

Auditor's Annual Report

Newcastle-under-Lyme Borough Council

For the year end 31 March 2021

February 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether Newcastle-under-Lyme Council (the 'Council') has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any significant risks in respect of any of the three criteria:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness



Financial sustainability

We assessed the arrangements concerning Financial Sustainability and found no indications of potential significant weaknesses.

We note the Council is operating in an increasingly uncertain financial environment and for the second successive year, the Comprehensive Spending Review was a single year spending review. Whilst the Council will need to continue to plan with a lack of certainty over funding in the medium term it has the assurance of a track record of delivering robust financial plans.



Governance

We assessed the arrangements concerning Governance and found no indications of potential significant weaknesses. However, we have made four improvement recommendations which can be found on pages 10-13.

The Council has demonstrated that both its business as usual and temporary arrangements arising due to Covid-19 were appropriately robust and applied across the organisation.



Improving economy, efficiency and effectiveness

We assessed the arrangements concerning the 3E's and found no indications of potential significant weaknesses.

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Covid-19 has had an adverse impact on a number of KPIs but the Council, despite having to re-deploy and alter priorities, was still able to maintain a large proportion of its services as planned.

Opinion on the financial statements

We have audited the financial statements of Newcastle-under-Lyme Borough Council for the year ended 31 March 2021 which comprise the Comprehensive Income and Expenditure Statement, the 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 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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term 3-5 years.



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on the following pages. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council has consistently demonstrated a track record of robust budget setting and delivery. We have reported previously that the processes in place incorporates an appropriate level of challenge and scrutiny from Committees to ensure budgets are achievable operationally, there a good level of support from finance to ensure budgets are achievable from a resourcing perspective and timely and accurate budget monitoring throughout the year to ensure budgets remain relevant with risks identified quickly. The strong processes underpinning financial management has allowed the Council to consistently identify significant financial pressures and build these into short and medium term plans.

In 2019/20, the Council recorded an overspend of £208k on its revenue account. Covid-19 did not particularly impact the 2019/20 financial position. Covid-19 evidently had a major impact on the Council's operations in 2020/21 and will continue to do so in 2021/22 and beyond. Before the official declaration of a pandemic in March 2020, the Council had already approved its 2020/21 budget and its Medium Term Financial Plan (MTFS) for 2020-25. These financial projections showed funding gaps of £4.446m over the period.

The initial projections at the start of the financial year projected that income losses of c£500k and additional costs of £164k per month due to Covid-19. However, once there was clarity that government would be providing significant grants to cover additional costs and also loss of income the Council was able to review its financial projections for the remainder of the year and ultimately was able to deliver a balanced budget. This was a result of receiving an additional £3.076m of government funding. The government funding for additional costs and income was obviously critical in allowing the Council to deliver the 2020/21 position however the Council also had to ensure it had appropriate arrangements in place to deliver revised operational strategies including the administration of grants to local businesses.

The Council has set a balance budget for 2021/22 budget and identified savings and funding strategies to address the funding gap of £1.275m identified in the previous MTFS.

As part of the 2021/22 budget setting process the Council have also updated its MTFS to 2022/23 - 2025/26 taking into account the current financial environment the Council is operating in. This updated MTFS has reduced the funding gaps over the period to £1.683m.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council has a track record of delivery saving plans. Before Covid-19, a saving requirement of £4.446m was identified over the life of the MTFS. In recognition of the pre-existing funding gaps along with the financial pressures arising from the pandemic, the Council have commenced on full organisational review. This review will look at how the Council delivers its services due to the changing demands on these services and need to protect the most vulnerable and disadvantaged in the community. The implementation of this process will be developed by the One Council Programme which will be undertaken over the two years in 2021/22 and 2022/23. This will involve extensive redesign or organisational structures, process and technology which are underpinned by changes in culture, leadership and governance. The programme will be overseen by the ICT and Digital Steering Group which is chaired by the Leader of the Council. The One Council Programme is expected to achieve efficiencies and recurring savings of £922k over a three year period.

Financial sustainability

As part of the 2021/22 budget setting process, the Council have also updated its MTFS to 2022/23 - 2025/26 taking into account the current financial environment the Council is operating in and the One Council Programme. This updated MTFS has reduced the funding gaps over the period to £1.683m.

The Council has also updated its Capital Strategy for 2021-2030. This shows capital investment of £76.6m over the period. This will be funded through a mix of capital receipts (£40.2m), external contributions (£12.9m) and borrowing (£23.5m). The capital programme over the MTFS period is £31.057m with prudential borrowing of £19m. The impact of this borrowing has been incorporated into the MTFS as a pressure.

The Council has £59.7m of operational and investment properties and to date the value of these assets have held up despite uncertainties arising from the pandemic. The Council's investment property portfolio delivered net income of £900k in 2020/21, which is a reduction of £73k compared to 2019/20. Like many others in the sector, the Council will need to consider whether its existing strategies take into account changes in risk and the differing ways of working and providing services that could become permanent due to Covid-19, e.g. the need for office space given a potential continuation of hybrid/home working.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

We note there is a robust financial planning process in place which ties in with corporate objectives, service plans and workforce plans. There is extensive consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The Council plan covers the period 2018-22 which has the vision of "a growing borough that is an attractive and welcoming place for all". The annual budget and MTFS clearly reference this vision and reflect the priorities within the plan. Whilst the Council plan was produced before Covid-19 the Council has continued to work towards the original objectives of the plan whilst understanding the need to manage the immediate requirements emerging due to the pandemic like managing grant distribution for business and supporting the most vulnerable.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

The pandemic has created challenges to routine financial management in 2020/21, with the temporary cessation of some services to deal with Covid demands and a changing profile of demands of other services. The Council had to be flexible and agile in terms of how it managed the changes in demand and needed to have sound reporting processes to understand what this meant for financial delivery. As noted already, the financial impact and potential income gaps moved significantly during 2020/21 with initial projections before government grant announcements of pressures of £634k per month from loss of income and additional expenditure to an outturn which saw an underspend of £5k. This therefore made the decision making process challenging. The ability to close the gap is primarily down to the support from government during the year but the Council but also needed to demonstrate flexibility and an understanding of its costs and service provision to manage the position.

Summary

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all fundamental elements of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

We have reviewed the processes the Authority has in place to assess and monitor risk. The Council annually approves a risk management strategy that sets out the Council's responsibilities and approach to managing risks facing the Council.

The Council defines four types of risk:

- Strategic
- Operational
- Project
- Partnership

The Council monitors and manages its risks through its risk management software GRACE (Governance Risk and Control Environment). Each risk identified is RAG rated based on a 3x3 scoring matrix based on upon the likelihood and impact (H/M/L).

All risk are allocated a risk owner and in the case of a strategic risk these are a member of the executive management team. The risk owners update GRACE to show the proposed treatment (tolerate / treat / transfer / terminate) along with key controls for the risk and an action plan for managing the risk.

The review period for each risks is dependant on the RAG rating assigned to the risk (Red – monthly, Amber – quarterly & Green – half yearly).

All strategic risks are include corporate risk register and are reported to the Audit & Standards Committee on a quarterly basis. The report sets out a variety of data for each risk including:

- Risk Owner
- Risk Score
- Target Risk Score
- Impact
- Proposed treatment (tolerate / treat / transfer / terminate)
- Key Controls
- Action plan to manage the risk

The quarterly report also includes the Council's risk review performance and whether there are overdue reviews. The Quarter 4 report for 2020/21 shows that there were no overdue risk reviews.

It is evident that the risks on the corporate risk register are changing from the prior year list of risks, for example there is a specific Covid-19 risk and a specific risk for Walley's Quarry was added in the first quarter of 2021/22. This demonstrates that the risk register is live and regularly updated as the risks facing the Council change.

We identified one potential enhancement to the corporate risk register. In line with best practice, we recommend that risks are clearly mapped to the Council's corporate objectives.

Governance

2020/21 was the first year that internal audit services were outsourced and provided by Stoke-on-Trent City Council. An internal audit plan for 2020/21 was approved by the Audit & Standard Committee in April 2020. However, due to Covid-19, internal audit were unable to undertake any reviews in the first half of the year. As a result, the audit plan was revisited to ensure that the higher risk areas were prioritised during the latter half of 2020/21. Due to the lack of coverage caused by Covid-19 restrictions, the Chief Internal Audit was unable to gain sufficient assurance to give a Head of Internal Audit Opinion and had to issue a limitation of scope in line with CIPFA guidance.

As part of our review, we have not identified any issues with the scope of the Internal Audit function, how it is managed by management and via the Committee Structure or the delivery of the service. However, the Council should ensure that the coverage by Internal Audit returns to normal as soon as possible and ensure that areas of the Council not audited in the last three years are given priority.

How the body approaches and carries out its annual budget setting process

The financial landscape due to Covid-19 made 2020/21 a unique year in terms of financial planning. A pre-Covid 19 medium-term financial strategy had been produced based on prudent assumptions about future income streams. This was subsequently updated as part of the 2021/22 budget setting process.

The Council has effective arrangements in place, using analysis and scenario planning to understand its financial position and identify saving and investment options. Despite the pandemic, there is no evidence the arrangements in place have been compromised. Budgets were discussed with budget holders, senior leadership, other stakeholders and the Finance, Assets & Performance Scrutiny Committee. The budget is then presented to Cabinet for final review and their recommendation to full Council for approval. It is also evident from a review of the 2021/22 budget that the impact of Covid-19 on budgets was factored in revised saving plans.

How the body ensures effective processes and systems are in place to ensure budgetary control

There are appropriate systems and processes in place for oversight and monitoring of the budget. Budget holders receive monthly budget monitoring reports for the services they are responsible. These reports are broken down by cost centre and compare monthly income

and expenditure against budget. Reasons for all variances must be reported to the finance team along with explanations of any action being taken

The Council's financial regulations clearly set out the responsibilities of directors for the financial performance of their directorate to control expenditure and income within their areas of responsibilities.

Quarterly finance and performance reports are presented to Cabinet and the Finance, Assets & Performance Scrutiny Committee. The reports are set out financial performance of the Council at an organisational level and details of significant variances that impact on the budget. The report also includes non-financial performance against the Council's KPIs. To improve reporting arrangements in line with best practice, we recommend that the report includes financial performance at a more detailed level such as directorate and service area. This will provide further information to members which will enable greater review and challenge.

Cabinet and the Finance, Assets & Performance Scrutiny Committee also received half yearly treasury management reports. These reports set out the Council's investment and borrowing position as well as performance against its prudential indicators agreed in the annual treasury management strategy.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

There is no evidence to suggest the Council's decision-making processes are not open or transparent. All major policy decisions are taken to Scrutiny Committees in accordance with the Council's Constitution. The Committee Report Template ensures all relevant considerations must be included. Committee members are provided opportunity to challenge and ask questions at Committee meetings, before voting on the decision. The report template for Committee decisions requires consideration of all stakeholders, including engagement as appropriate.

Covid-19 did impact on many organisation's ability to make all decisions in line with existing delegations (e.g. decisions often having to be made outside of Committee cycles due to urgency) however we have not identified any indication that existing arrangements were overridden at the expense of appropriate scrutiny and challenge.

Governance

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements. The Council's Constitution sets out the framework for monitoring compliance with legislation. The Council has a Monitoring Officer who is responsible for reporting on the lawfulness of the Council's activities. The Constitution includes code of conducts for both officers and members that stipulate the expected behaviours of the staff and members including openness, transparency, personal ownership and engagement. These are consistent with the public sector Nolan principles.

The Constitution contains a policy for officers and members regarding gifts and hospitality and the responsibility to ensure interests are appropriately declared. These declarations are captured through a annual process and are also evidenced at the start of each Committee meeting. It is also possible to search the Council website for declarations made at meetings by meeting type, date and Councillor.

As part of audit procedures completed on the Statement of Accounts, via a search of Companies House, we identified instances where directorships were not disclosed by members . In once instance this resulted in a related party having to be disclosed in the financial statements. Improvements should be made to ensure that all interests of members and officers are declared and recorded.

Summary

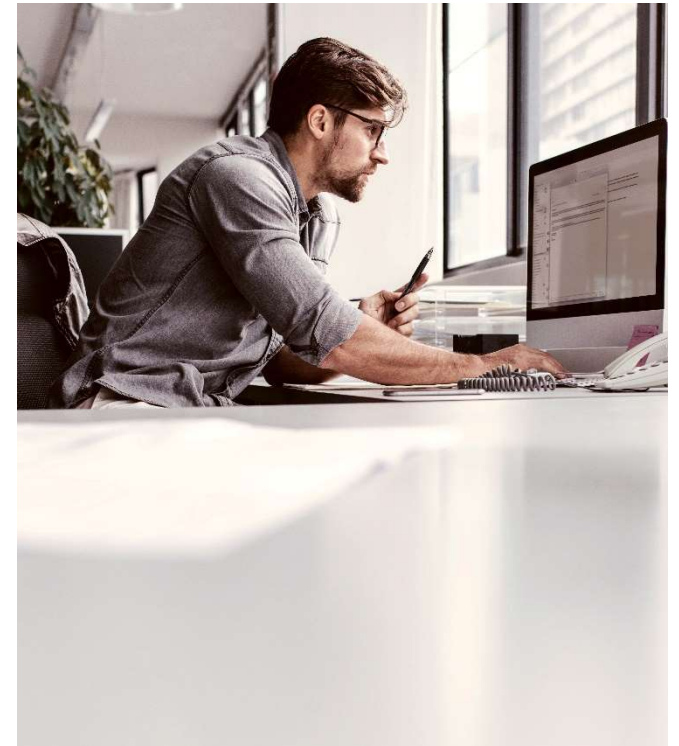
We found no evidence or indication of significant risks in the Authority's governance arrangements as such no further risk-based work has been undertaken in this area. However, we have made four improvement recommendations. These related to:

- linking risks in the corporate risk register to corporate objectives
- Internal audit coverage
- the level of detail within the quarterly financial performance reports
- completeness of the declarations on the register of interests

Improvement recommendations

Governance

1 Recommendation	Within the Corporate Risk Register, we recommend that each risk is clearly mapped to the relevant corporate objectives
Why/impact	Mapping the risks on the Corporate Risk Register will provide a clearer view on the corporate objectives that are most at risk of non-achievement.
Auditor judgement	Clear mapping between the Corporate Risk Register and the corporate objective will enable members to exercise scrutiny in better detail.
Summary findings	On the Corporate Risk Register, risks are not mapped against the corporate objectives.
Management comment	The Council will review the risk register and ensure risks are clearly mapped to relevant corporate objectives.

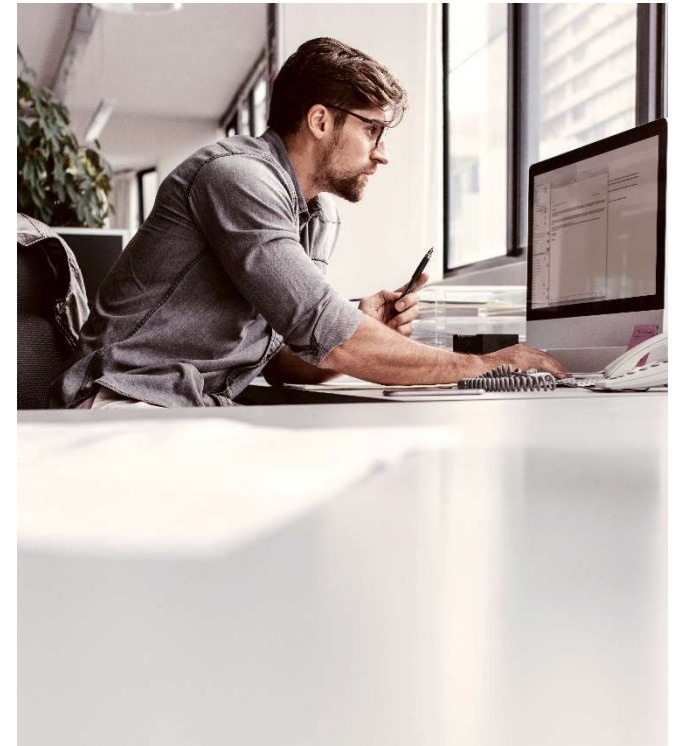


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

2 Recommendation	The Council should ensure Internal Audit coverage returns to normal as soon as possible to ensure that there is no impact on the Council's internal control environment. Areas of the Council that have not been audited in the last three years should be given priority.
Why/impact	Internal audit work forms a key part of the Council's governance framework in providing assurance that internal controls are operating effectively. Reduced internal audit coverage will reduce the assurance that can be given and may not detect where internal controls are not operating effectively. This could lead to the Council's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies not being met.
Auditor judgement	The work of internal audit and the Head of Internal Audit opinion is a key part of the Council's governance framework.
Summary findings	In 2020/21 due to the pandemic the Internal Audit plan was severely impacted. This resulted in a limitation of scope on the Head of Internal Audit opinion for the year.
Management comment	Due to Covid-19, the Council has been unable to complete all of the planned audits during 2020-21. However, arrangements are now in place to complete the planned audit work which will also include an Internal Auditor being on site when completing the audits.

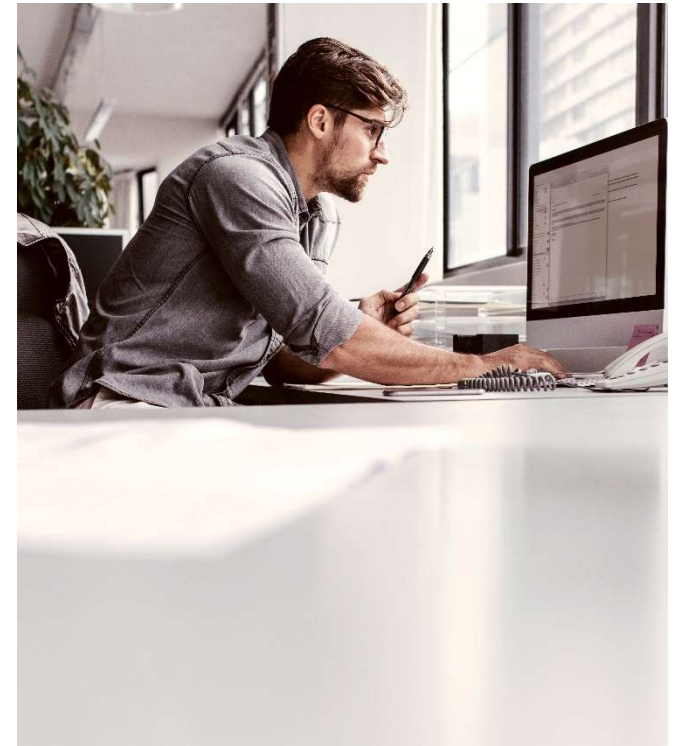


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

3 Recommendation	The quarterly financial and performance review report include a breakdown of financial performance by directorate and service areas.
Why/impact	Providing financial performance information at a directorate and service area level will enable members to understand the financial performance of the Council at more detailed level and focus in on service areas that are facing the greatest financial pressure.
Auditor judgement	Clear reporting of financial performance at a directorate and service area level will enable members to exercise scrutiny in better detail.
Summary findings	As part of our work we reviewed the quarterly financial and performance review reports presented to Cabinet. These reports includes reporting of financial performance at organisational level but doesn't include a breakdown of financial performance at a lower level (e.g. directorate or service area)
Management comment	The quarterly financial and performance reports will be updated to include financial performance by directorate and service level.

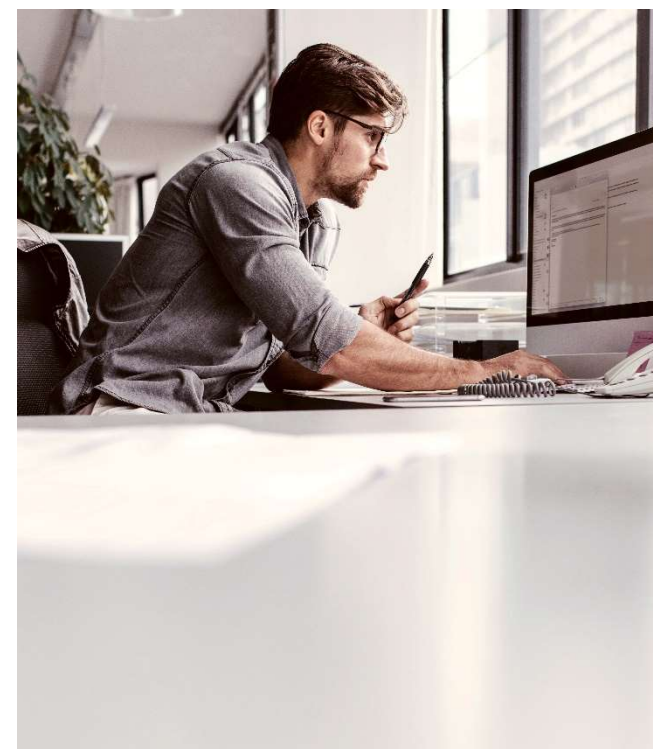


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

4 Recommendation	Review the adequacy of procedures around members declaring interests. Also, implement an annual completeness check to identify any gaps in declarations. For example, this may include a search of Companies House records to compare directorships held to those recorded on the register of interests.
Why/impact	Improved procedures will reduce the likelihood of further interests not being captured on the register of interests, which will support members in being able to demonstrate that they have remained impartial, and no conflict of interests have arisen in the completions of their duties.
Auditor judgement	Identifications of members' directorship that had not been declared on the register of interests indicates that the register is incomplete.
Summary findings	During work on the financial statements audits, we identified instances where members had not declared directorships in the register of interests. In once instance this results in a related party having to be disclosed in the financial statements.
Management comment	Procedures will be reviewed and improved to ensure all declarations of interest are completed and recorded timely.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

How financial and performance information has been used to assess performance to identify areas for improvement

The Council has a 4-Year Corporate Plan running from 2018-22 which sets out the strategies, priorities and services for the period. The purpose of the plan is to provide ‘a framework for decision making, which ensures that available resources are allocated to meet the needs of our communities. Having a clear vision for the future, aligned with strategic priorities and activities also provides a framework for managing the effectiveness of the organisation as a whole, as well as for managing individual services.’

As the plan covers four years, the context and actions change over time and as such the plan is reviewed annually to ensure it remains appropriate. As part of the annual cycle, the Council reports on the delivery of the key targets identified in the 4-Year Plan as part of its performance framework.

As a framework the Council’s approach to performance reporting is similar to others in the sector. Cabinet and Scrutiny Committees receive quarterly performance reports. As we explain on page 16 – Covid section, Covid-19 has impacted on both the cycle of reporting (with cancelled meetings) and with the actual achievement of performance. This was to be expected and the Council has still continued to collate its performance data and explain clearly where Covid-19 is specifically impacting on data during the year.

The quarterly performance reports include a summary and an Appendix with every KPI under the Council’s strategic priorities. Each KPI is colour coded for an easy visual presentation of performance, whether it is being achieved or not and the trajectory of the indicator.

The report also sets out overall performance and provides details for those KPIs not achieved along with a narrative of reasons for not achieving the target and actions being taken by officers.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council liaises regularly with other Staffordshire Districts and has a good knowledge of what others are doing and where good practice is in place.

The Council has engaged consultants to benchmarking the Council against other authorities to identify service areas with high level of spend. They have identified a number of high cost areas and these have been incorporated into the Council’s One Council Programme looking at how it delivers its services going forward.

In addition, service directors regularly meet with Finance to review financial performance of services within their remit. This involves challenging the way services are delivered. This includes reviewing each service to determine whether the focus should be on reducing costs or identifying opportunities to invest to improve or increase efficiency in service delivery.

Improving economy, efficiency and effectiveness

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

The nature of the services provided by the Council means it is required to work closely with a range of partners. One of the Council's main partnership is the Newcastle Partnership. The partnership represents the public, private, voluntary and community sectors in Newcastle-under-Lyme, comprising of around 40 organisations and plays a vital role in bringing together the different organisations with a shared purpose through co-operative and co-ordinated joint working designed to improve the social, economic and environmental wellbeing in the Borough. The Council acts as the accountable body and lead partner for the Newcastle Partnership.

The partnership board meets every 6-8 weeks and with a special meeting held each February to discuss the available Partnership budget and to agree the work programme for the coming financial year. The partnership board is chaired by the Leader of the Council in their role as Chair of the Newcastle Partnership with support and the involvement of other Political Leaders.

Performance of partnerships is monitored through the Corporate Performance Scorecard, which is based upon the four strategic priorities set out in the Council Plan. Performance against the Council Plan is reported to Cabinet.

As previously mentioned, as part of the Council's approach to risk management, partnership risks are identified and recorded within the Council risk management system GRACE.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council has a detailed Procurement Strategy. The Strategy details the Council's approach to procurement and sets out the stages by which the Council procures goods or services. The Strategy has four key areas or "aims" which are:

- the Council makes effective procurement decisions that comply with regulatory requirements
- The Council's procurement activity must remain effective and developed further to support officers as part of a devolved structure
- Efficiency savings can be achieved through effective procurement
- The Council's procurement activity supports the local economy through transparent and inclusive procurement processes.

The Council has a Contract Manager in post to support and monitor major contracts, and budget managers have delegated responsibility for managing contracts. The Capital, Assets and Commercial Investment Review Group oversees performance of the major capital projects including reviewing actual spend vs budget.

We found no evidence that appropriate procurement processes were not followed during 2020/21.

Summary

We found no evidence or indication of significant risks to your economy, effectiveness and efficiency arrangements as such no further risk-based work has been undertaken in this area.

COVID-19 arrangements



Since March 2020, COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

Covid-19 has had a significant impact on the services Councils have been required to provide. The Council setup an Incident Response Management Team to plan the Council's responses, ensuring that support to local residents and businesses were provided, that Council services were maintained, and that the welfare of officers and was members protected.

At the same time the Council has to transition to remote working and deal with resourcing issues when staff were either unwell with Covid-19 or required to isolate.

The impact on finances to date has ultimately been limited due to government support but as we reported earlier in this report there were periods of uncertainty when it was unclear what support would be. The Council was able to deliver a budget that required minimal use of reserves in 2021/22 but as government support has reduced whilst the country has re-opened the Council has continued to find the financial landscape challenging because income streams are still impacted.

There is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has reworked future budgets but will need to wait for clarity on what support will be forthcoming in the medium term. Fortunately, the Council is in a good financial position with reasonable levels of reserves for its size but these cannot be utilised indefinitely and saving targets, service provision and commercial strategies will need to be revisited.

Governance

Governance arrangements were amended to meet the challenges of the pandemic. A specific cost centre was set up to allow for accurate recording of Covid related costs and reporting on the impact was incorporated into the quarterly budget monitoring reports

As soon as these were lawful, the Council started holding members' meetings online. This allowed for Council and key Committees to continue to meet, discuss and continue to be involved in decision making. Many corporate support staff began to working from home as the Council was required to transition to IT-enabled home working away from the office.

Cabinet received regular reports on the current Covid-19 situation and the Council's responses across four key areas:

- Support for the most vulnerable
- Support for Businesses
- Impact on Council Services
- Impact on Council Finances

The Council was required to act in response the government's 'Working safely during Coronavirus' guidance issued in May 2020. This created a significant amount of work to ensure buildings and services were subject to health and safety measures to be Covid Secure. To maintain essential services, the Council procured and supplied necessary PPE.

Improving economy, efficiency and effectiveness

During the pandemic the Council has continued to measure performance against its four year Corporate Plan 2018-22. Despite the obvious impact of Covid-19 on performance the Council did manage to meet 14 of its 18 performance targets (74%). A number of these indicators were not achieved because the teams responsible were re-deployed or working on other priority area.

Summary

We found no evidence or indication of significant risks to your Covid-19 arrangements as such no further risk-based work has been undertaken in this area.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the financial statements on 23 November 2021.

Other opinion/key findings

We issued unmodified opinions in respect of other information.

We did not report any matters by exception

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit Committee on 8 November 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

As in previous years we expect the Council to be below the threshold requiring audit procedures however at the time of issuing this report the Group Instructions have not been issued by the NAO to confirm the approach for 2020/21.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

The key issues were:

- Misclassification of one property as an investment property when it should have been classified as an asset held for sale
- Completeness of the register of interests. Testing identified that not all directorships had been disclosed by members.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council



Role of the Head of Finance (s151 Officer):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

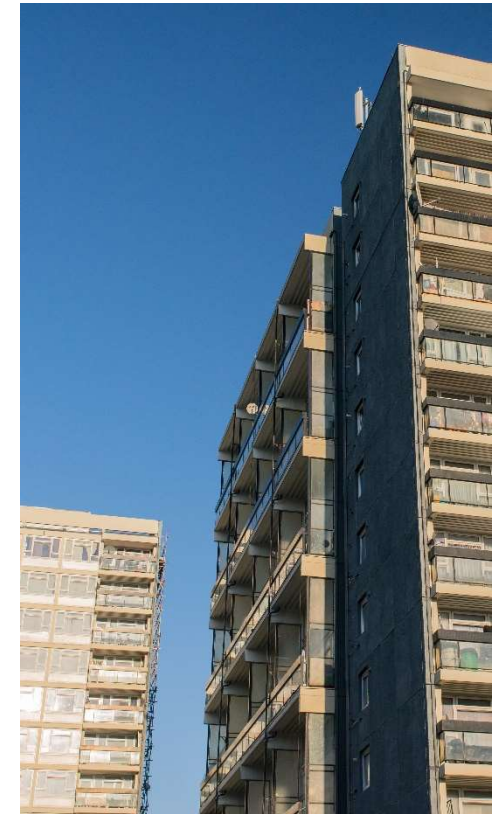
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Finance is required to prepare 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. In preparing the financial statements, the Head of Finance is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure 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.



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work.

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness	We have reviewed the Council's Medium Term Financial Strategy, financial monitoring reports and assessed the assumptions used and savings being achieved.	Our detailed findings can be found pages 5 & 6. The Council have worked hard to address the funding gaps identified within the MTFS. As part of the 2021/22 budget setting process the Council updated it MTFS and have reduce the fundings gap from £4.446m to £1.683m. This mainly due to the Council's One Council programme which is expected to achieve efficiencies and recurring savings of £922k over the next three years.	Appropriate arrangements are in place no further action taken.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/a
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Governance pages 10-13

Appendix D - Use of formal auditor's powers

The following are formal powers that can be used by auditors:

Formal power	Used by auditor in 2020/21
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>	Not required
<p>Public interest report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	Not required
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	Not required
<p>Advisory notice</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful. 	Not required
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	Not required

