



The Annual Audit Letter for Newcastle Under Lyme Borough Council

Year ended 31 March 2017

October 2017

John Gregory

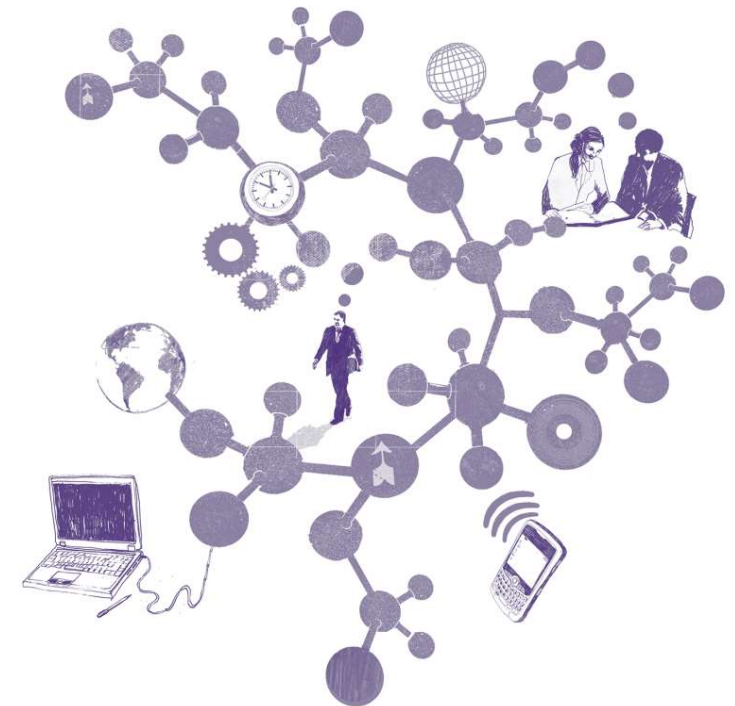
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Newcastle Under Lyme Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Standards Committee (as those charged with governance) in our Audit Findings Report on 25 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 25 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 25 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Newcastle Under Lyme Borough Council in accordance with the requirements of the Code on 25 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.243 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for related party transactions and senior officer remuneration.

We set a lower threshold of £62,150, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Executive Director (Resources and Support Services are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of the Council's internal valuer. • Reviewed the instructions issued to valuation experts and the scope of their work. • Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Tested revaluations made during the year to ensure they were 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 satisfied themselves that these were not materially different to current value. 	<p>During 2016/17 the Council elected to amend the date of valuation from 31 March to 1 April. Therefore those assets scheduled for valuation at 31 March 17 under the rolling programme (last revalued 31 March 12), will now be valued at 1 April 17, and therefore the revaluations are not reflected in the 2016/17 financial statements. Therefore they will not have been valued within a 5 year period with the result that the requirements of the CIPFA code are not being complied with in this regard.</p> <p>The internal valuer has undertaken an impairment review of all properties at the year end to identify any significant variations in carrying value between the date that they were valued and year end. We have compared this to the Gerald Eve expected movements and overall the difference is just above our trivial value. There is no indication that the value in the accounts is materially misstated. This issue will be addressed in 2017/18 when the assets are revalued at 1 April 2017.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements</p>	<p>We have</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of pension fund liability.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 25 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Standards Committee on 25 September 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Standing The medium term financial strategy (MTFS) 2017/18 to 2021/22 indicates a forecast budget shortfall of £2.728m for 2017/18, with additional shortfalls across 2018/19 to 2021/22 totalling £3.235m. The Budget Review Group, along with officers are building upon the work already done to identify savings opportunities as part of the 2020 project, to find ways of eliminating the shortfall.</p> <p>This links to the Council's arrangements for understanding and using appropriate cost and performance information to support informed decision making; and planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<p>We reviewed the MTFS, assessed the realism of savings/income generation plans, reviewing the outturn for 2016/17 and the Council's track record of addressing budget shortfalls.</p>	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • set a balanced budget for 2017/18 • identified and taken account of funding cuts in its medium term financial plans including responding to consultations on changes to the New Home Bonus and 100% Business Rate Retention, both of which will have an impact on the Council. • identified actions to address over 50% of these shortfalls and have developed an efficiency and savings programme to identify further savings. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	55,002	55,002	55,002
Housing Benefit Grant Certification	6,210	TBC	8,052
Total fees (excluding VAT)	61,212	TBC	63,054

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• None	Nil
Non-audit services <ul style="list-style-type: none">• None	Nil

Non- audit services

No non-audit or audited related services have been undertaken for the Council

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017



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