lease commencement, with recognition in PPE (OL&B) then taking place as an addition in 2018/19 following the commencement of the lease? The key to the accounting treatment is determining the Council's obligations – sufficient to support its rationale that the Council has 'control' over the asset at each of the balance sheet dates, such that it would be appropriate for it to account for it as an asset under construction. The Council has provided a copy of the specific terms of agreement and we have reviewed these in arriving at our view.	**Auditor view** The Council has provided us with a paper setting out its proposed accounting treatment for Castle House for both prior and post the lease commencement date. The Council proposed accounting treatment is that Castle House should be accounted for as a AUC prior to lease commencement and as a finance lease post lease commencement. We have reviewed this accounting treatment and also consulted with our technical department. Based on our review we agree with the Council's accounting treatment.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
2	**Ryecroft Site (former Council Offices)** 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. The Council had not valued this asset as at the 31st March 2019 and continued to hold it as an operational asset.	We have discussed our concerns with the Interim Executive Director (Resources and Support Services) and agreed that a revaluation of the former Civic Offices is required because: • 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. The Council is in discussions with a private developer and this could impact the valuation. The Council has reviewed the valuation and provided us with a paper setting out its proposed accounting treatment.	**Auditor view** The Council has reviewed the valuation and provided us with a paper setting out its proposed accounting treatment. We have reviewed and agreed the accounting treatment proposed by the Council. The accounts have been amended for the revised valuation and the adjustments are included in the Audit Adjustments section of our report.
3	**Jubilee 2 Leisure Centre** 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. 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.	We have been in discussions with the Council's internal valuer and have found that: • The Council has applied the Spons indices. However incorrect data was published by Spons. This was identified as a consequence of our challenge of the significant increase in prices. • The error, caused by the incorrect Spons data, extended to 38 other assets owned by the Council that used the same valuation methodology. The Council has updated its valuations and provided responses to our challenge questions on the valuations of individual assets. We have also requested additional evidence to demonstrate how valuations carried out at April 2018, have been updated, to reflect movement in values up to 31 March 2019.	**Auditor view** We have reviewed the responses provided by the Council and have agreed the valuations. The accounts have been amended for the revised valuations and the adjustments are included in the Audit Adjustments section of our report.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £76.1m	The Council's net pension liability at 31 March 2019 is £76.140m (PY £68.025m) comprising of its share of Staffordshire Pension Fund and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £8.12m net actuarial loss during 2018/19.	PwC was engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019. We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4 – 2.5%	(G)
Pension increase rate	2.5%	2.4 – 2.5%	(G)
Salary growth	2.9%	Scheme & Employer specific	(G)
Life expectancy – Males currently aged 45 / 65	24.1 / 22.1 years	23.7–24.4 / 21.5-22.8 years	(G)
Life expectancy – Females currently aged 45 / 65	26.4 /24.4 years	26.2-26.8 / 24.1-25.1 years	(G)

The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMP) have had on members benefits. The Government announced an "interim solution" for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and April 2021. We have reviewed the approach of the scheme's actuary, Hymans Robertson (HR), in estimating the impact of these on the Council's pension liability.

We have also reviewed the:

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

and have no findings to being to your attention in this regard.

Other communication requirements

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

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

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified, based on the work to date. We expect to issue an unmodified opinion in this respect – refer to appendix D.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit; and • If we have applied any of our statutory powers or duties. We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	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. This is not required at Newcastle under Lyme Borough Council as the Council does not exceed the threshold for 2018/19.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of Newcastle under Lyme Borough Council in the audit opinion, as detailed in Appendix D, following the completion of our audit.

Value for Money

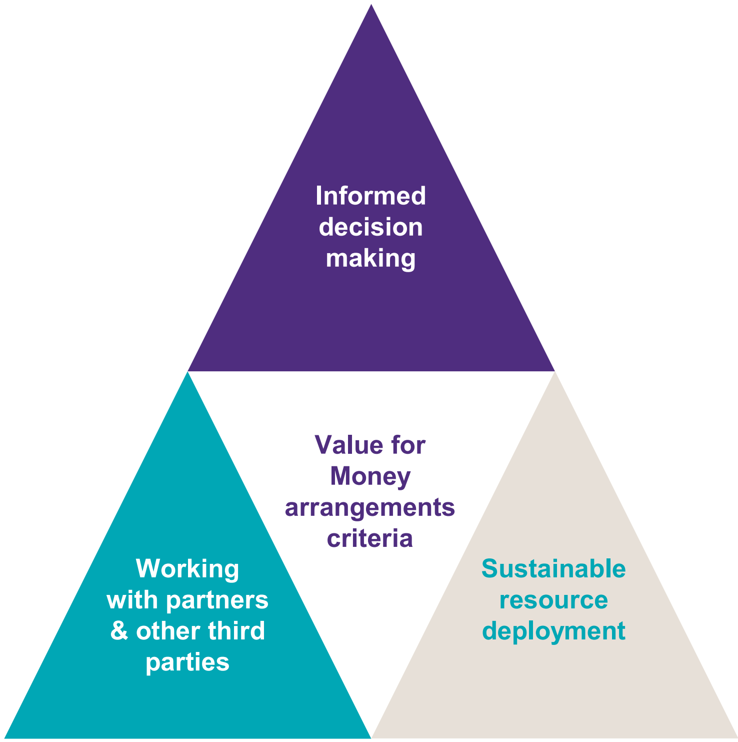
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

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

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

Our Work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

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

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

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 14 to 16.

Recommendations for improvement

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Overall conclusion

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

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

Key findings

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

	Significant risk	Findings	Conclusion
1	**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. We will review the MTFS and the 2019/20 budget and assess the Authority's savings/income generation plans. We will review the outturn for 2018/19 and the Authority's track record of addressing budget shortfalls.	**2018-19 Outturn:** 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. **2019-20 Position:** 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: • Overspends in waste and leisure from 2018-19. • Sickness management leading to increased use of agency staff and therefore incurring higher costs. 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 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. 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.	**Auditor view** Like most of local government, the authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care. 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.

Key findings

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

	Significant risk	Findings	Conclusion
2	**Governance and capacity** There has been an independent investigation into the arrangements at the last general election, and across-party investigation and disciplinary panel was setup to review the arrangements in place. Due to an unrelated matter the Executive Director (Resources and Support Services) is also currently suspended. 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. We will monitor the investigations and the Council response to determine whether there are any implications for our VFM conclusion.	**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. **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. Not withstanding the lack of clarity identified above, our discussions with the Council have not identified any implications for our VFM conclusion. 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.	**Auditor view** The Council have put in place arrangements to ensure that there is sufficient management capacity to maintain appropriate and effective governance.

Value for Money – Financial Resilience & Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have responded to the questions we set out on going concern in our "Informing the Audit Risk Assessment" document which confirms: • There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Council's ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date. • The Council monitor cash flow on a daily basis, including maintaining an up to date forecast position for at least the next 12 months. The cash flow forecast provided to March 2020 does not indicate any material uncertainty relating to the Council's continuing ability to meet financial obligations.	CIPFA Code of Practice 2018/19 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future". The presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the authority, failure to set a balanced budget, external assessment concludes unsustainable, financial plans show unable to meet obligations for foreseeable future or significant doubts over forward financial planning arrangements. Management's assessment has considered these areas and concluded that no material uncertainty in respect of going concern exists. In addition based on our own knowledge of the Council we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan. The cashflow forecast provided to March 2020 does not indicate any signs of significant financial difficulty that would cause concern. We will require a cashflow forecast covering the 12 month period from the date of signing prior to our issuing of the opinion on the financial statements. As such we consider that the assessment undertaken by the Council on going concern is a reasonable and valid one and there are no indications of material uncertainty.
Work performed	**Auditor commentary**
Management's assessment was subject to arithmetical checks and reviewed for reasonableness of assumptions and predictions.	Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption. The Council set a budget in line with local government requirements for 2019-20 and whilst it's initial funding gap increased from £1.891 million to £2.220 million, it has identified potential savings of £2.468 million to mitigate this risk. Management have confirmed as part of regular updates with them that at the end of June the Council is on track to achieve the savings approved as part of the 2019/20 budget setting process. However, management have identified that there are a number of spend pressures emerging for the year but mitigating action is being taken where possible and increased savings and/or income generation opportunities have also been identified.
Concluding comments	**Auditor commentary**
	We expect to issue an unmodified opinion for 2018/19, following completion of our work.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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

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

Action plan

We have identified 4 recommendations to date for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● Medium	Financial Statements Closedown 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.	The Council should review their accounts closedown process and ensure that improvements are made to ensure a smoother final statements audit in 2019-20. **Management response:** 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.
2	● Medium	Quality of Working Papers Working papers provided to audit were not all of the standard expected and in some cases needed to be reworked.	The Council should review the quality of their working papers prior to making them available to audit. **Management response:** 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
3	● Medium	Sickness Management Procedures High levels of sickness have lead to increased use of agency staff and therefore incurring higher costs for the Council. 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 should strengthen sickness management and monitoring procedures and develop a corporate dashboard which includes a KPI in relation to sickness absence. **Management response** A new Attendance Management Policy and Procedure has been approved. 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.
4	● Medium	Asset Register The Council does not have a formal capital asset register instead operating a spreadsheet based recording system.	The Council should consider investing in capital asset register software that meets the requirements of the Council going forward. **Management response** An Asset Management System will be procured during 2019/20 as a priority.
5	● Medium	Pay Settlements	The Council should define more clearly the scheme of delegation within its Pay Policy Statement, which should apply to payments on termination. **Management response** This will be incorporated in the work programme of the Constitution Working Group.

Controls

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

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**PPE disposals** Audit testing of PPE disposals identified the following errors: (i) The Council incorrectly recognised a disposal for the IT servers £697k. These were not disposed of when the Council moved to their new offices but were instead, transferred to a new location. (iv) The Council reclassified 3/10 St Georges Chambers £104,800 as an Investment Property during the year, and inclusion on the PPE disposal line is incorrect. In addition the associated accumulated depreciation £3,327 has not been removed from the PPE balance. Update: Following a full review of asset disposals by the Authority a number of similar errors were also identified. In summary the total errors are as follows: - Transfers to Investment Property recognised as disposals, rather than on the transfer line within the PPE note £156,652 (3/10 St Georges Chambers and 77-79 Knutton Lane) - ICT assets incorrectly disposed of following the move from Civic Offices to Castle House (Cost £946,340)	(£946)	£946	(£946)
2	**Investment Property - Loss on Disposal** Disposals of Investment property during 2018/19 resulted in a loss of £199,500. This loss has been posted to the 'Other operating expenditure' line in the CIES. The Code and the Council's own accounting policy states that gains/(losses) on disposal of Investment Properties should properly be posted to the 'Financing and Investment income and expenditure' line in the CIES. A transfer of £199,500 should therefore be made between these two lines within the CIES.	£0	£0	£0

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

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Balance Sheet and Note 20 Investment Properties	**Investment Property** The following errors have been identified within Investment Property - The balance included £346k in relation to the former Sainsbury's car park that should be classified as a surplus asset within PPE - Downward revaluations included £62k relating to asset 0320/003/040/41 Business Centre Winpenny Road. However this asset is held within operational Land and Buildings, and not Investment Property. - Within Note 20, there were a number of misclassification errors between headings. Final amended amounts should read Fair value adjustments (£553k) and transfers to PPE (£181k).	That the balance sheet and Note 20 are updated to correct the errors identified.	✓
Balance Sheet – PPE & Revaluation Reserve	**Asset Register error - Knutton Depot** Following a review of the asset register the Authority identified an error in the carrying value of their Knutton depot. The value recognised in the asset register did not include the value of the Land in error. The value of the Land as per the valuers report is £273k. As a result PPE Land and Buildings and the revaluation reserve are understated by £273k.	That PPE & the revaluation reserve balances are amended for the correct carrying value for Knutton Depot.	✓
Note 19 Property, Plant & Equipment	Vehicle, Plant Furniture & equipment disposals are recorded as (£1,518k) at Note 19. From a review of the supporting working papers this includes an amount of (£137k) relating to the downward valuation of asset additions in year not deemed to add value, and should therefore be recognised on the revaluation (decreases) - surplus/deficit on provision of services line instead.	That Note 19 is amended to separate disposals and downward revaluations	✓
Note 19 Property, Plant & Equipment	The depreciation charge line within Note 19 is net of the reversal of accumulated depreciation following revaluation of a number of assets during 2018-19. This entry £222k should not be netted off the depreciation charge, but instead shown on its own separate line.	That Note 19 is amended to correctly show reversals of accumulated depreciation and the annual depreciation charge separately.	✓
CIES	The 'Other operating expenditure' line within the CIES shows negative income of (£1,227k) comprising loss on disposal of non-current assets £1,603k, and capital income not arising from asset sales (£375k). The loss on disposal element should properly be recorded as expenditure, as opposed to negative income.	That the CIES is amended to remove the loss on disposal from income and correctly included within expenditure.	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

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

Audit Adjustments

Impact of unadjusted misstatements

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

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

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit – as reported in our fee letter	£42,352	£42,352
Total audit fees (excluding VAT)	**£42,352**	**£42,352**
Fee Variations – National Issues:		
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	**£1,500**	**TBC**
Pensions – IAS 19 - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	**£1,500**	**TBC**
PPE Valuation – work of experts - The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	**£1,500**	**TBC**
Revised total audit fee (excluding VAT)	**£46,852**	**TBC**
Fee Variations – Local Issues		
The Newcastle under Lyme Borough Council has required significant additional audit resources as a result of the following: • Consideration of complex accounting and valuation issues, specifically in relation to Castle House, Jubilee2 and the old civic centre • Use of Grant Thornton expert, technical and valuation staff to support our consideration of the above issues • Discussions and agreement of audit adjustments in relation to the above issues which required additional meetings with officers • Obtaining comprehensive explanations in relation to issues uncovered during the audit including requesting additional and appropriate working papers	**£15,500**	**TBC**
Revised total audit fee (excluding VAT)	**£62,352**	**TBC**

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

Non Audit Fees

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

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

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Newcastle Under Lyme Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Restatement Note, the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director (Resources and Support Services)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director (Resources and Support Services) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director (Resources and Support Services) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the ‘Delivering Good Governance in Local Government: Framework (2016)’ published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities set out on page 14, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director (Resources and Support Services). The Executive Director (Resources and Support Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director (Resources and Support Services) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Audit opinion

In preparing the financial statements, the Executive Director (Resources and Support Services) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

Audit opinion

Report on other legal and regulatory requirements - Certificate

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Birmingham

Xx September 2019

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