

The Audit Findings for Newcastle under Lyme Borough Council

Year ended 31 March 2020

November 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Newcastle under Lyme Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, including dealing with frontline challenges and working arrangements.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 24 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel and social distancing has meant both Council and audit staff have had to complete the audit through remote access working arrangements i.e. remote accessing financial systems, video calling and additional procedures in relation to the completeness and accuracy of information produced by the entity. Both the Council and audit team have responded well to the challenges posed to ensure the audit work will be completed to the national deadline.</p>
Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our year end audit work was completed remotely between September and November. Our findings are summarised on pages 5 to 16. We have identified five adjustments to the financial statements that have resulted in a net £1.2m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none"> • discussion with the Council's valuer around the valuation of car parks; • agreement of the housing benefit system parameters; • receipt of the signed management representation letter; and • review of the final and approved set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020, which was prior to the outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting material uncertainties in the valuations of your property, plant and equipment and net pension liability.</p>

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 2020 for those charged with governance.

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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19, We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 17 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement .

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 and the Audit and Standards Committee.

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;
- 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 had to alter our audit plan, as communicated to you in February 2020, to reflect our response to the Covid-19 pandemic

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Standards Committee meeting on 9 November 2020. These outstanding items include:

- discussion with the Council's valuer around the valuation of car parks;
- agreement of the housing benefit system parameters;
- receipt of the signed management representation letter; and
- review of the final and approved set of financial statements.

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.

We have revised our materiality levels to reflect the actual expenditure incurred during the year. Details of our materiality levels can be found on the next page.

Audit approach

Element	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,185,000	<p>We determined materiality for the audit of the Council's financial statements as a whole to be £1.25m in our audit plan which equated to approximately 2% of the Council's 2018-19 gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.</p> <p>Following receipt of the draft accounts we have revisited materiality and revised it down to £1.185m to take account of actual gross operating expenses for 2019/20.</p>
Performance materiality – Except Property Plant & Equipment (PPE) / Employee Remuneration	829,000	<p>Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none"> • We are not aware of a history of deficiencies in the control environment. • There has not historically been a large number or significant misstatements arising; and • Senior financial management and key reporting personnel have remained stable from the prior year audit
Performance materiality – PPE / Employee Remuneration	770,000	<p>We have set a separate performance materiality for PPE and employee remuneration of 65% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors:</p> <p><u>PPE</u></p> <ul style="list-style-type: none"> • During the year, the Council have implemented a new fixed asset register system; and • There were a number of adjustment to the financial statements in 2018/19 that related to PPE. <p><u>Employee remuneration</u></p> <ul style="list-style-type: none"> • In November 2019, the Council transferred the processing of payroll to Stoke on Trent City Council.
Trivial matters	59,000	Triviality is the threshold at which we will communicate misstatements to the Audit & Standards Committee.
Materiality for Senior Officer Remuneration	18,000	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Covid-19

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on time in July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council/groups' property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;

The revenue cycle includes fraudulent transactions (rebutted)

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.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Management override of controls

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.

Valuation of land and buildings (rolling revaluation)

We have:

- evaluated the processes, controls and assumptions put in place by management to ensure that the PPE valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PPE valuations;
- evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work;
- communicated with the valuer about the basis on which the valuation is carried out and where necessary challenge the key assumptions
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value

The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 4 to the financial statements.

We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.

Our testing to date has identified a number of amendments in relation to property, plant and equipment. Details of these amendments can be found in appendix C

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued to the management expert (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, through the Pension Fund, 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 made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- documented and evaluated 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.

Where appropriate, we have relied on the audit work carried out by ourselves as auditors of the Staffordshire Pension Fund In undertaking the above procedures.

The Council has included disclosures in Note 4 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value. Professional valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment. As such values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position. We will refer to this material valuation uncertainties in our audit report as an emphasis of matter.

Our other audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability

The Council have obtained an updated actuarial report to reflect the actual return on scheme assets for the year. Detailed of the amendments can be found in appendix C

Other audit risks

Risks identified in our Audit Plan

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary

We have:

- Evaluated the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.

We found that the Council have included appropriate disclosure within the financial statements.

New Fixed Asset Register System

The Authority is introducing a new fixed asset register system in 2019 moving away from its spreadsheet based system.

We have:

- Considered the Authority's arrangements in implementation of the new fixed asset register including the migration of data
- Undertaken substantive testing on the data transferred.

As part of the transfer officers identified that there were historic errors within the brought forward values in the asset register. The Council are undertaking a prior period adjustment (PPA) to correct these errors. Details of the adjustments are included in appendix C.

Transfer of Payroll Processing to Stoke on Trent City Council

The Authority transferred the processing of its payroll to Stoke on Trent City Council in November 2019.

We have:

- Considered the transfer of payroll processing to Stoke on Trent and the assurance available from the controls in place at the Authority.

Our work on the transfer of payroll processing to Stoke on Trent City Council has not identified any issues.


Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<p>Land and Buildings – Other – Draft £29.812m Fina £TBC</p>	<p>Operational land and buildings comprises £29.812m of assets which are valued at EUV where market data is available or if specialised i.e. schools, libraries etc depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision</p> <p>The Council has used its internal RICS qualified valuer to complete the valuation of properties as at 31 March 2020, this includes all assets which are required to be measured at fair value.</p> <p>Management have demonstrated through correspondence with the valuer their challenge of assumptions used in the estimation of asset values.</p> <p>In line with RICS guidance, the Council’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures in relation to estimation uncertainty at Note 4.</p> <p>The valuation of properties valued by the valuer has resulted in a net surplus on revaluation of £1.475m</p>	<p>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 valuation expert and the scope of their work, which has included the user of our own valuer to assist with our review and challenge evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out considered the completeness and accuracy of the underlying information used to determine the estimate tested on a sample basis revaluations of the Council's operational properties and investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements considered the Council's process for reviewing the carrying value of assets not revalued in the year. We are still discussing the appropriateness of the carrying values of car parks with the valuer. <p>Our testing to date has identified a number of amendments in relation to property, plant and equipment. Details of these amendments can be found in appendix C</p> <p>Our work in this area is ongoing, we are actively engaging with the Council’s valuer on these matters in relation to the carrying values of the Council’s car parks</p>	<p>(TBC)</p>

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment Property – Draft £17.562m Final £17.562m	<p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March. The Council has used its internal RICS qualified valuer to complete the valuation of these properties. The year end valuation of the Council's investment property was £17.562m, a net increase/decrease of £1.147m from 2018/19 (£16.415m).</p> <p>Management and their valuer have taken into account available market data at 31 March 2020. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures in relation to estimation uncertainty at Note 4.</p>	<p>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 valuation expert and the scope of their work, which has included the user of our own valuer to assist with our review and challenge evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out considered the completeness and accuracy of the underlying information used to determine the estimate and have challenged the appropriateness of the classification as investment for a sample of properties. We have not identified any issues in the current year in relation to assets being misclassified as Investment Properties Identified that £6.5m of investment properties have not been formally revalued during the year. Under the CIPFA Code of Practice and IFRS13 investment properties should be measured at fair value at the reporting date. We estimate the impact on the valuation would be a £245k downward movement. More details can be found in appendix C 	 Yellow

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area **Summary of management’s policy** **Auditor commentary** **Assessment**

Net pension liability –
Draft £59.846m
Final £TBC

The Council’s total net pension liability at 31 March 2020 is £59.846m (PY £76.138m) comprising the Staffordshire Local Government Pension Scheme and unfunded defined benefit pension scheme obligations.

The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council’s assets and liabilities derived from (this scheme/these schemes). A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £20.489m net actuarial gain during 2019/20.

We have:

- undertaken an assessment of management’s expert
- reviewed and assessed the actuary’s roll forward approach taken,
- used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged these assumptions and the calculation method applied

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	1.9%	1.8% - 2%	●
Salary growth	2.4%	Scheme specific	●
Life expectancy – Males currently aged 45 / 65	22.2 / 21 years	Consistent	●
Life expectancy – Females currently aged 45 / 65	25.2 / 23.8 years	Consistent	●



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In addition to this, we have:

- identified no issues with the completeness and accuracy of the underlying information used to determine the estimate.
- confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- satisfied ourselves in respect of the reasonableness of:
 - the Council’s share of pension assets.
 - of the decrease in the estimate, and
 - the adequacy of disclosure of estimate in the financial statements

The Council have obtained an updated actuarial report to reflect the actual return on scheme assets for the year. Detailed of the amendments can be found in appendix C

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management has considered:

- Cash flow forecasts
- Judgements and assumptions taken

Auditor commentary

Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting states that “*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”.

Management have also considered the following factors:

- The financial impact of Covid-19. The Council has estimated the financial impact of Covid19 to be a net overspend of £0.333m for 2020/21 and the level of reserves that can be utilised to offset this deficit.
- The current budget monitoring report for 2020-21.
- The Medium Term Financial Plan that has been updated to model the impact of Covid-19

We are satisfied that it is appropriate that management has used the going concern assumption in the preparation and presentation of the financial statements

In particular, we are satisfied that management has considered all pertinent areas relevant for consideration of the Council's ability to continue as a going concern.

Work performed

We have viewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves

Concluding comments

We are satisfied the use of the going concern assumption is appropriate.

We did not identify any events or conditions during the course of our audit that casted any significant doubt on the Council's ability to continue as a going concern.

There is no impact on our audit opinion which is unmodified in relation to going concern.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
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.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit & Standards Committee papers. Specific representations have been requested from management in respect of the unadjusted misstatements and prior period adjustments.
Confirmation requests from third parties	We requested from management permission to send a confirmation request to your bank. This permission was granted and the appropriate confirmation was obtained.
Disclosures	Our review found no material omissions in the financial statements
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This is not required at Newcastle under Lyme Borough Council as the Council does not exceed the threshold of £500m for 2019/20.</p>
Certification of the closure of the audit	<p>We are unable to certify the closure of the 2019/20 audit of Newcastle under Lyme Borough Council in the audit report, because we have not yet completed the work required in relation to the Whole of Government Accounts audit carried out by NAO</p>

Value for Money

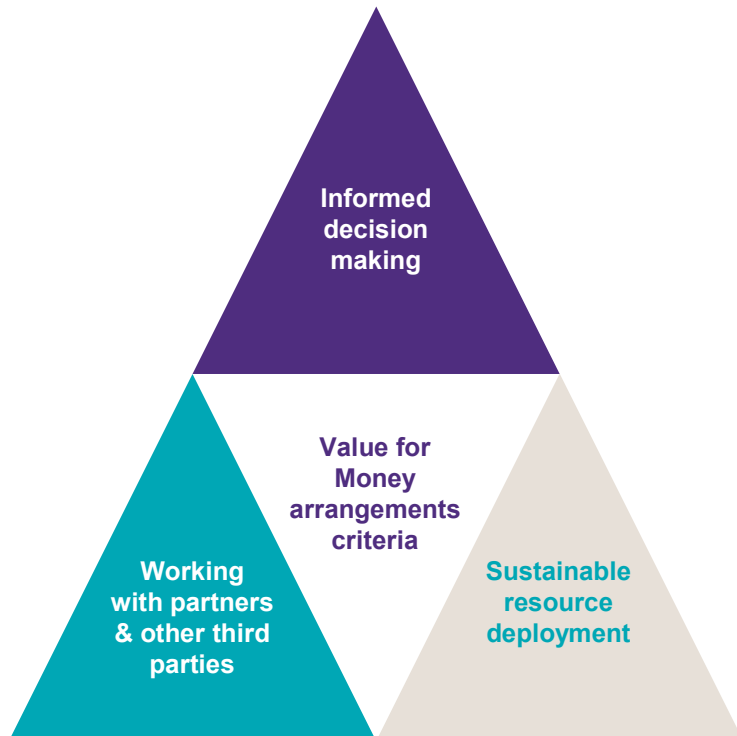
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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 2020 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 February 2020.

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

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

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 2020/21 budget and assessment of the Authority's savings/income generation plans.

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 18 to 19.

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.

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.

Value for Money

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

Financial Sustainability (Based on the Audit Plan)

The Council's latest medium term financial plan has significantly reduced the funding gap over the medium term to £0.49m in 2021/22; £0.327m in 2022/23; £0.308m in 2023/24; and £0.048m in 2024/25.

The CIPFA Financial Resilience Index, which looks at a range of factors that may affect resilience and sustainability, and relies on information on earmarked reserves, shows that the Council are at a higher risk compared to its nearest neighbours based on level and use of reserves. The Index also shows that the Council's business rates growth above the baseline is below the average of its nearest neighbours, which means the Council is less exposed to the business rates reset expected in 2021.

The medium term financial planning process is challenging due to the uncertainty over future local government funding arrangements as well as uncertain economic conditions. The longer-term reforms for the local government finance system, including business rates retention and fairer funding have been delayed until 2021/22 and the Council recognises the significant risk that these reforms, including the planned Business Rates Reset, will have a significant effect on the Council's funding level from 2021/22.

Our value for money risk assessment remains in progress. However, given the in-year challenges and those anticipated looking forward we believe a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions remains.

Findings

2019-20 Outturn:

The unaudited outturn in respect of the General Fund Revenue Account was an adverse variance of £0.207m compared to the budget of £13.050m. Whilst there were adverse variances against some budget heads, these have mainly been offset by positive variances against others. The main reason for the overspend at the end of the was due to Covid-19 pressures that resulted in reduced income from Jubilee 2, car parks and a hold on recovery actions in March 2020.

2020-21 Position and MTFS to 2025/26:

The Council have set a balanced budget for 2020-21. The ongoing pandemic has put additional pressures on this budget. Cabinet receive regular reports on Council's response to the pandemic and the delivery of its recovery plan

The latest recovery plan update (October 2020) is forecasting a net overspend of £333k for the year, which will be funded from reserves. The main impact is due to lost income (e.g. car parking and Jubilee2 Leisure Centre), which over the first 2 quarters of the year is estimated at £2.292m. The Government is funding lost income at 75p per £1 lost above the first 5%. The Council have calculated that they will receive £1.558m leaving a shortfall of £0.734m which is included in the net overspend above.

Looking forward to 2021/22 and beyond the Council have recently updated its MTFS. This shows a gap of £5.911m over the next five years. For 2021/22 the gap is £1.790m, which is an increase from £1.367m from the previous MTFS due to pressures from Covid-19 pandemic.

The Council are working to address the 2020/21 as part of the budget setting process and to date they have identified £1.469m of savings. Draft savings proposals will be presented to Cabinet in December 2020.

Value for Money

Findings cont

To ensure that the Council is able to operate effectively and meet its strategic aims within its current environment they have commissioned consultants to undertake a review of how the Council will operate going forward. This review has recently been completed and the future operating model developed has identified circa £900k of savings. Officers are currently working through the recommendations and will incorporate them into the budget setting process.

As part of the MTFs the S151 officer has undertaken a risk based review of the minimum level of reserves required. This review identified that for 2021/22 the minimum level of reserves required is £3.116m. The Council currently have £1.584m. This risk assessment were completed prior to the second lockdown.

Conclusion

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 ongoing pandemic which is placing additional pressures on the Council both financially and the challenges in providing services.

As we highlighted in 2018/19 the authority will need to continue to make tough decisions 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.

The Council also need to continue to build reserves to become more financially resilience.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

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 Claim	11,400	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £11,400 in comparison to the total fee for the audit of £49,852 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. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
None			




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 & Risk Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified two 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 2020/21 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
 Medium	<p>Investment Properties</p> <p>The Council have applied a rolling programme of revaluation for Investment Property. Investment Property assets with a carrying value of £6.5m have not been subject to a formal valuation at 31st March 2020. Per the CIPFA Code of Practice and IFRS13 Investment Property should be measured at fair value at the reporting date, therefore a rolling programme of revaluation is not appropriate.</p>	<p>The Council should ensure that all assets categorised as investment properties are revalued on an annual basis to comply with the CIPFA Code of Practice and IFRS13.</p> <p>Management response</p> <p>All of the Investment Property assets have been reviewed during the year by the Council's Valuer. The Council has noted the recommendation that all of the assets reviewed should be formerly documented even if there is no change to the value as per the CIPFA Code of Practice.</p>
 Medium	<p>Vehicles, Plant, Furniture and Equipment (VPFE)</p> <p>From our testing we identified that 75% of VPFE have been fully depreciated but are still in use by the Council. Thus we deem the useful lives currently being allocated to VPFE (5-15 years) as too short and not reflective of their actual lives.</p>	<p>That the Council review the useful lives of its VPFE assets to ensure that they more accurately reflect the actual lives.</p> <p>Management response</p> <p>As the Council wants to ensure maximum use of its vehicle, plant, furniture and equipment, it has now reviewed the life of these assets to reflect their actual lives.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Newcastle under Lyme Borough Council's 2018/19 financial statements, which resulted in five recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<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>A closedown meeting between auditors and finance staff was undertaken and example copies of working papers. In addition the majority of the working paper were ready for the commencement of the final accounts audit.</p>
✓	<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>Overall the working papers provided this year have improved. In particular there have been improvements in the PPE working papers have improved this year due to the implementation of the CIPFA Asset Management System.</p>
✓	<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 have implemented a new Attendance Management Policy and payroll has now been outsourced to Stoke City Council (MyView Payroll System) which provides a suite of absence reports improving the management of sickness.</p> <p>This demonstrates that the Council has in place appropriate controls to monitor and manage sickness absence.</p>
✓	<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 have procured and installed a new Asset Management System through CIPFA. This system has been used for the first time for the 2019/20 closedown and PPE working papers have improved.</p>
✓	<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>This area has been incorporated in the work programme of the Constitution Working Group and updated within the Financial Regulations.</p> <p>No issues have been identified during our audit this year.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Land and building valuations	£292	(£292)	£292
A review of the asset register for those Land & Building assets revalued during 19-20 identified five assets where a balance remained for accumulated depreciation. All assets had additions during the year and the asset register has incorrectly calculated a revaluation loss for these assets equivalent to the value of the 19-20 additions that is being carried forward within the accumulated depreciation section, and incorrectly reduces the carrying value of the assets.			
Investment properties	(£825)	£825	(£825)
The Council have five assets where the Council act as lessor and are leased out under finance leases. Historically these assets have been included in the asset register at nil value, however they have been revalued upwards during 19/20. As the asset are leased out they should be excluded from the statement of financial position.			
Pension Liability – Update for actuals	(£947)	£947	(£947)
The LGPS net pension liability recognised in the draft accounts is based on the IAS19 report prepared by the Council's Actuary. This report incorporates actual Staffordshire Pension Fund returns for the period 1 April 2019 to 31 December 2019 and an estimate Fund return of -13.4% for the quarter to 31 March 2020. The Council commissioned a further report from the Actuary that reflected actual investment returns up to 31st March 2020 which showed an Fund return of -5.8% for the year. The overall net pension liability in the revised report has reduced by £947k.			
Overall impact c/fwd	(£1,480)	£1,480	(£1,480)

Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Overall impact b/fwd	(£1,480)	£1,480	(£1,480)
Fixed Asset Register – Jubilee 2	£280	(£280)	£280
The 19/20 valuation report shows that there are certain components that are recorded separately in the asset register. When the asset register has been updated these have not been removed from the valuation of the main asset and are therefore double counted in the asset register.			
Fixed Asset Register – Data Migration	N/A	Current Year No impact Comparatives Capital Adjustment Account 4,423 Revaluation Reserve (4,423)	N/A
As part of the implementation of the new fixed asset register officer identified entries in the Revaluation Reserve that relate to assets that have previously been disposed of.			
Overall impact	(£1,200)	£1,200	(£1,200)

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 reference	Detail	Adjusted?
Prior Period Adjustment Note	During the audit we have identified errors that have impacted on prior years. Due to these errors a prior period adjustment note is required setting out the nature of the errors and the impact on the financial statements	✓
Material uncertainty in relation to the pension fund	The Staffordshire Pension Fund have included a material uncertainty in their accounts relating to the valuation of its property assets. The Council need to include a similar paragraph within its Defined Benefit Pension Schemes / Assumptions made about the future and other major sources of estimation uncertainty notes to reflect the impact of this issue on the net pension liability.	✓
CIES / Note 6 Expenditure and Funding Analysis	Following a restructure Environmental Services now sits within the Operational Services Directorate, whereas previously this fell within Regeneration & Development. Gross income and Gross expenditure for this service is material and a PPA is required to restate the comparatives in the CIES/EFA. This should be explained in a separate PPA disclosure note.	✓
Note 13 Income and Expenditure analysed by Nature	The net position for in Note 13 is consistent with the CIES there is a difference of £3,279k for both income and expenditure. The disclosure at Note 13 should be consistent with the CIES.	✓
Note 19 Property, plant and equipment	In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council have included a general disclosure of this issue within Note 4 but a specific disclosure is required within the PPE note.	✓
Note 19 Property, plant and equipment	Within the rolling revaluation table the analysis of Land & Buildings valuations across the 5 year rolling period was found not to be in line with supporting records, and details of assets valued provided by the valuer.	✓
Note 19 Property, plant and equipment	Within Impairment losses carried forward includes a balance of £1,236k. We have reviewed the nature of these and they consist of a combination of assets created in relation to the flexible use of capital receipts, and capital spend incurred during the year where the valuer has deemed that they do not increase the value of the related asset. These are not true impairments, and should not therefore be carried forward in this section of the note. Instead they should be shown as a revaluation movement within the cost section of the note.	✓
Note 29 Defined Benefit Pension Schemes	The note requires updating to reflect the revised actuarial report received from the actuary	✓
Other disclosures	We identified a number of minor improvements required to other disclosures, none of which we consider merit reporting separately to Those Charged With Governance	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit & Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Flexible Use of Capital Receipts</p> <p>During 2019/20 the Council incurred revenue expenditure on reform projects totalling £501k. Under directions issued by DCLG this expenditure has been financed flexibly from capital receipts. The accounting treatment adopted was to treat the expenditure as an addition to PPE, and then revalue downwards and reverse out through the CAA. This expenditure however should properly be accounted for as REFCUS as set out in section 4.6 of the Code.</p>	£501	(£501)	£501	Accounting treatment is consistent with prior years and this is the last year that flexible use of capital receipts was used for the related projects.
<p>Investment property- Assets not revalued in 2019/20</p> <p>Investment Properties not subject to valuation during 2019/20. We have undertaken our own assessment using the 5 highest value assets as these account for £5.16m of the assets not valued. We obtained details of the date these assets were last revalued and then applied the appropriate index from Gerald Eve and have estimated the expected impact. The calculated movement using the Residential development land index is a reduction in value of £245k</p>	£245	(£245)	£245	All Investment Property Assets have been reviewed and there have been no alterations to the values of the assets referred to in the recommendation.
<p>Depreciation correction - Assets not depreciated in prior years</p> <p>The approach taken to account for a prior year issue whereby a number of VPFE assets were not depreciated, does not fully capture the error but instead defers this into 2020-21. Officers have reviewed the useful economic life of the affective assets (as per our recommendation in Appendix A). This error can analysed between understatement of depreciation in prior years £1,047k, and understatement of the 2019-20 depreciation charge £181k.</p>	£181	(£181)	£181	Due to the low value of the depreciation amendment and the fact that it will not change the outturn figure, this correction will be made in readiness for the next years accounts.
Overall impact	£927	(£927)	£927	

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	£49,852	£TBC
Total audit fees (excluding VAT)	£49,852	£TBC

Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

- 1. Revisiting planning** - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
- 2. Management's assumptions and estimates** - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- 3. Financial resilience assessment** – we are required to consider the financial resilience of audited bodies. I know from our discussions over the last few months that Covid-19 has had a major impact on the Council's finances. This has increased the amount of work that we need to undertake on going concern and value for money (financial sustainability).
- 4. Remote working** – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). We, as other auditors, are experiencing considerable delays as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and council premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms.

Please be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Finance before reporting to the Audit Committee at its next meeting.

Fees

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	£11,400	TBC
• Housing Benefit (Subsidy) Assurance Process		
Non- Audit Related Services	N/A	N/A
• None		
Total non- audit fees (excluding VAT)	£11,400	TBC



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