



Year End Report to the Audit & Standards Committee

Newcastle-under-Lyme Borough Council

Year end report for the year ended 31 March 2024

—

23 September 2024

DRAFT

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Newcastle-under-Lyme Borough Council (the 'Council') prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

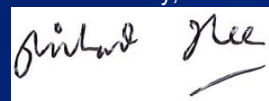
This Report has been prepared for the Councils Audit and Standards Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 9 April 2024.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

Yours sincerely,



Richard Lee
Director KPMG LLP
23 September 2024

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 3 'Our Audit Findings' outlines the outstanding matters in relation to the audit.

Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided for the information of the Audit and Standards Committee of the Council; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.





Our audit findings

Significant audit risks	Page 4 - 12
Significant audit risks	Our findings
Valuation of land and buildings	Based on our work to date , the valuation of land and buildings is fairly stated in the financial statements. The assumptions used by management were appropriate.
Management override of controls	Our work in this area is ongoing
Valuation of post retirement benefit obligations	Our work in this area is ongoing
Key accounting estimates	Page 15
Valuation of land and building	We assessed as reasonable the assumptions underpinning the valuation
Valuation of Investment properties	We assessed as reasonable the assumptions underpinning the valuation
Valuation of gross pension liabilities	Our work over this is estimate is ongoing

Uncorrected Audit Misstatements	Page 25	
Understatement/ (overstatement)	£m	%
Net expenditure	0.0	-
Surplus/(deficit) for the year	0.0	-
Total assets	(0.3)	0.3
Reserves	0.3	0.4

Number of Control deficiencies	Page 27
Significant control deficiencies	0
Other control deficiencies	4
Prior year control deficiencies remediated	1

Outstanding matters

Our audit is **in progress**. The following areas are outstanding at the time of drafting this report:

- Finalising work over Land and Building valuation, valuation of post retirement benefit obligations, Journals testing, Reserve statement disclosure, Housing benefit expenditure testing, payroll, IT Understanding, review of non-significant disclosures and Whole of Government Accounts reporting
- Review of narrative statement and Annual Governance Statement for consistency with the CIPFA Code of Practice.
- Internal quality review
- Management representation letter
- Finalise audit report and sign

We will provide a finalised year end report at the next Audit & Standards Committee in November.



Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Newcastle-under-Lyme Borough Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

See the following slides for the cross-referenced risks identified on this slide.

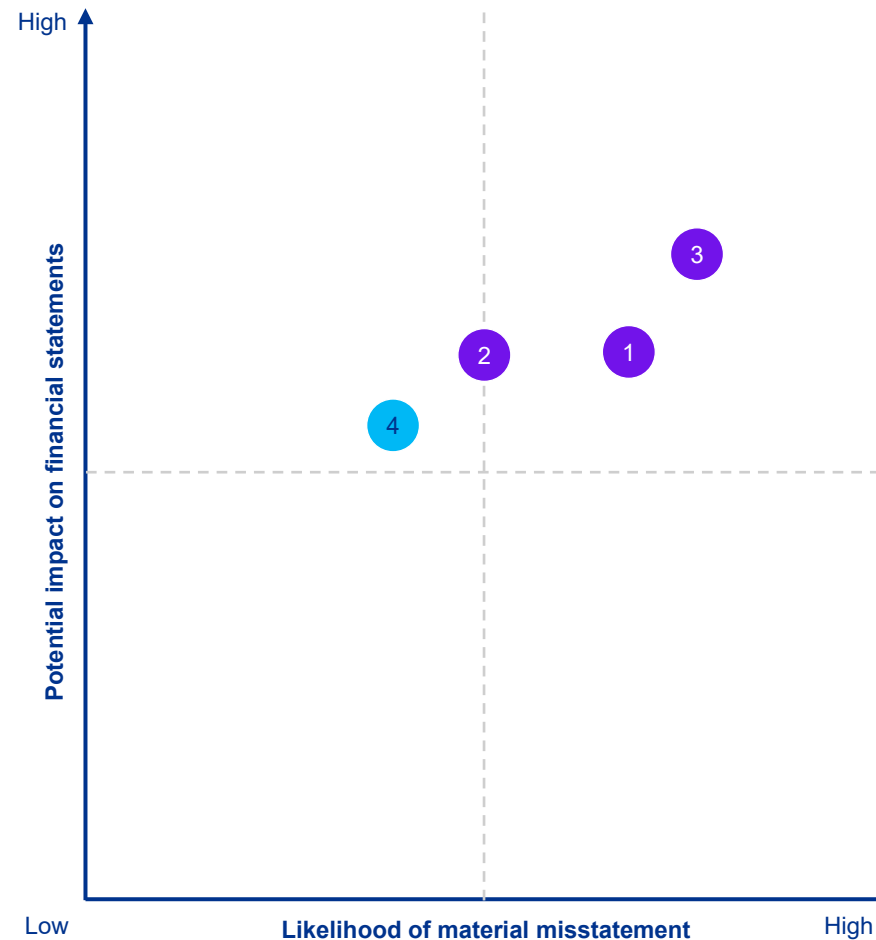
Significant risks

1. Valuation of land and buildings
2. Management override of controls
3. Valuation of post retirement benefit obligations

Other audit risks

4. Investment Property

Key: # Significant financial statement audit risks # Other audit risk



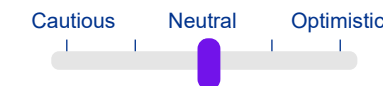


Audit risks and our audit approach

1

Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.
- This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value.
- A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the internal valuer with regard to the assumptions adopted for example around obsolescence and remaining useful life of assets.
- The value of the Council's land and buildings at 31 March 2024 was £49,862m, of which £45,298m (£43.2m Land and Buildings and £2.1m Surplus assets) are subject to valuation (community assets are excluded).



Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of the internal valuer used in developing the valuation of the Council's properties at 31 March 2024;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

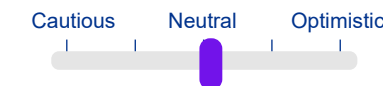


Audit risks and our audit approach (cont.)

1

Valuation of land and buildings (cont.)

[The carrying amount of revalued Land & Buildings differs materially from the fair value]



Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.
- This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value.
- A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the internal valuer with regard to the assumptions adopted for example around obsolescence and remaining useful life of assets.
- The value of the Council's land and buildings at 31 March 2024 was £49,862m, of which £45,298m (£43.2m Land and Buildings and £2.1m Surplus assets) are subject to valuation (community assets are excluded).



Our findings

- Our findings have not identified any significant issues in relation to the valuation of land and buildings
- In our assessment of design and implementation of controls we note the absence of a formal control with respect of reviewing the assumptions adopted by the Valuer. This does not meet the requirements of a management review control as defined by Auditing Standards. We have reported a control recommendation with respect of this on page 28.
- Through our enquiries with both management and the Valuer, we are satisfied that the valuer has used up-to-date information (e.g. Buildings Cost Information Service (BCIS) indices, detail of capital spend) to inform the valuation as at 31 March 2024.
- We are satisfied that the assumptions such as the BCIS indices and obsolescence factors adopted by management are appropriate and we are satisfied the population of assets not formally revalued could not be material misstated.
- We identified one misstatement relating to the classification of one asset. A piece of development land had been valued as a surplus asset as at 31 March 2024. However, significant capital work had been undertaken (£3m) in year to prepare the land for future development. Consequently we assessed the cost incurred to date should be recognised as an asset under construction. This resulted in an adjustment to the Property, Plant and Equipment balance.
- Overall, following the completion of our procedures, we are satisfied that the valuation of the Council's Land and Building assets is free from material misstatement and the disclosure of estimation uncertainty is adequate.



Audit risks and our audit approach (cont.)

2

Management override of controls^(a)

Fraud risk related to unpredictable way management override of controls may occur



Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



Our response

- Our audit methodology incorporates the risk of management override as a default significant risk. We have performed the following procedures:
- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- Evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Analysed all journals through the year using screening analysis and focus our testing on those with a higher risk, such as journals with unusual combination to cash or revenue.

Note: (a) Significant risk that professional standards require us to assess in all cases.



Audit risks and our audit approach (cont.)

2

Management override of controls^(a) (cont.)

Fraud risk related to unpredictable way management override of controls may occur



Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



Our findings

- Under the requirements of ISA315r, we conduct a detailed evaluation of the design and implementation of controls around journal entries. This identified that the ledger system permits approval of journals by team members that are more junior than the poster. In addition, the level of precision of the journals review prior to approval is not documented sufficiently to enable us to place reliance as a manual control over journal entries.
- We are therefore unable to rely on controls around segregation of duties in journal entry processing and have not tested the operating effectiveness.
- In response to the deficiency in journal controls we have followed up on prior year recommendations on page 27.
- We identified 13 journal entries and other adjustments meeting our high-risk criteria – **this testing is still in progress**
- We evaluated accounting estimates, including the consideration of the valuation of land and buildings and did not identify any indicators of management bias. See page 16 for further discussion.
- We have not identified any significant unusual transactions.

Note: (a) Significant risk that professional standards require us to assess in all cases.



Audit risks and our audit approach

3

Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension surplus and the year on year movements.
- We have identified this in relation to the Local Government Pension Scheme membership.
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response

We have performed the following procedures:

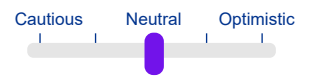
- We obtained an understanding of the pensions process for setting and approving the assumptions used in the DBO valuation.
- Auditing standards require auditors to identify a management control where there is a significant audit risk. We assessed Management's controls that ensure the appropriateness of actuarial assumptions for the preparation of the DBO accounting estimate.
- Evaluated the competency, objectivity of the Fund actuaries and confirmed their qualifications and the basis for their calculations.
- Performed inquiries of the Fund actuaries to assess the methodology and key assumptions used.
- Challenged, with the support of KPMG pensions actuarial specialists, the key assumptions applied, the discount rate, inflation rate and mortality/life expectancy against externally derived data.
- Vouched data provided by the audited entity to the Fund Administrator for use within the DBO accounting estimate calculation.
- Confirmed that the pensions disclosures adopted by the Authority are in line with IAS19 and the SORP.
- Assessed the level of surplus that should be recognised by the entity.
- Assessed the impact of any special events, where applicable.



Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council’s pension liability could have a significant effect on the financial position of the Council.
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- We have identified this in relation to the Local Government Pension Scheme membership.
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our findings

- We acknowledge that there is a review of key assumptions by management but we do not place reliance on this control due to the lack of precision and documentation. Whilst this Management Review Control may be achieving the control objective set by management (we have not confirmed this), it does not meet the control requirements as defined by auditing standards. We have reported a control recommendation with respect of this on page 28.
- The Fund actuaries (individual and entity) are professionally qualified to perform actuarial valuations and prepare IAS19 disclosure reports being Fellow of the Institute of Actuaries in the UK;
- The actuarial assumptions methodology is consistent with the prior year for mortality base tables, but with updated future improvements to use CMI 2022 tables. Our actuaries view this change in approach as reasonable. They are also compliant with the Council’s reporting framework. The actuarial assumptions adopted by the Council compared to KPMG Central Rates, are considered to be balanced overall. All individual assumptions are balanced except mortality future improvements which is cautious compared to KPMG Central Rates
- Based on our review of pension disclosure, we have noted following differences between first draft of pension disclosures and the latest available IAS 19 report above our misstatement posting threshold. We recommended management update the pension disclosure so that they are in line with the latest IAS 19 report: For corrected audit misstatement proposed, refer page 26.

	As per draft accounts	As per latest IAS 19 report	Difference
Current service cost	2,890,000	2,793,000	- 97,000
Employer contributions	4,831,000	4,730,000	- 101,000
Return on assets	13,649,000	12,146,000	- 1,503,000





Audit risks and our audit approach (cont.)

3

Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension surplus and the year on year movements.
- We have identified this in relation to the Local Government Pension Scheme membership.
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.



Our findings

- We have performed further testing over benefits paid, contributions & return on assets by comparing the latest IAS 19 report (corrected adjustments) to the actuals from the third party administrator and noted variances which are above our Audit Misstatement Posting Threshold (AMPT). We have reported unadjusted audit misstatements to this effect please refer to page 25.
- We have also noted that management has recognised net defined benefit surplus in their draft financial statements whereas the asset ceiling paper prepared by Hymans dated 22 April 2024 confirms that the entity has no unconditional right to a refund from the Fund and that there is no economic benefit available as a refund, as the contributions payable are greater than the service cost.
- The asset ceiling paper also calculated a minimum funding requirement based on the assumption that past service contributions are equal to Employer's funding valuation secondary rate and will continue in payment at the level payable in 2025/26 for the remainder of the Employer's funding valuation time horizon (£1,517k a year). After taking account of these assumptions, an additional liability is required to be recognised amounting to c. £39.6m at 31 March 2024, plus a liability of c. £4.4m in respect of unfunded pensions – resulting in the net defined benefit surplus becoming a net defined benefit obligation of c. £24.0m. We have therefore recommended management to account for asset ceiling restrictions and the minimum funding obligation in their financial statements. **This is still under discussion with management.** See overleaf for further detail..



Audit risks and our audit approach (cont.)

3

Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension surplus and the year on year movements.
- We have identified this in relation to the Local Government Pension Scheme membership.
- Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our findings

Surplus recognition:

- At 31 March 2024, the Fund has a material surplus under IAS 19. It has been determined the need to limit the surplus to nil in line with the advice received from the Actuary. We have tested the calculation of this asset ceiling, and agree that there is no economic benefit recognisable by the entity at 31 March 2024.
- However, the Employer is currently committed to pay secondary contributions to fund the deficit identified under the 2022 triennial funding valuation. These contributions are clearly specified in the rates and adjustments certificate until 31 March 2026. However, the remaining payments required over the funding time horizon of 20 years is less clear as this is not set out in any of the fund documentation. The actuary has valued the minimum funding obligation arising from this contributions on the assumption that the payment made in 2025/26 will continue without adjustment for the remaining period of the funding time horizon. We have recommended management to include this as an assumption in their disclosure at 31 March 2024.
- In the prior year the Employer did not consider the impact of a minimum funding obligation. We have tested this and based on the approach used this year, we believe that an equivalent minimum funding obligation was required in the prior period, as the value would clearly have been greater than the deficit in the fund at that time. In response to our challenge, management has confirmed that they do not intend to restate the prior year to correct this error – and do not intend to obtain a value of the minimum funding obligation that would have applied. We are currently in the process of assessing whether a prior period adjustment is required and will ask management to provide a detailed rationale to support their proposed treatment, in order to assess whether this approach would be reasonable.



Overall assessment of assumptions for audit consideration							Balanced
Underlying assessment of individual assumptions	Methodology	Consistent methodology to prior year?	Compliant methodology with accounting standard?	Employer	KPMG central	Assessment	Significant assumption
Discount rate	AA yield curve	✓	✓	4.80%	4.81%	Balanced	✓
CPI inflation	Quoted CPI inflation assumption, including adjustment for emerging inflation	✓	See next page	2.80%	See next page		
	- Unadjusted CPI Underlying CPI assumption before adjustments for emerging inflation	✓	✓	2.85%	2.85%	Balanced	✓
	- Adjustment for emerging inflation Adjustment for emerging inflation	✓	See next page	0.05% deduction	See next page		
Pension increases	In line with CPI	✓	✓	In line with CPI	2.88%	Balanced	
Salary increases	Employer best estimate	✓	✓	CPI plus 0.5%	In line with long-term remuneration policy	Balanced	
Mortality	Base tables In line with most recent Fund valuation	See page 10	✓	Fund-specific based on Club Vita curves	In line with Fund best-estimate	Balanced	✓
	Future improvements In line with most recent Fund valuation, updated to use latest CMI model	See page 10	✓	CMI 2022 projections model, 1.5% long-term trend rate, initial addition parameter of 0.25% and default other parameters	CMI 2022, 1.25% long-term trend rate and default other parameters	Cautious	✓
Other demographics	In line with most recent Fund valuation	✓	✓	Fund-specific in line with most recent Fund valuation	In line with Fund experience	Balanced	

Employer's assumptions are balanced except for mortality future improvements which is cautious when compared to KPMG central rates but within KPMG tolerance levels. The Council used a long-term trend rate which is 1.5% higher than KPMG central rate which falls in the Cautious range when compared to KPMG central rates



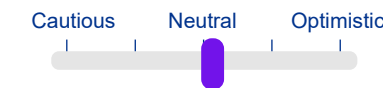


Audit risks and our audit approach (cont.)

4

Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



Other audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.
- The Council's investment property portfolio is £13.5m. This is made up of a small number of assets, and whilst some are individually material, we do not consider there to be a significant risk of material misstatement given their nature.



Our response

We have performed the following procedures designed to specifically address the risk associated with the valuation:

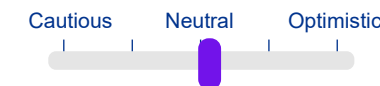
- We critically assessed the independence, objectivity and expertise of internal valuer, the valuers used in developing the valuation of the Council's investment property at 31 March 2024;
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We challenged the appropriateness of the valuation; including any material movements from the previous revaluations. We challenge key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.



Audit risks and our audit approach (cont.)

4 Valuation of investment property (cont.)

The carrying amount of revalued investment property differs materially from the fair value



! Other audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.
- The Council's investment property portfolio is £13.5m. This is made up of a small number of assets, and whilst some are individually material, we do not consider there to be a significant risk of material misstatement given their nature.

📄 Our findings

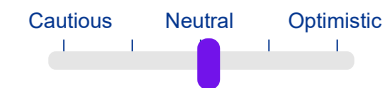
- Our findings have not identified any significant issues in relation to the valuation of investment property.
- Through our enquiries with both management and the Valuer, we are satisfied that the valuer has used up-to-date information (e.g. rental income and detail of capital spend) to inform the interim valuation as at 31 March 2024.
- We are satisfied that the assumptions such as the yields adopted by management are appropriate.
- We identified one presentational adjustment. One of the investment properties (York Place) is recognised as an investment property under construction (AUC), and is therefore valued at cost in line IAS 40. This differs to the operational investment properties which are measured at fair value at the year end. Given York Place is material in value, we have requested management disclose AUC separately in the Investment Property note. This has no impact on the balance sheet or CIES.
- Overall, following the completion of our procedures, we are satisfied that the valuation of the investment property assets is free from material misstatement and disclosure of estimation uncertainty is adequate.

Key accounting estimates and management judgements – Overview



Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
PPE Land and Buildings		45.3	1.0		There has been no significant change in the valuation of land and buildings, the £1m movement comprises a predominantly upward movement to reflect building cost indices increases.
Investment Property		13.5	0.7		The overall movements reflects additions to investment properties (investment properties under construction), the overall fair value movement is a reduction of £159k which is not significant and is driven by market assumptions adopted by the valuer that we have assessed as reasonable.
Pensions Gross pension obligation		(159,666)	0.5		The pension liabilities balance has remained consistent with the prior year. Based on our actuaries review, the overall assumptions adopted by the Council are considered to be balanced, and within reasonable range.
Pensions Valuation of Pension Asset		173,486	17.2		The pension assets balance has increase by 10% in comparison to the prior year as a result of the increase in return on assets excluding interest from (£14,137k) in prior year to £12,146k in current year The valuation basis is considered to be balanced.



Other matters

Narrative report

We will read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 ('the Code'). **This work is in progress.**

Annual Governance Statement

We will review the Council's 2023/24 Annual Governance Statement to ensure consistency with our understanding of the entity. **This work is in progress.**

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

This work is in progress.

We will submit an updated assurance statement on completion of the audit and following review the final financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA prescribed 2023/24 audit scale fee for the audit was £157,000 plus VAT (£69,000 in 2022/23). As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised and ISA 240. We propose charging an additional £11,600 to cover this work.

We have also completed non audit work at the Council during the year on Housing Benefit certification and have included on page 23 confirmation of safeguards that have been put in place to preserve our independence.

Value for Money

Our risk assessment work is still in progress. We will share a copy of the VFM risk assessment at the next Audit & Standards Committee. We cannot certify the audit until the value for money work is complete.



03 Newcastle-under-Lyme Borough Council Appendices

Year ended 31 March 2024

Appendices

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Required communications

Type	Response
Our draft management representation letter	<input checked="" type="checkbox"/> OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	<input checked="" type="checkbox"/> OK There were three adjusted audit differences with a £1.6m surplus impact. See page 26.
Unadjusted audit differences	<input checked="" type="checkbox"/> OK The aggregated surplus impact of unadjusted audit differences would be £0.3m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 25.
Related parties	<input checked="" type="checkbox"/> OK There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	<input checked="" type="checkbox"/> OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<input checked="" type="checkbox"/> OK We have communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	<input checked="" type="checkbox"/> OK If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	<input checked="" type="checkbox"/> OK We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type	Response
Significant difficulties	<input checked="" type="checkbox"/> OK No significant difficulties were encountered during the audit
Modifications to auditor's report	<input checked="" type="checkbox"/> OK None
Disagreements with management or scope limitations	<input checked="" type="checkbox"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="checkbox"/> OK No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	<input checked="" type="checkbox"/> OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="checkbox"/> OK Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	<input checked="" type="checkbox"/> OK No significant matters arising from the audit.
Certify the audit as complete	<input checked="" type="checkbox"/> X Due to the Auditor's Annual Report being issued later in the year we have not yet certified the audit as complete. There are no other issues delaying this being issued.
Provide a statement to the NAO on your consolidation schedule	<input checked="" type="checkbox"/> OK We will issue our report to the National Audit Office following the signing of the annual report and accounts.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	2022/23 (£'000)
Statutory audit	157	69 ^(a)
ISA315r	10	-
ISA240	2	-
Additional scope	tbc	
TOTAL	169	69

Note: (a) Fee charged by XX – your predecessor auditor.

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud).
- We will also charge additional fees for the work undertaken to identify and quantify errors in the prior year and current year accounts relating to pension asset recognition. Management are aware an additional fee will be charged for this work.
- Additional fees will be subject to the fees variation process as outlined by the PSAA.



Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Newcastle-under-Lyme Borough Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.



Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £	Value of Services Committed but not yet delivered £
1	Housing benefit grant certification	Management Self review Self interest	<ul style="list-style-type: none"> Standard language on non-assumption of management responsibilities is included in our engagement letter. The engagement contract makes clear that we will not perform any management functions. The work is performed after the audit is completed and the work is not relied on within the audit file. Our work does not involve judgement and are statements of fact based on agreed upon procedures. 	Fixed	-	19,250 plus £1,925 per additional workbook tested (extending testing)



Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.12: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	169
Other Assurance Services	20
Total Fees	189

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP



Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Standards Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Standards Committee, details of all adjustments greater than £55k (AMPT) are shown below:

Uncorrected audit differences (£'000s)				
No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr Remeasurement of Defined Benefit Liability/(Asset) Cr Defined Benefit Assets	£293 -	£[293]	- Rate of return in the latest available IAS 19 report is higher than the actual rate confirmed by third party administrator resulting in a variance of £293k above AMPT, hence an uncorrected audit misstatement
2	Dr Remeasurement of Defined Benefit Liability/(Asset) Cr Defined Benefit Assets	£68 -	£[68]	- Employer Contributions in the latest available IAS 19 report are higher than the actual contributions confirmed by management resulting in a variance of £68k above AMPT, hence an uncorrected audit misstatement
3	Dr Defined Benefit Assets Cr Defined Benefit Liabilities	- -	£135 £[135]	Benefits paid in the latest available IAS 19 report are higher than the actual benefits confirmed by third party administrator resulting in a variance of £135k above AMPT, hence an uncorrected audit misstatement
Total		£361	(£361)	



Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Standards Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Asset Under Construction	-	£3,024	A piece of development land had been valued as a surplus asset as at 31 March 2024. However, significant capital work had been undertaken (£3m) in year to prepare the land for future development. Consequently we assessed the cost incurred to date should be recognised as an asset under construction. This resulted in an adjustment to Property, Plant and Equipment.
	Cr Impairment	(£3,024)	-	
2	Dr Current service cost (P&L)	(£97)		When the draft accounts were compared with the latest available IAS 19 report, we noted variances in the current service cost & employer contributions above AMPT and in return on assets excluding interest income above PM. As management agreed to update their accounts based on latest available IAS 19 report, we proposed a corrected audit misstatement to the effect of £1,507k (£1,604 – £97).
	Dr Contribution / cash settlement account		£101	
	Dr Return on assets excluding interest (OCI)	£1,503		
	Cr Gross Defined Benefit Obligation		£97	
	Cr Fair value of plan assets		(£1,604)	
Total		(£1,618)	£1,618	

Presentational adjustments

Investment Property - One of the investment properties (York Place) is recognised as an investment property under construction (AUC), and is therefore valued at cost in line IAS 40. This differs to the operational investment properties which are measured at fair value at the year end. Given York Place is material in value, we have requested management disclose AUC separately in the Investment Property note. This has no impact on the balance sheet or CIES.



Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations

- 1** **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 2** **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 3** **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	2	<p>Journal controls</p> <p>Segregation of duties are in place for the approval of manual journals which means journals require a separate preparer and approver before posting to the ledger. However, best practice would be to ensure the approver is always more senior than the preparer, and the system does not currently enforce this. In addition, the level of precision of the journals review prior to approval is not documented sufficiently to the level required by auditing standards as a manual control over journal entries</p> <p><i>Recommendation</i></p> <p>We recommend management should ensure the approver is always more senior that the preparer. To meet the high threshold set by auditing standards, we recommend management fully document the journals review process. This should include clearly defined criteria for selection of journals, confirmation that each journal selected has been reviewed along with the supporting documentation and that the posting is accurate and appropriate, and formal documentation of the review conclusions.</p>	<p>Due to the size of the Service this is not logistical, only 4 Officers can approve journals, those below a qualified Accountant level cannot. All journals contain a full description and the approver obtains clarification before approving a journal if required. The high threshold of the auditing standard is considered to be excessive.</p>



Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	2	<p>Review of internal valuer assumptions</p> <p>Management does not complete a formal review of the assumptions proposed by the internal valuer used in the valuation of land and buildings and investment property. This increases the risk of errors being unidentified, leading to misstatements within the financial statements. A formal review and challenge of the valuer constitutes a management review control to address a significant risk. In order to make this review compliant with international auditing standards this process must be documented and evidenced with a sufficient level of precision.</p> <p><i>Recommendation</i></p> <p>In order to meet the high threshold set by auditing standards, management should document a formal review of the valuers assumptions used on an annual basis, such as indices and yields adopted, with numbers tied through to supporting information. Any challenges raised with the valuer would need to be clearly documented.</p>	<p>A review of the assumptions is undertaken and regular meetings are held with the Valuer to discuss and challenge both these and the actual valuations – these will be minuted in future periods. The valuer is a qualified Officer and a reliance is placed on this role in terms of the provision of reasonable assumptions</p>
3	2	<p>Review of actuarial assumptions</p> <p>We acknowledge that there is a review of key assumptions by management but we do not place reliance on this control due to the lack of precision and documentation. Whilst this management review control may be achieving the control objective set by management (we have not confirmed this), it does not meet the control requirements as defined by international auditing standards.</p> <p><i>Recommendation</i></p> <p>In order to meet the high threshold set by auditing standards, management should document a formal review of the actuaries assumptions used on an annual basis, including the setting of expectations and tolerances.</p>	<p>A review of the assumptions is undertaken and a further report is commissioned from the actuary after the production of the unaudited Statement of Accounts, the final Statement of Accounts are amended to reflect any changes in assumptions and actual experience at this point. The actuary is appointed on a professional basis and a reliance is placed on this role in terms of the provision of reasonable assumptions</p>



Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	3	<p>Approval of significant related party transactions</p> <p>Auditing standards require us to obtain an understanding of related party processes and controls that:</p> <ul style="list-style-type: none"> • identify all related parties, relationships and transactions • authorize and approve significant related party transactions and arrangements; and • account for and disclose all related party relationships and transactions in the financial statements. <p>We are satisfied management have a process in place to identify related parties and related party transactions retrospectively through receipt of declarations of interest (DoI) from all members, and then an exercise is carried out where by finance search all AP/AR ledgers to identify transactions with said related parties at the year end. The process and control in place to collate and ensure receipt of Dols from individuals is a proportionate control to have in place.</p> <p>However, there is no formal, documented control in place to authorise or approve significant related party transactions before they are entered into. Many of the related party transactions are through the normal course of business, however audited entities are required to have identified controls in place to which formally authorise significant transactions.</p> <p><i>Recommendation</i></p> <p>We recommend management establish a control to authorise significant related party transactions.</p>	<p>This will be reviewed to identify whether a flag can be introduced that notifies the approver of orders or invoices whereby the supplier has an Officer or Member that has declared a related party in relation to them. It should be noted that these are few and far between and the risk facing the Council, especially given its current controls, is very low.</p>



ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 7. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.



ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised “Identifying and assessing the risks of material misstatement” was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard’s scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Whilst this is second year of implementation, this is KPMG’s first year auditing the Council so we will be required to enhance our understanding of your wider control environment, notably within the area of IT, for the first time.

A key area of focus for the auditor will be understanding how the entity responded to the observations, if any, communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.



KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

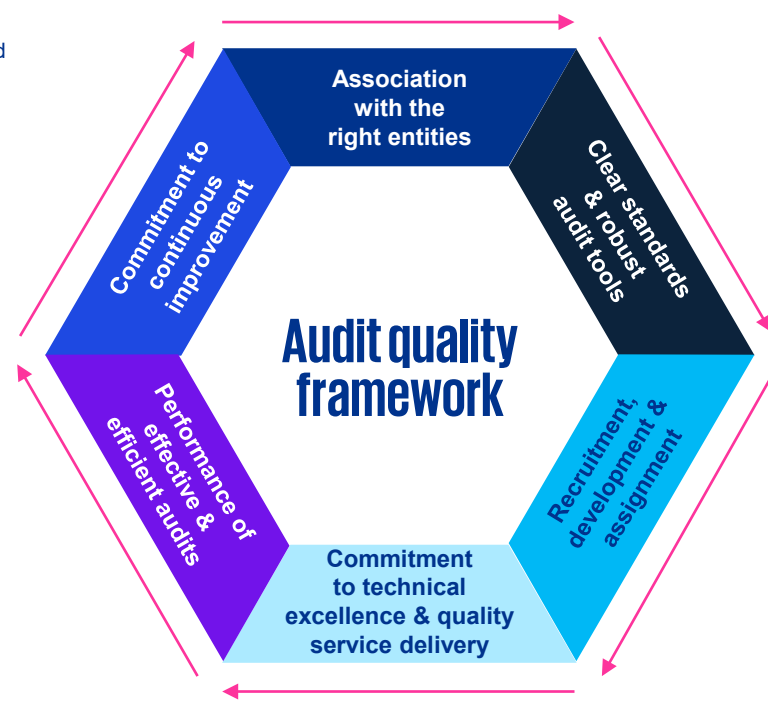
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

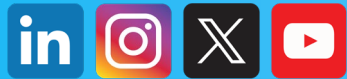
- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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