Newcastle-under-Lyme Borough Council

Report to the Audit & Standards Committee

Indicative External Audit Plan & Strategy for the year ended 31 March 2025

March 2025

DRAFT

Introduction

To the Audit & Standards Committee of Newcastle-under-Lyme Borough Council

We are pleased to have the opportunity to meet with you on 7 April 2025 to discuss our audit of the financial statements of Newcastle-under-Lyme Borough Council for the year ended 31 March 2025.

This report provides the Audit & Standards Committee with an opportunity to review our planned audit approach and scope for the 2024/25 audit. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO's 2024/25 Code of Audit Practice, auditing standards and other professional requirements.

This report outlines our risk assessment and planned audit approach. We have not yet completed our planning and risk assessment steps and therefore this plan is indicative based on our work to date and cumulative knowledge of the Council. We will provide an updated plan detailing any changes to the planned approach once our procedures are complete.

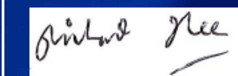
We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

The engagement team

Richard Lee (CPFA / CA) is the engagement director on the audit and is responsible for the audit opinion. He has over 20 years of industry experience.

Other key members of the engagement team include Robert Fenton (Senior Manager) and Fred Dzikunu (Assistant Manager) with 12 years and 5 years of experience, respectively.

Yours sincerely,



Richard Lee

Director - KPMG LLP

7 April 2025

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How we deliver audit quality

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. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner.

We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the Council's financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as stability of legislation, lack of shareholders and debt arrangements when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1.05m/75% of materiality driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as officers' remuneration

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £70k.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the Council's control environment on our audit is reflected in our planned audit procedures. We review entity level controls to inform our risk assessment but do not directly assess the design and implementation of these.

Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

Materiality

Materiality for the financial statements as a whole	£1.4m	(2023/24 £1.1M)
Procedure designed to detect individual errors at this level	£1.05m	(2023/24 £825k)
Misstatements reported to the Audit & Standards Committee	£70k	(2023/24 £55k)

Council Materiality
£1.4m

2.38% of prior year expenditure £58.7m

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the engagement partner and senior manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in February 2025 where we discuss our indicative audit timetable and management's progress in key areas ;
- Audit & Standards Committee meeting in April 2025 where we present our draft audit plan outlining our risk assessment and audit approach;
- Status meetings with management in April and July 2025 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September where we discuss the auditor's report and any outstanding deliverables;
- Audit & Standards Committee meeting in September 2025 where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee chair if there is interest.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
Internal Audit	We will review the work of internal audit as part of our risk assessment procedures but will not place reliance on their work.
Real Estate Valuation Centre of Excellence (REVCoE)	We will consult with our valuation specialist to assist in the challenge of the assumptions and approach adopted by the Council's internal valuer (and management).
KPMG Pensions Centre of Excellence	Our pensions specialists will carry out the work on the LGPS pension assets and liabilities.

Significant risks and Other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which Newcastle-under-Lyme Borough Council operates.

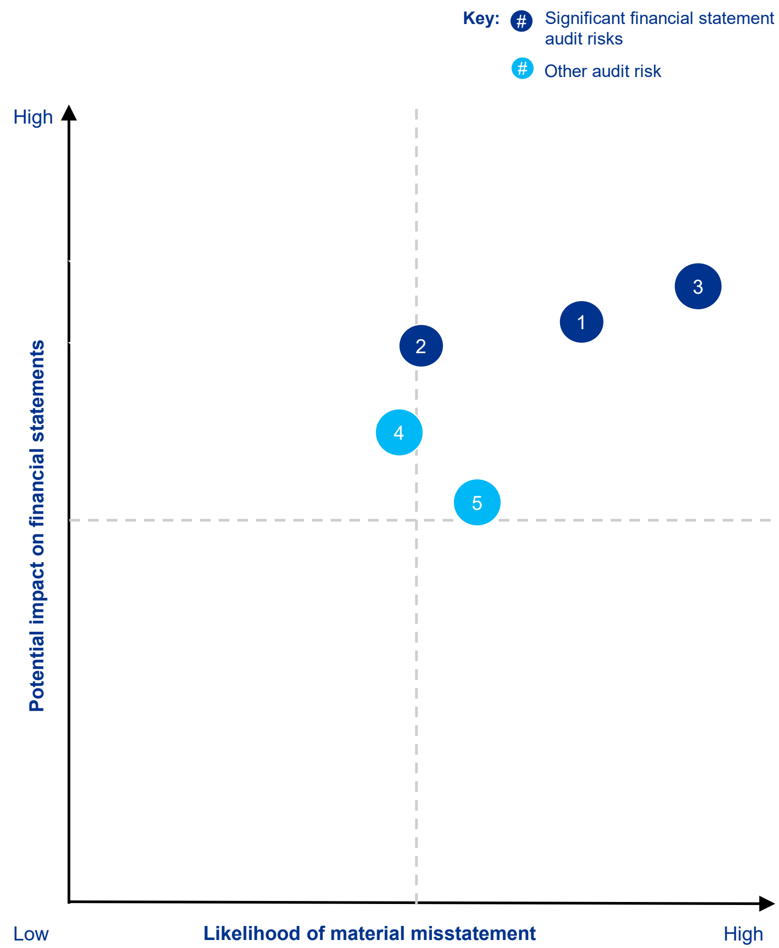
We also use our regular meetings with senior management to update our understanding and take input from sector audit and internal audit reports.

Due to the current levels of uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit & Standards Committee.

The following slides set out our expected risks and risk rebuttals based on work completed to date and our cumulative knowledge of the Council. We will provide an update once our planning and risk assessment work is finalised.

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

Other audit risks	
4.	Valuation of investment property
5.	Adoption of IFRS 16



Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Council and report on this via our Auditor's Annual Report. This will be published on the Council's website and include a commentary on our view of the appropriateness of the Council's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

We have not yet completed our value for money risk assessment. This will be provided once complete.

Audit risks and our audit approach (cont.)

1 Valuation of land and buildings

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

Change vs prior year

Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current 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.

The value of land and buildings as at 31 March 2024 was £43.2m, £37.6m of which is valued at depreciated replacement cost (DRC). However, during the year, the Council has completed the construction of the Castle Car Park at a cost of £12m. This will be valued at its existing use value (EUV) using the investment method (based on its income potential).

Given the significance and estimation uncertainty associated with the assumptions, we determine that there is a significant risk over the valuation of land and buildings.

Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the Internal Valuer used in developing the valuation of the Council's properties at 31 March 2025;
- We will inspect 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 will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will consult with our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider 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.)

2 Management override of controls(a)

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

Change vs prior year

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.

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

Planned response

Our audit methodology incorporates the risk of management override as a default significant risk. We will perform the following procedures:

- Assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluate the selection and application of accounting policies.
- In line with our methodology, evaluate the design and implementation of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council’s normal course of business or are otherwise unusual.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as unusual combinations with revenue and cash accounts.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

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

Change vs prior year ◀ ▶

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 deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- 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.

Planned response

We will perform the following procedures:

- Understand the processes the Councils has in place to set the assumptions used in the valuation.
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations.
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets.
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation.
- Evaluate the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability.
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice.
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions.
- Where applicable, assess the level of surplus that should be recognised by the entity.

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

Change vs prior year

Other audit risk

The Code defines an investment property as property that is used solely to earn rentals and / or that is held for capital appreciation.

At each reporting period, the valuation of the investment property must be updated to reflect market conditions. Significant judgement and estimation is required to assess fair value and management experts are often engaged to undertake the valuations.

The Council's investment property portfolio as at 31 March 2024 was £13.5m. It is made up of a small number of assets some of which are individually material, however we do not consider there to a significant risk of material misstatement given their size and nature.

Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the Internal Valuer used in developing the valuation of the Council's investment property at 31 March 2025;
- We will inspect the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- Disclosures: We will consider 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

5 Adoption of IFRS 16

An inappropriate amount is estimated and recorded for lease liabilities and right of use assets

Change vs prior year ▲

Other audit risk

The Council has adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following challenges in the first year of implementation.

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff

Planned response

We will perform the following procedures in order to respond to the other audit risk identified:

- Obtain the full listings of the leases and reconcile to the general ledger.
- Review a sample of the lease agreements to determine the terms of the leases and confirm correct classification.
- Review the appropriateness of the discount rate used in the lease computations.
- Review the transition adjustments passed by the Council
- Review the disclosures made on the financial statements against requirements of IFRS16.

Audit risks and our audit approach

Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council does not meet its budget this creates pressure on the Council's usable reserves and this in turn puts pressure on the following year's budget.

Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Council (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific risk factors. The Council is forecasting a small surplus at year-end, and is managing any overspends through budgetary control measures and interest income. Equally, the Council has sufficient reserves to mitigate any potential in-year overspend.

We consider the opportunity to manipulate expenditure to be limited, either through under-accruing expenditure or capitalising revenue expenditure. Our risk assessment over these specific process is ongoing but we do not consider there to be sufficient opportunity based on our initial risk assessment and the nature of expenditure incurred by the Council.

Our risk assessment remains iterative and we will continue to revisit our risk assessment until the start of the final audit. Any changes will be communicated to the Audit and Standards Committee.

Audit risks and our audit approach

Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Council tax	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: it is highly unlikely for there to be a material error in the population.
Business rates	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: it is highly unlikely for there to be a material error in the population.
Fees and charges	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income.
Grant income	Predictable income receipted primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

However, financial sustainability is a core area of focus for our Value for Money opinion.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily OK	We have identified issues that we may need to report -	Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		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 to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express 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.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 25 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Newcastle Under Lyme Borough Council

Value for money risk assessment

Our approach

Year ended 31 March 2025

March 2025

Value for money

For 2024/25 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following pages.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of your previous auditor's recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and property manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Approach we take to completing our work to form and report our conclusion:

Process

Understanding the entity's arrangements
- Financial statements planning
- Internal reports, e.g. IA
- Management Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

Evaluation of entity's value for money arrangements
- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting
- Conclusion whether significant weaknesses exist

Outputs

Risk assessment to Audit & Standards Committee

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the entity does not have appropriate arrangements in place to achieve VFM.

Value for money assessment

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

Public commentary

Our draft public commentary will be prepared for the Audit Committee alongside our annual report on the accounts.

Public commentary

The commentary is required to be published alongside the annual report.

Appendix

Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

Richard Lee is the Director responsible for our audit. He will lead our audit work, attend the Audit & Standards Committee and be responsible for the opinions that we issue.

Robert Fenton is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Audit & Standards Committee and ensure we are co-ordinated across our accounts and VFM work.

Fred Dzikunu is the in-charge responsible for our audit for the second year. He will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

This will be Richard's second year as your engagement lead. The engagement leader is required to rotate every five years, extendable to seven with PSAA approval.

Audit cycle & timetable

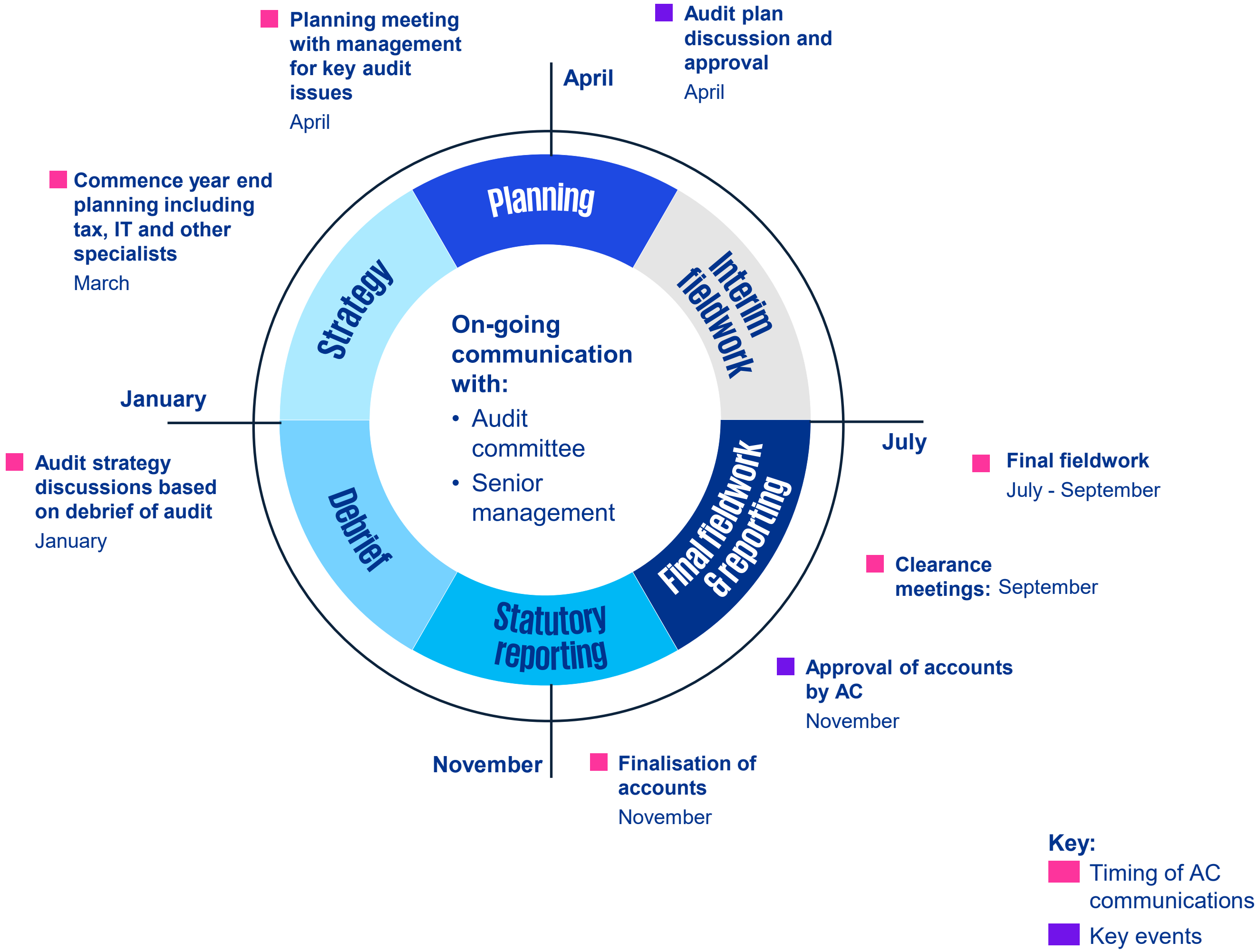
Our schedule 2024 – 2025

We have worked with management to generate our understanding of the processes and controls in place at the Council in it's preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by November 2025.

Our approach also differs this year due to the effect of your transition to the new standards. We will need to perform additional audit work and perform it earlier.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit **schedule may be subject to change**.



Fees

Audit fee

Our fees for the year ended 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2024/25 (£'000)	*2023/24 (£'000)*
Statutory audit	172	*167*
Overruns	-	*11*
TOTAL	**172**	*178*

The scale fees for 2024/25 incorporates the fees for ISA 315r that were charged separately in 2023/24. The fees assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The Council's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The Council's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

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 Director and audit staff is not impaired.

To the Audit and Standards 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 except for those detailed below where additional safeguards are in place.

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

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 2025 £	Value of Services Committed but not yet delivered £
1	Housing benefit grant certification	Management Self review Self interest	• 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	30,880*	-

*relates to 2023/24 audit, expected to complete in April 2025.

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 partner 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 entities 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 and specialists

Appendix E

Newly effective accounting standards

Standards	Expected impact				Effective for years beginning on or after		Early adoption permitted
	High	Moderate	Low	None	01 Jan 2024	1 Jan 2025	
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)			●		✓		✓
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)			●		✓		✓
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)				○	✓		✓
Lack of exchangeability (Amendments to IAS 21)				○		✓	✓
IFRS S1** General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2** Climate-related Disclosures			●				✓

** The implementation and the effective dates of IFRS Sustainability Disclosure Standards are subject to local regulation

Appendix E

Newly effective accounting standards

Following consultation by HM Treasury it is proposed to revise the accounting requirements for tangible and intangible non-current assets. This is aimed to simplify and standardise the accounting treatment for these items going forwards.

While there are no changes to the accounting requirements for 2024-25 it is intended that some changes will be introduced for 2025-26 and so it is important that Trusts begin planning for the changes in advance and consider the implications for both financial reporting and budgeting.

Intangible assets

Intangible assets will be held at depreciated cost going forwards.

Assets already operational at 1 April 2025 will adopt the valuation at that date as a deemed cost.

Property, plant and equipment

PPE to be formally revalued every five years, with indices used in interim periods to keep track with market value movements.

Removal of some options when determining modern equivalent asset, e.g. alternative site.

2024/25

2025/26

Later period

ISA (UK) 600 Revised: Summary of changes

Summary

ISA (UK) 600 (Revised): Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) is effective for periods commencing on or after 15 December 2023.

The new and revised requirements better aligns the standard with recently revised standards such as ISQM 1, ISA (UK) 220 (Revised) and ISA (UK) 315 (Revised). The revisions also strengthen the auditor's responsibilities related to professional skepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and documentation.

Area	Summary of changes and impact	Effect on audit effort
Risk-based approach	The nature and extent of risk assessment procedures performed by the group auditor at group level may increase, which may include further inquires of group and/or component management and those charged with governance; analytical procedures, attendance of walkthroughs at components, and inspection and/or observation of additional component information. Consequently, while we will continue to work across the group audit to be as efficient in our interactions with you as possible, group and component management will typically receive additional, and more specific/granular requests, for information from both the group and component auditors.	
Group auditor responsibilities	Through a more targeted audit response to address the group Risks of Material Misstatement, we may perform audit work and communicate with component management at a greater number of components within the group, and we may request less information from component management at certain components where we previously performed full scope audits for the Group audit, if we determine that a full scope audit is no longer necessary. While statutory audit requirements will still apply, this change may be beneficial for overall audit effort where a statutory audit is not required.	
Flexibility in defining components	You may also see changes in the planned scope and timing of the audit in communications to group management and those charged with governance, such as changes to the identification of components and the work to be performed on their financial information, and/or changes to the nature of the group auditor's planned involvement in the work to be performed by component auditors. The impact will be greater where there are more components.	
Quality management	Enhanced leadership, direction, supervision and review responsibilities of the group engagement partner may result in the group engagement partner needing to engage more extensively with group management, your component management and component auditors throughout the audit.	
Robust communication	If the group auditor determines that the increased work effort is needed, this determination will impact how much, and the type of, information you will need to provide to the group auditor or component auditors. The group auditor is required to prescribe required work at a more granular level. This may mean there is increased work for component auditors, particularly in year one, to align the requirements of the group audit and local statutory audits. We will continue to work closely to minimise this.	
Application of materiality and aggregation risk	Changes in component performance materiality may result in changes to the nature, timing and extent of component auditor's work. If so, this may impact how much, and the type of, information you will need to provide to the group auditor or component auditors.	
Revised independence principles	This may make it more challenging to address auditor rotation and other independence requirements for component auditors we may plan to involve in the group audit and mean more matters impacting independence may need to be communicated to you. Potential changes to the component auditor firms engaged to perform work on financial information of components.	

Appendix F

FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2022/23] in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the [entity]/[group].

Reporting on the effects of inflation and other uncertainties

This year's Annual Review of Corporate Reporting identifies that companies continue to face significant economic and geopolitical uncertainty and annual report and accounts should therefore tell a coherent story about the impacts on the business and the assumptions the company has made in preparing the financial statements.

The FRC notes that interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth present a particularly challenging environment for companies. Financial reporting needs to set out the impact of these issues on their business, and the assumptions which underpin the values of assets and liabilities in financial statements. Significant changes in discount rates and future cash flows are expected as a result and they should be highlighted.

The impacts of uncertainty on companies' narrative reporting and financial statements are numerous, but the FRC sets out its clear disclosure expectations for 2023/2024:

- Disclosures about uncertainty should be sufficient to meet relevant requirements *and* for users to understand the positions taken in the financial statements.
- The strategic report should give a clear description of the risks facing the business, the impact of these risks on strategy, business model, going concern and viability, and disclosures should be cross-referenced to relevant detail in the report and accounts.
- Transparent disclosure should be provided of the nature and extent of material risks arising from financial instruments.

Preparers should take a step back to consider whether the annual report, as a whole, is clear, concise and understandable and whether additional information, beyond the requirements of the standards, is necessary to understand particular transactions, events or circumstances.

Climate-related reporting

Companies in scope for either UK Climate-related Financial Reporting (through the Companies Act requirements last year) or Taskforce on Climate-Related Disclosures (TCFD) (through listing rules or other regulatory requirements) have now reported for the first time. Companies should be reconsidering these disclosures and reflecting any changes in the business or strategy that have happened since last years reporting, to ensure the disclosure remain relevant and reflects the impact of climate-related risk on the Company.

Climate-related risks remains an area of ongoing focus for the FRC as they embed the review of these disclosures into their routine annual reviews. The FRC has highlighted that it expects companies to provide improved disclosure explaining the linkage between narrative reporting on uncertainties such as climate change, and the assumptions made in the financial statements.

In respect of TCFD disclosures, the FRC notes that sustainability reporting requirements continue to evolve and companies are still at very different stages in their reporting in this area. The FRC expect in scope entities to provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information.

In relation to the specific thematic on metrics and targets they highlighted five areas of improvement:

- the definition and reporting of company-specific metrics and targets, beyond headline 'net zero' statements;
- better linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.

FRC's areas of focus (cont.)

Impairment of assets

Heightened economic uncertainty, high inflation and higher interest rates have resulted in more instances of impairment or reductions in headroom, prompting the need for more detailed disclosures under IAS 36. The FRC notes that many of the queries it has raised with companies in the past year would have been avoided by clearer, more complete disclosures.

Disclosures should provide key inputs and assumptions applied, along with relevant values and sensitivity information where impairments could arise from reasonably possible changes in assumptions.

Assumptions and sensitivities should be consistent with information provided elsewhere in the annual report, including those related to climate and other commitments, and with the wider economic environment; where there are inconsistencies, these should be explained.

Discount rates should be consistent with the assumptions in the cash flow projections, particularly in respect of risk and the effects of inflation.

Judgements and estimates

Providing quality disclosures in this area remains particularly important in the light of ongoing economic and political uncertainty. The FRC has noted that often disclosures did not contain sufficient information about the key assumptions or appeared inconsistent with disclosures given elsewhere in the annual report.

Disclosures should explain the significant judgements made and provide quantified sensitivities where there is a significant source of estimation uncertainty. This includes judgements and estimates relating to the going concern assessment and accounting for inflationary features, including the use of discount rates. Significant estimates should be reassessed each year and changes to assumptions explained.

The FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to carrying amounts within the next year, and other sources of estimation uncertainty.

Cash flow statements

Cash flow statements have again been an area where the FRC have raised many queries and it remains one of the most common causes of prior year adjustments. Most queries raised by the FRC relate to unusual or complex transactions which have not been appropriately reflected in the cash flow statement.

Companies should ensure that descriptions of cash flows are consistent with those reported elsewhere in the report and accounts, with non-cash investing and financing transactions being excluded, but disclosed elsewhere if material.

In addition, companies should ensure that cash flows are appropriately classified between operating, financing and investing, and cash flows should not be inappropriately netted. Cash and cash equivalents should comply with the relevant definitions and criteria in the standard.

Strategic report and other Companies Act 2006 matters

Strategic reports should focus not only on financial performance but should also explain significant movements in the balance sheet and cash flow statement. They should articulate the effect of principal risks and uncertainties facing the business, including economic and other risks such as inflation, rising interest rates, supply chain issues, climate-related risks and labour relations.

In addition, the FRC reminds companies that they should comply with the legal requirements for making distributions and repurchasing shares including, where relevant, the requirement to file interim accounts to support the transaction.

Financial instruments

Companies should ensure that the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates), and related risk management, are adequately disclosed.

This includes disclosures being sufficient to explain the approach and significant assumptions applied in the measurement of expected credit losses, including concentrations of risk, and assessments should be reviewed and adjusted for forecast future economic conditions.

The effect of refinancing and changes to covenant arrangements should be explained, with information about covenants being provided unless the likelihood of a breach is remote.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

FRC's areas of focus (cont.)

Income taxes

Following their thematic review last year, the FRC reminds companies that the nature of evidence supporting the recognition of deferred tax assets should be disclosed, and should factor in any difficult economic environment.

Additionally, companies should ensure tax-related disclosures are consistent throughout the annual report, uncertain tax positions are adequately disclosed, and material reconciling items in the tax rate reconciliation are presented separately and appropriately described.

Provisions and contingencies

Clear descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow should be provided.

Inputs used in measuring provisions should be consistent in the approach to incorporating inflation, and details of related assumptions should be provided.

Revenue

Where variable consideration exists, companies should provide sufficient disclosure to explain how it is estimate and constrained.

Accounting policies and relevant judgement disclosures should be provided for all significant performance obligations. Those disclosures should address in sufficient detail the timing of revenue recognition, the basis for recognising revenue over time and the methodology applied.

Lastly, the FRC reminds companies that inflationary features in contracts with customers, and the accounting for such clauses, should be adequately disclosed and clearly explained.

Presentation of financial statements and related disclosures

The FRC expects companies to disclose company-specific information to meet the overall disclosure objectives of relevant accounting standards, and not just the narrow specific disclosure requirements of individual standards. They set out a clear expectation that additional information (beyond the minimum requirements of the standards) should be included where needed.

Fair value measurement

Fair value measurement has returned this year as one of the FRC's top ten issues raised in their correspondence with companies, and this has been the topic of a thematic review. Common queries raised include the omission of sensitivity disclosures and the quantification of unobservable inputs into fair value measurements.

The FRC reminds companies that they should use market participants' assumptions, rather than their own, in measuring fair value.

Thematic reviews

Over the past year FRC has issued Thematic reviews on the following topics:

- Climate-related metrics and targets
- IFRS 13 Fair value measurement
- IFRS 17 Insurance contracts – Interim disclosures in the first year of application
- Reporting by the UK's largest private companies

2023/24 review priorities

The FRC has indicated that its 2023/24 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Travel, hospitality and leisure
- Construction materials
- Retail and personal goods
- Gas, water and multi-utilities

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