Audit Findings Report

Newcastle Under Lyme Borough Council

Year ended 31 March 2023

DRAFT - 21 September 2023

Contents

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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.

Name: Andrew J Smith
For Grant Thornton UK LLP
Date:

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 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 our VFM work and so are not in a position to issue our Auditor’s Annual Report. We expect to issue our Auditor’s Annual Report before the end of the year. 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 risk at this stage of the work. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report (Section 3).

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 November 2023.

Significant matters

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

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit Newcastle Under Lyme Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of 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 its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our year-end audit took place between July and September. Our findings are summarised on pages 6 to 23.

We have not identified any adjustments to the financial statements that will result in adjustments to the Council's Comprehensive Income and Expenditure Statement. We have identified three unadjusted audit adjustments and these are set out in Appendix D.

We have raised one recommendation for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C. Of the four recommendations raised in prior year, management have addressed three of the issues.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of audit work on the net pension liability. The pension fund auditor (EY) have recently confirmed that the requested IAS 19 assurance report will not be received until the 31 October 2023;
- Completion of investment property testing- supporting evidence for the sample selected;
- Completion of collection fund testing;
- Finalisation of Manager and Engagement Lead quality control reviews;
- Receipt of the signed management representation letter ; and
- Review of the final set of financial statements.

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 financial statements audit report opinion will be unmodified.

Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to ensure that the audit does not fall behind and to issue a timely audit opinion.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. The Council's short term borrowing is £55 000 (2021/22 £85 000) is not material, there is no increasing risk in the current year and this has been well managed.

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

We have not altered our audit plan, as communicated to you in July 2023.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 28 September 2023, as detailed in Appendix I. These outstanding items include:

- Completion of audit work on the net pension liability. The pension fund auditor (EY) have recently confirmed that the requested IAS 19 assurance report will not be received until the 31 October 2023;
- Completion of investment property testing;
- Completion of collection fund testing;
- Finalisation of Manager and Engagement Lead quality control reviews;
- Receipt of the signed management representation letter ; and
- Review of the final set of financial statements.

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 July 2023

We set out in this table our determination of materiality for Newcastle Under Lyme Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,100,000	We determined materiality for the audit of the Council's financial statements as a whole to be £1.1m in our audit plan, which equated is approximately 2% of actual gross operating costs for the year 2022/23. 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	770,000	Performance materiality drives the extent of our testing and this has been set at 70% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment. • Senior financial management and key reporting personnel have remained the same from prior year audit.
Trivial matters	55,000	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Audit and Standards Committee.
Materiality for senior officers remuneration	17,000	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 off senior officer's remuneration to be an area users of the financial statements will be interested in.

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 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 intentional misstatements of the Council's reported financial position were identified from our testing of 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. Our audit work has not identified any significant issues in respect of management override of controls.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition (rebutted) £75.58m	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.
Risk of fraud related to expenditure recognition PAF Practice Note (Rebutted) £78.24m	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. Our work has not identified any matters that would indicate our rebuttal was incorrect.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (inc Investment Properties and Surplus assets) **Land and Buildings £42.173m** **Investment Properties £12.759m** **Surplus Assets £2.099m** The Council 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 findings to date include: • For one sample selected to test the where the depreciated replacement cost method was used to determine the fair value, we found that the gross internal area per the site plans provided for the building is 4,403sqm. However, on the valuation computation, the square metres used was 4,300sqm. As a result, from our recalculation, the value of the building is understated by £232,000. The difference resulting from this error is above trivial but well below performance materiality The error is recorded in the schedule of unadjusted errors in Appendix D. • The results of other findings have been documented in page 31. As discussed, the cumulative difference of £210,000 is below our performance materiality and this gives the comfort that the closing balance in relation to OLB and surplus assets is not materially misstated. Overall, we are satisfied that the valuation of land and buildings is not materially misstated. 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 12 and 13.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability £3.010m	
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 (£3.010m 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. In particular, the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have performed the following procedures: • Reviewed the disclosure in the draft financial statements to check they agree to the IAS 19 report prepared by Hymans. No issues were noted; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund IAS 19 disclosure and PWC (auditors expert); and • Reviewed if the assumptions used by Hymans are within the expected ranges as provided by PWC. No issues were noted. We are awaiting IAS 19 assurances from the pension fund auditor (EY) who are the auditors of the Staffordshire Pension Fund. This assurance is required to allow us to complete our work on the Council's net pension liability. We have considered the key judgements and estimates in relation to the pension fund liability. Our findings can be found on page 15.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line 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)– £44.272m	Other land and buildings comprises £36.831m 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. The remainder of other land and buildings £5.344m 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 2023 on a five yearly cyclical basis. Surplus Assets of £2.099m are measured at fair value and are required to be revalued annually. 100% of total assets were revalued during 2022/23. The total year end valuation of land and buildings was £44.272m, a net increase of £8.93m from 2021/22 (£35.342m)	We have: • 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. Except for the issues reported on page 10, we have satisfied ourselves in respect of the reasonableness of: • the Council's valuations of land and buildings; • of the increase in the estimate; and • the adequacy of the disclosure of estimate in the financial statements.	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
Investment Property Valuation - £12.759m	The Council has engaged their internal RICS qualified valuer to complete the valuation of properties as at 31st March 2023. 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). 100% of total assets were revalued during 2022/23. The total year end valuation of investment property was £12.759m, an increase of £1.205m from 2021/22 (£11.554m).	We have: • 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 . We are awaiting responses from the valuer on queries raised on the sample selected • considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties. We have not identified any issues to date. We are still reviewing the supporting evidence provided before we can conclude on the appropriateness of source data and key assumptions used in the valuation computations.	We will conclude once the testing has been completed

2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability– £3.010m</td>
<td>The Council's net pension liability at 31 March 2023 is £3.010 (PY: £45.239m) The Council participates as an employer in Staffordshire Local Government Pension Scheme.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £44.940m net actuarial gain during 2022/23.</td>
<td>We have:
• 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>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.75%</td><td>4.75%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3.%</td><td>2.95%-3%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.5%</td><td>3.5%-5.5%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>20.6/ 21.3 years</td><td>19.1-21.5/ 20.4-29.1</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>23.9 / 25.7 years</td><td>19.1-21.5/ 20.4-29.1</td><td>●</td></tr>
</table>
• Our conclusion on the testing will be finalised once we have received the report from EY on their testing as mentioned on page 11</td>
<td>We will conclude once the testing has been completed</td>
</tr>
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Assessment

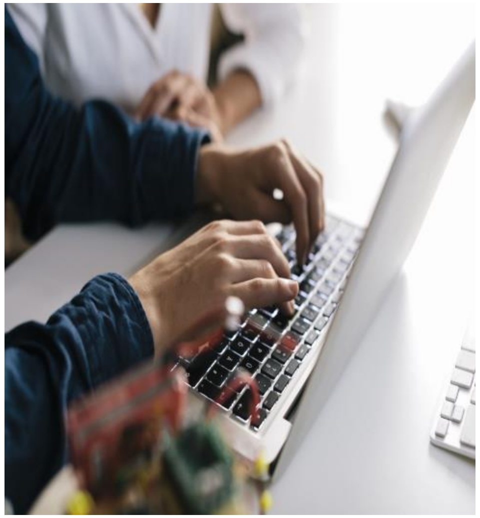
- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we 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: 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	We are not aware of any related parties or related party transactions which have not been disclosed. In our 2021/22 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. In our testing this year, we have identified 12 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.
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 the bank. This permission was granted and the requests were sent. We have received the confirmation back.
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

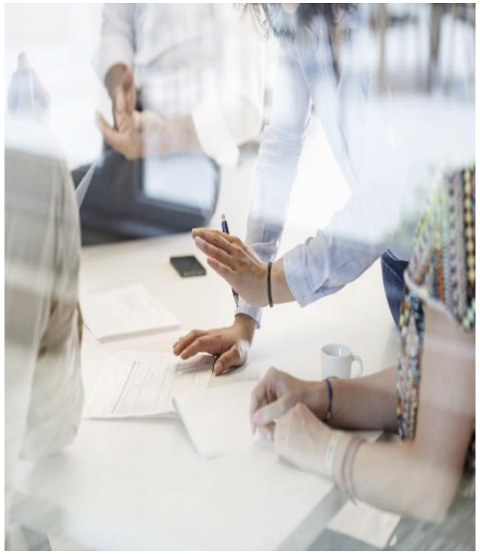
Our responsibility

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	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: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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/es. We have nothing to report on these matters



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Newcastle Under Lyme Borough Council in the audit report, as our work on VFM is still to be completed.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require 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. We expect to issue our Auditor’s Annual Report by the end of the year. 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.

5. 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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

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 Grant Thornton International Transparency report 2023.

5. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing benefit	TBC	Self-Interest (because this is a recurring fee)	The level of this likely recurring fee taken on its own is not considered a significant threat to independence as we expect it to be lower 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.
		Self review (because GT provides audit services)	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.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified one recommendation 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 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Inability to obtain detailed breakdown for Collection fund debtors and creditors** The Council was unable to provide a detailed individual transactions listing for council tax and NNDR payers debtors and creditors amounting to £2.42m and £1.58m. We have performed alternative audit procedures on these balances and no issues were noted.	We recommend that individual transactions listing for Council Tax and NNDR debtors and creditors as at 31 March are run and retained for the purposes of year end audit testing. Due to the change in auditor for 2023/24, it is recommended that the Council understand the audit approach that the new auditor will undertake and whether these working papers will be required. **Management response** Council Tax and NNDR debtors and prepayments are fully reconciled as part of the Council's monthly and year end reconciliation procedures. This includes the production and retention of reports from the Revenues and Benefits system. The running of reports by individual debtor or prepayments does not add value to this process, they will however be ran for the purposes of audit testing for 2023/24 Statement of Accounts should the auditors require them.

C. Follow up of prior year recommendations

We identified the following issues in the audit of Newcastle Under Lyme Borough Council's 2021/22 financial statements, which resulted in 4 recommendations being reported in our 2021/22 Audit Findings report.

We are pleased to report that management has completely addressed 3 of the 4 all of our recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Journal user access rights** 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	In our testing this year we have not identified any issues regards access user rights
X	**Completeness of register of interests** 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. **Recommendations:** 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.	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. From our testing, we have identified 12 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.

Assessment

✓	Action completed
X	Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Journals authorisation and lack of segregation of duties** 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 **Recommendations:** The Council need to investigate how journals were authorised by those without sufficient authority.	In our testing of journals, we noted that no journals that had been authorised by people who did not have the user access rights. In our testing, we further observed that were journals created by and authorised by the same individuals. However, further investigation determined that these self-approved journals are automatic interface transactions, which automatically update the general ledger with no manual intervention.
✓	**Capital accounting cut-off procedures** 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. **Recommendation** 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.	In our testing of disposals, no disposal cut-off issues were noted. Management have improved controls in that every quarter disposal forms are reviewed and the fixed asset register is updated in a timely manner.

Assessment

✓	Action completed
X	Not yet addressed

D. 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

Our testing has not identified any audit differences that are material, which require adjustment to the reported financial position in the draft statement of accounts (SOA).

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Audit fees	Audit fees disclosed in the SOA were disclosed as £64 000 when the proposed fees is £68 952. Management has agreed to amend the accounts.	✓
Community assets	From our review of the useful economic lives (UEL) we note that the Councils accounting policy for community assets specifies that the average UEL disclosed in the statement of accounts is estimated to be 20 years. Our review of the FAR shows that the average estimated UEL is 28 years.	✓
Revaluations	Note 19 suggests that all assets were revalued at 31.2.23. From our review we note • Assets formally revalued £ 32 605 000 • Castle House desktop review £ 5 728 000 • Assets not formally revalued £ 3 840 000 Management have agreed to correct the disclosure	✓

D. Audit Adjustments

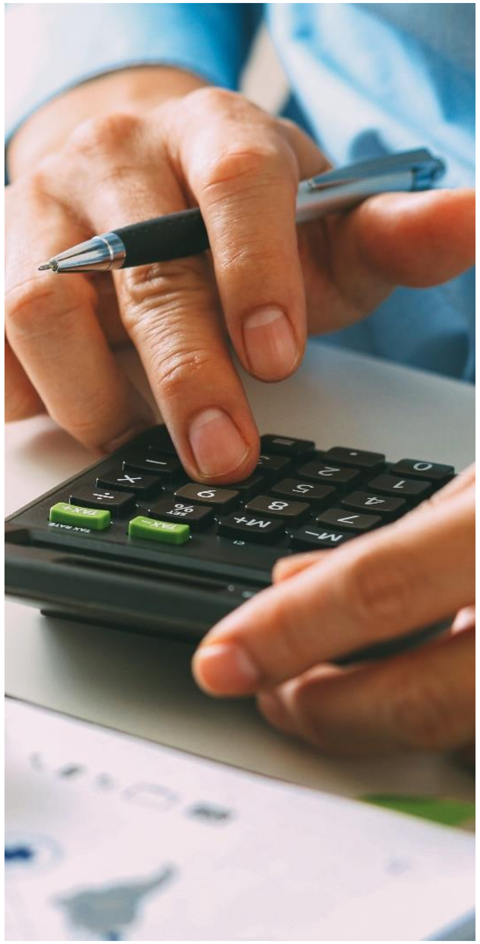
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Pensions	We have identified a number of differences between the Pensions note and updated Hymans report. These differences have arisen due Hymans updating the report using actual contributions, payroll and full-year returns to 31 March 2023. As the differences identified are trivial, management will not be updating the amounts.	X

D. Audit Adjustments (continued)

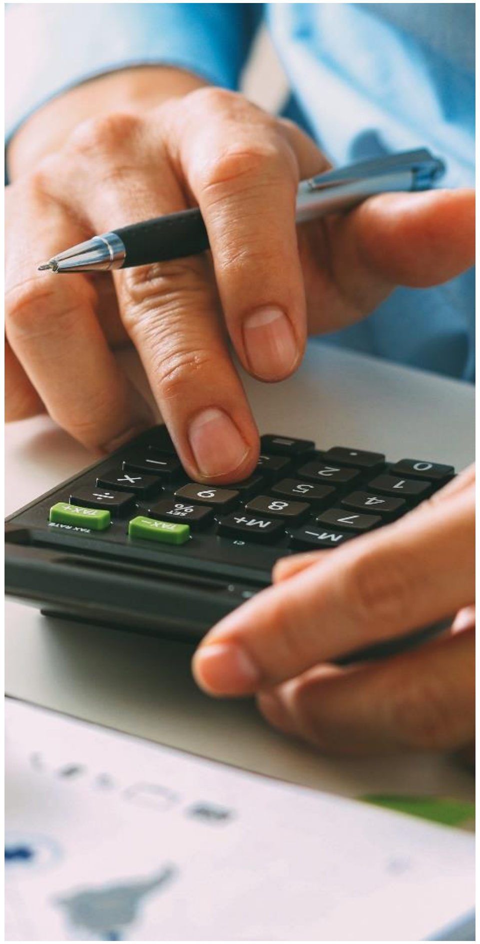


Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on equity£'000	Reason for not adjusting
Potential differences as a result of PPE revaluation work where GT estimate differs to client estimate- Castle House overstated	-	Credit-NCA -£598	Decrease surplus £598	Debit –Revaluation reserve £598	Impact is considered immaterial.
PPE error noted in relation to understatement of GIA in relation to Jubilee 2 Leisure centre	-	Debit-NCA £232	Increase surplus £232	Credit–Revaluation reserve £232	Impact is considered immaterial.
Assets not valued at 31.3.23 therefore resulting in carrying values being potentially understated.	-	Debit-NCA £155	Increase surplus £155	Credit–Revaluation reserve -£155	Impact is considered immaterial.
Overall impact	-	-£210	£210	£210	

D. Audit Adjustments (continued)



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 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on Net costs of services £'000	Reason for not adjusting
Completeness of Expenditure 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.	Debit - Expenditure £185	Credit - Payables £185	Decrease Surplus £185	These transactions are not material to warrant an adjustment.
Net Pension Liability As on page 10, we believe the managements estimation process contains assumptions we consider optimistic.	Credit - Remeasurement of the defined benefit liability/asset £394	Debit - Pension Liability £394		The impact is considered to be immaterial.
Overall impact	(£209)	£209	£185	

E. Fees and non-audit services

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

Audit fees	**Planned fee**
Scale fee	55,702
Value for Money audit – new NAO requirements	9,000
Enhanced audit procedures for Payroll – Change of circumstances	500
Enhanced audit procedures for Collection Fund- reliefs testing	750
Increased audit requirements of revised ISAs 315/ 240	3,000
Total audit fees (excluding VAT)	£68,952

We incurred some overruns in the selection of samples for debtors and creditors and collection fund testing. The estimated cost for the fee variation based on PSAA rates is £1,800. Please note this proposed fee variation is subject to discussion with management.

Non-audit fees for other services	**Planned fee**
Certification of Housing benefit	TBC
Total non-audit fees (excluding VAT)	TBC

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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