

The Audit Findings for Newcastle Under Lyme Borough Council

Year ended 31 March 2022

November 2022



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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 as part of our audit planning process. 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.

This Audit Findings 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. Its contents have been discussed with management and the Audit and Standards Committee.

[Insert Key Audit Partner Signature]

Name : Andrew Smith

For Grant Thornton UK LLP

Date :

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1. 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 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site/remotely during July-November. Our findings are summarised on pages 5 to 17.

Our audit testing is ongoing, however to date, we have not identified adjustments to the financial statements that have resulted in an 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.

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;

- Receipt of management representation letter
- Review of the final set of financial statements.
- Completion of operational land and buildings revaluations testing
- Completion of expenditure completeness (post year end payments made) testing
- Obtaining a response from the actuary with regards to a query raised on the valuation of the pension fund liability
- Cash Flow statement agreement
- Finalisation of Manager and Engagement Lead review of various areas of work

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to 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 the following specified criteria:

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has been shared with management and the Chair of the Audit and Standards committee. We expect to issue our Auditor's Annual Report by 31st January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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 have not identified any risks at this stage of the audit. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in January 2023.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unmodified audit opinion following the Audit and Standards Committee meeting on 14 November 2022. These outstanding items include:

- Receipt of management representation letter
- Review of the final set of financial statements.
- Completion of operational land and buildings revaluations testing
- Completion of expenditure completeness (post year end payments made) testing
- Obtaining a response from the actuary with regards to a query raised on the valuation of the pension fund liability
- Cash Flow statement agreement
- Finalisation of Manager and Engagement Lead review of various areas of work

Acknowledgements

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

2. 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.

Materiality levels remain the same as reported in our audit plan in April 2022.

We detail in the table our determination of materiality for Newcastle Under Lyme Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,200,000	We determined materiality for the audit of the Council's financial statements as a whole to be £1.2m in our audit plan, which equated to approximately 2% of the Council's budgeted gross operating expenses in 2021/22. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	840,000	Performance materiality drives the extent of our testing and this was set at 70% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> We are not aware of a history of deficiencies in the control environment. Senior financial management and key reporting personnel have remained stable from the prior -year audit
Trivial matters	60,000	Triviality is the threshold at which we will communicate misstatements to the Audit and Standards Committee.
Materiality for senior officer's remuneration	19,000	In accordance with ISA 320 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 officer's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- obtained the listing of journal entries and other adjustments in the year and reconciled this back to the trial balance to ensure it was complete
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested 38 unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness
- reviewed material estimates and judgements for evidence of material bias
- reviewed the accounting policies adopted by the Council.

No misstatements, management override of control or fraud was identified from our testing of unusual journals.

We have reviewed the Council's material accounting estimates and have found these to be reasonable, with further details on pages 11 to 13. We note that the Council has disclosed estimation uncertainties for the recoverability of debtors and the business rates retention scheme in note 4. The audit team does not consider these items to have material estimation uncertainties therefore the Council should remove these disclosures to avoid obscuring material information. From our review of critical judgements in applying accounting policies, the Council has disclosed a critical judgement in note 3 in relation to the estimation of the net pension liability. The audit team does not consider this to be a critical judgement made by the Council. More detail on these items can be found in Appendix C.

Our review of the accounting policies concluded that they were reasonable.

From our testing we identified two control deficiencies, which are included in the action plan in Appendix A.

During our review of journal user access rights in March 2022, we identified an individual who was due to start work at the Council and had access to the General ledger. This individual appointed never actually commenced work at the Council, however from our review of the users, their access was not removed until July 2022. From our review of the journals posted in 2021/22, we noted that this individual had not posted any journals, however we believe their access should have been removed in a more timely manner. The Council should review users with access to the general ledger periodically and remove access where it is not required.

From our review of authorisation of journals, we identified 8 journals that had been posted and authorised by the same individual, who does not have self-authorisation access. We also identified 2 journals authorised by another individual, who does not have authorisation access. Management has confirmed that the system has controls in place to limit the authorisation function and prevent inappropriate instances of journal authorisation, which we have corroborated to supporting evidence, and has therefore contacted service provider Civica for further details.

We have subsequently tested these journals and we are satisfied that these were legitimate journals and do not indicate management override of control.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Fraudulent revenue recognition (rebutted)
£81.832m

Having considered the risk factors set out in ISA 240 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 have undertaken work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.

Fraudulent expenditure recognition (rebutted) £84.520m

Having considered the risk factors set out in Practice Note 10 and the nature of expenditure 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 have undertaken work on material expenditure items. Our completeness of expenditure testing identified two invoices that related to 2021/22 and no accrual was made. The value of this is an understatement of expenditure of £185,433. This error is not material.

Our work has not identified any matters that would indicate our rebuttal was incorrect, however our expenditure completeness (post year end payments made) testing is ongoing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (inc Investment Properties and Surplus assets)

Other Land and Buildings £31.309m
Investment Properties £11.554m
Surplus Assets £4.033m

The Authority revalues its land and buildings on a rolling five-yearly basis and investment properties on an annual basis.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

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 to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around obsolescence of assets, build costs, floor areas for DRC assets and yields and rents/market values for non-specialised properties.
- 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

Our testing in this area is ongoing, however to date, we have identified the following errors:

- From our investment property testing, an asset was incorrectly classified as an Investment Property when it should be classified as PPE. This asset was also incorrectly valued. This results in an overstatement of Investment Property by £55k and an understatement of PPE by £31k.
- We also identified another asset where the incorrect rental amount had been used in the calculation which resulted in the value of the asset being understated by £17k.
- Overall our findings show that Investment Property is overstated by £37k and PPE is understated by £31k. We have extrapolated these errors across the population which indicates that Investment Properties are overstated by £94k. This is not material but will be reported as an unadjusted misstated in Appendix C.
- We have noted some errors within our PPE disposals testing, which effected the prior year comparator figures in note 19. Disposals with a net book value of £693k were made in 2020/21, but not processed within the 2020/21 financial statements. This does not effect the closing balance of PPE as at 31st March 2022.
- Our work on land and buildings is ongoing, however to date we have not identified any issues. We have had ongoing discussions with our internal valuation expert and management with regards to the appropriateness of the valuation basis of Castle House, however we are yet to conclude on this work.

We have also considered the key judgements and estimates in relation to the valuation of land and buildings. Our findings can be found on pages 11 to 12.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability £45.239m

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£45.239m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

We have, relying where appropriate on work carried out by EY as auditors of the Staffordshire Pension Fund:

- 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.

Our testing to date has not identified any material issues in respect of the pension fund net liability.

Our work has identified a difference between the Actuary's assumption for the salary increase rate and the rate at which our auditor's expert states should be the salary increase rate. The Actuary have stated the rate used is 3.6%. Our expert has stated that this rate should be between CPI + (0.5% - 2.5%) meaning at least 3.7%. The Actuary have included a sensitivity analysis within their report which states that if the salary increase rate increased by 0.1% the difference in the net liability would equate to approximately £394k. This is also reported in Note 4 of the financial statements. We have queried the assumption used with the actuary, Hymans Robertson, and we currently await their response.

We have also considered the key judgements and estimates in relation to the pension fund liability. Our findings can be found on page 13.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations (including Surplus Assets) – £35.342m	<p>Other land and buildings comprises £26.292m of specialised assets are required to be valued at 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 remainder of other land and buildings (£5.015m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged their internal RICS qualified valuer to complete the valuation of properties as at 31st March 2022 on a five yearly cyclical basis. Surplus Assets of £4.033m are measured at fair value and are required to be revalued annually. 100% of total assets were revalued during 2021/22.</p> <p>Summarised how management have considered alternative estimates and addressed estimation uncertainty and the disclosure made in that respect.</p> <p>The total year end valuation of land and buildings was £35.342m, a net increase of £5.433m from 2020/21 (£28.909m).</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. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate 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 tested on a sample basis revaluations of the Council's land and buildings during the year to ensure they have been input correctly into the Council's asset register and financial statements considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties. <p>Our audit work is ongoing, however to date we have not identified any material issues with the estimate. We have had ongoing discussions with our internal valuation expert and management with regards to the appropriateness of the valuation basis of Castle House, however we are yet to conclude on this work</p>	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £11.554m	<p>The Council has engaged their internal RICS qualified valuer to complete the valuation of properties as at 31st March 2022. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement date).</p> <p>100% of total assets were revalued during 2021/22.</p> <p>The total year end valuation of investment property was £11.554m, a net decrease of £3.750m from 2020/21 (£15.304m).</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. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate 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 tested on a sample basis revaluations of the Council's investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements considered the appropriateness of the source data and key assumptions including comparable rental income and yields for the properties. <p>Our testing in this area is ongoing, however to date, we have identified the following errors:</p> <ul style="list-style-type: none"> From our investment property testing, an asset was incorrectly classified as an Investment Property when it should be classified as PPE. This asset was also incorrectly valued. This results in an overstatement of Investment Property by £55k and an understatement of PPE by £31k. We also identified another asset where the incorrect rental amount had been used in the calculation which resulted in the value of the asset being understated by £17k. Overall our findings show that Investment Property is overstated by £37k and PPE is understated by £31k. We have extrapolated these errors across the population which indicates that Investment Properties are overstated by £94k. This is not material but will be reported as an unadjusted misstated in Appendix C. <p>We have satisfied ourselves in respect of the reasonableness of</p> <ul style="list-style-type: none"> the Council's valuations of investment properties of the decrease in the estimate the adequacy of the disclosure of estimate in the financial statements 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

● **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

● **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

● **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £45.239m	<p>The Council's net pension liability at 31 March 2022 is £45.239m (PY £71.636m) comprising the Staffordshire Local Government Pension Scheme.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £26.397m net actuarial gain during 2021/22.</p>	<p>We have:</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert Reviewed and assessed the actuary's approach taken and detailed work undertaken to confirm reasonableness of approach 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 the assumptions and calculation methods applied <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.7%</td> <td>2.7 – 2.75%</td> <td>● Appropriate</td> </tr> <tr> <td>Pension increase rate</td> <td>3.2%</td> <td>3.15 – 3.3%</td> <td>● Appropriate</td> </tr> <tr> <td>Salary growth</td> <td>3.6%</td> <td>3.7 – 5.7%</td> <td>● Optimistic</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.2 / 21.2 years</td> <td>21.4 – 24.3 / 20.1 – 22.7</td> <td>● Appropriate</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.5 / 23.8 years</td> <td>24.8 – 26.7 / 22.9 – 24.9</td> <td>● Appropriate</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.7%	2.7 – 2.75%	● Appropriate	Pension increase rate	3.2%	3.15 – 3.3%	● Appropriate	Salary growth	3.6%	3.7 – 5.7%	● Optimistic	Life expectancy – Males currently aged 45 / 65	22.2 / 21.2 years	21.4 – 24.3 / 20.1 – 22.7	● Appropriate	Life expectancy – Females currently aged 45 / 65	25.5 / 23.8 years	24.8 – 26.7 / 22.9 – 24.9	● Appropriate	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.7%	2.7 – 2.75%	● Appropriate																								
Pension increase rate	3.2%	3.15 – 3.3%	● Appropriate																								
Salary growth	3.6%	3.7 – 5.7%	● Optimistic																								
Life expectancy – Males currently aged 45 / 65	22.2 / 21.2 years	21.4 – 24.3 / 20.1 – 22.7	● Appropriate																								
Life expectancy – Females currently aged 45 / 65	25.5 / 23.8 years	24.8 – 26.7 / 22.9 – 24.9	● Appropriate																								
Assessment	<ul style="list-style-type: none"> Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious 																										

As identified above, the assumption used for salary growth is considered to be optimistic and is lower than our auditors expert's range. This leads to a lower net liability. The potential effect is assessed as £394k by the actuary and this is deemed to be immaterial. We have queried the assumption used with the actuary, Hymans Robertson, and we currently await their response.

- 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.

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any 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	<p>We are not aware of any related parties or related party transactions which have not been disclosed. In our 2020/21 audit, we identified directorships that were not disclosed by members via a search of Companies House. A control recommendation was made that the Council should undertake a completeness review to ensure all disclosure returns are received from Councillors and Senior officers. The Council also undertakes searches on Companies House to identify any undeclared directorships.</p> <p>In our testing this year, we have identified 4 members with directorships that were not disclosed or identified by the Council from their searches. Although we accept that there were no such transactions with the Council that would require them to be disclosed as Related Parties, the Council's processes should be stronger to identify undisclosed declarations. This has been reported in Appendix B.</p>
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.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send a confirmation request to your bank. This permission was granted and the requests were sent and the appropriate confirmation was obtained.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement 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.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - 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, Narrative Report and Pension Fund Financial Statements), 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 number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness.. <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>Note that work is not required as the Council does not exceed the reporting threshold.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Newcastle Under Lyme Borough Council in the audit report, as our work on VFM is still to be completed.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has been shared with management and the Chair of the Audit and Standards committee. We expect to issue our Auditor's Annual Report by 31st January 2013. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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. Our work on this risk is underway and we have not identified any risks at this stage of the audit.

4. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. 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 which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	18,000	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p>	<p>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 £18,000 in comparison to the total fee for the audit of £68,952 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.</p> <p>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.</p>

Appendices

A. Action plan – Audit of Financial Statements

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

Our audit work is ongoing, however to date, we have identified 3 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 2022/23 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
High	<p>Journal user access rights</p> <p>During our review of journal user access rights in March 2022, we identified an individual who was due to start work at the Council and had access to the General ledger. This individual appointed never actually commenced work at the Council, however from our review of the users, their access was not removed until July 2022. From our review of the journals posted in 2021/22, we noted that this individual had not posted any journals, however we believe their access should have been removed in a more timely manner</p>	<p>The Council should review users with access to the general ledger periodically and remove access where it is not required.</p> <p>Management response</p> <p>Users are reviewed on a regular basis, users are unable to access the system without access to their main Council account – these are suspended immediately when a member of staff leaves the authority</p>
High	<p>Journals authorisation and lack of segregation of duties</p> <p>From our review of authorisation of journals, we identified 8 journals that had been posted and authorised by the same individual, who does not have self-authorisation access. We also identified 2 journals authorised by another individual, who does not have authorisation access. Management has confirmed that the system has controls in place to limit the authorisation function and prevent inappropriate instances of journal authorisation, which we have corroborated to supporting evidence, and has therefore contacted service provider Civica for further details.</p>	<p>The Council need to investigate how journals were authorised by those without sufficient authority.</p> <p>Management response</p> <p>Civica have been contacted and the system has been updated, it is no longer possible for this to occur.</p>
Medium	<p>Capital accounting cut-off procedures</p> <p>From our testing of PPE disposals, we identified 15 assets that were included within the 2021/22 account, which were disposed of in the previous financial year. These assets did not have a material net book value that would warrant a Prior Period Adjustment, however the Council should review processes and controls in place to ensure the completeness of their accounts.</p>	<p>The Council should improve their processes for identifying asset disposals for accounts purposes. This will promote improved communication processes between the relevant departments and the finance team.</p> <p>Management response</p> <p>Officers will be reminded of their responsibilities for ensuring that assets for which they are responsible on the asset register are fully reviewed. A full review was undertaken as part of the 2021/22 accounts which identified and appropriately accounted for the assets being referred to.</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of Newcastle Under Lyme Borough Council's 2020/21 financial statements, which resulted in 1 recommendation being reported in our 2020/21 Audit Findings report.

We have followed up on the implementation of our recommendation and note that this has been partially addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially addressed	<p>Completeness of register of interests</p> <p>Our testing on related parties identified directorships that were not disclosed by members via a search of Companies House. From a review of these identified financial interests, we identified one transaction with a community centre, where a member is a related party, that was not disclosed in the financial statements.</p> <p>Recommendations:</p> <p>At least once per year, the Council should undertake a completeness review of related parties including: Ensuring all disclosure returns are received from Councillors and Senior Officers including nil declarations. . Undertaking searches on Companies House to identify any undeclared directorships.</p>	<p>The Council undertakes a completeness review of related parties including ensuring all disclosure returns are received from Councillors and Senior Officers including nil declarations. The Council also undertakes searches on companies house to identify any undeclared directorships.</p> <p>From our testing, we have identified 4 members with directorships that were not disclosed or identified by the Council from their searches of Companies House. Although we accept that there were no such transactions with the Council that would require them to be disclosed as Related Parties, the Council's processes should be stronger to identify undisclosed declarations.</p>

C. 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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Our audit work is ongoing, however to date, we have not identified any adjusted misstatements.			
Overall impact	£X,XXX	£X,XXX	£X,XXX

C. Audit Adjustments

Misclassification and disclosure changes

Our audit work is ongoing, however to date, the table below provides details of misclassification and disclosure changes identified during the audit which are to be made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Narrative Report	We have identified a figure within the Narrative Report relating to the pension liability, which was not consistent with the financial statements. This was an error within the narrative report as the figure had not been updated accordingly and has been agreed to be amended by management.	Yes
Accounting Policies	Accounting policy vii – Employee Benefits states that liabilities are discounted to their value at current prices, using a discount rate of 2%. We have reviewed the IAS19 report, which discloses the discount rate at 2.7%. The accounting policy was incorrect rolled forward from the prior year, for which management have agreed to update the accounting policy to be consistent with the IAS19 report.	Yes
Accounting Policies	From our work on the depreciation figure within the financial statements, we have identified that the Council depreciated assets in the year of acquisition. We deem this to be reasonable, however this is not clearly documented within the Council's accounting policy for Property, Plant and Equipment. We have recommended for the accounting policy to be updated for which management have agreed.	Yes
Expenditure and Funding analysis (EFA)	From our work on Note 6 – EFA, we have identified a number of inconsistencies between the figures within this note and Note 8 – Adjustments between accounting basis and funding basis, where we would expect figures to be consistent. This has been raised with management who have agreed to amend note 6, note 8 and note 27 (Capital expenditure and financing) to ensure that the disclosure notes are all consistent.	Yes
Note 3 - Critical Judgements in Applying Accounting Policies	As per the CIPFA code, this note should only include items where management make critical judgements in applying accounting policies. The Council have made a disclosure with regards to the estimation of the net pension liability. The audit team do not consider this to meet the definition of a critical judgement. Management have decided not to remove these estimates given that these items were reported to Audit and Standards committee for inclusion on the same basis for the 2020/21 financial statements and will recommend to the committee for a lesser disclosure in future years	No

C. Audit Adjustments

Misclassification and disclosure changes

Our audit work is ongoing, however to date, the table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Note 4 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	As per the CIPFA Code, this note should only include estimates that have a significant risk of resulting in material adjustments to the carrying amount of assets/liabilities within the financial year. We have identified that the Council have disclosed estimation uncertainty for the recoverability of debtors and the business rates retention scheme, which the audit team do not consider to have a material uncertainty, therefore should remove these disclosures to avoid obscuring material information. Management have decided not to remove these estimates given that these items were reported to Audit and Standards committee for inclusion on the same basis for the 2020/21 financial statements and will recommend to the committee for a lesser disclosure in future years	No
Cash Flow Statement	We noted that the 'Other receipts from investigating activities' was incorrectly disclosed as £4,085k rather than £4,058k. This was a transposition error which has now been updated.	Yes

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below. Our audit work is ongoing, however to date, we have identified the following unadjusted misstatements:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Completeness of Expenditure</p> <p>Our invoice received testing identified two invoices that related to 2021/22 and no accrual was made. The value of this is an understatement of expenditure of £185k.</p>	Debit Expenditure £185	Credit Payables £185	Decrease Surplus £185	These transactions are not material to warrant an adjustment.
<p>Investment Property</p> <p>As on page 10, from our sample testing we have estimated that Investment Properties are overstated by £94k.</p>	Debit Financing and Investment Income/Expenditure £94k	Credit Investment Properties £94	Decrease Surplus £94	This was an extrapolated error, therefore an adjustment would not be made.
Overall impact	£279	(£279)	£279	

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Testing of the source data used for the revaluation of other land and buildings identified four properties where the internal area used in the valuation was incorrect. This resulted in the valuations for these properties being understated.		Cr Other Land and Building 140		Not considered material – will be addressed as part of the 2021/22 revaluation process
		Dr Revaluation Reserve 140		
Testing of Other Land and Buildings identified one property that did not meet the criteria for being classified as a Other Land and Buildings and should have been recorded as an Investment Property as it is being held for capital appreciation.		Dr Other Land and Building 165		Not considered material – will be addressed as part of the 2021/22 revaluation process
		Dr Investment Properties 165		
Overall impact	£0	£0	£0	

D. 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	£68,952	£68,952
Total audit fees (excluding VAT)	£68,952	£68,952
Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Housing Benefit Claim	£18,000	TBC – work is yet to be completed
Total non-audit fees (excluding VAT)	£18,000	TBC

Details of variations in final fees from the proposed fee per the audit plan

We have provided a reconciliation between the audit fee and the financial statements. See note 14 of the financial statements:

- External audit services carried out £69k – this agrees to our external audit fee.
- Certification of grant claims and returns £13k – this agrees to the 2020/21 certification fee so has been assumed to be carried forward by the Council.
- Total fees per above are £82k.
- Differences relates to the uplifted housing benefit claim fee in 2021/22 of £6k.



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