Audit Strategy Memorandum

Middlesbrough Council – Year ended 31 March 2026

July 2026

Audit Committee members
Middlesbrough Council
PO Box 500
Middlesbrough
TS1 9FT

April 2026

I am pleased to present our Audit Strategy Memorandum ("ASM") for Middlesbrough Council for the year ended 31 March 2026. This document will be presented at the Audit Committee meeting in July 2026. If you would like to discuss any matters in more detail, please contact me on 07747 764529.

This report provides an overview of the planned scope and timing of our audit, including the significant and enhanced audit risks we have identified. In addition, as it is a fundamental requirement that we are, and are seen to be, independent of Middlesbrough Council this report also summarises our considerations and conclusions on our independence.

Two-way communication with you is key to a successful audit and is important in:

- reaching a mutual understanding of the scope of our audit and our respective responsibilities,
- sharing information to assist each of us with fulfilling our respective responsibilities,
- providing you with constructive observations arising during our audit, and
- ensuring that we gain an understanding of your attitude and views in respect of the risks facing the Council which may affect our audit, including the likelihood of those risks materialising and how they are monitored and managed.

This report, which we have prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations.

During the meeting, we would be grateful for your views/ knowledge on the following specific matters:

- whether you have identified any other risks (business, laws & regulation, fraud, going concern, etc.) that may result in material misstatements in the financial statements; and
- if there are any matters that you consider warrant particular attention during our audit and/ or any areas where you would like additional procedures to be undertaken.

Subject to our prior written agreement or as required by any applicable law or regulation, this report is considered confidential and is intended solely for the Audit Committee and should not be disclosed to any other party, used or quoted for any other purpose.

Yours faithfully,

{{_es_:signer1:signature }}

Mark Kirkham
Forvis Mazars LLP

Contents

2. Your audit engagement team

Your external audit service will be led by Mark Kirkham.

Who	Role	Contact
Mark Kirkham	Engagement Partner	mark.kirkham@mazars.co.uk 07747 764 529
Cath Andrew	Engagement Manager	cath.andrew@mazars.co.uk 07815 878 116
Rebecca Dearden	Engagement Team Leader	rebecca.dearden@mazars.co.uk 07881 283 351

We will use internal experts on this engagement in the following area of our audit: IT general controls.

Audit scope, approach, and timeline

Planning and risk assessment
March to June 2026

- Planning our visit and developing our understanding of the entity
- Documenting systems and control and performing walkthroughs
- Risk identification and assessment
- Considering proposed accounting policies and accounting treatments
- Developing our audit strategy and planning the audit work to be performed including the approach to be adopted to rebuild assurance following the disclaimer of opinions that have been issued in the prior years.
- Agreeing timetable and deadlines
- Preliminary analytical review
- Determination of materiality
- Undertake planning work for our vfm responsibilities

Interim
July to August 2026

- Documenting systems and controls
- Performing walkthroughs
- IT general controls testing
- IT application controls testing
- Reassessment of our audit strategy (and revising if necessary)
- Early substantive testing of transactions
- Commence testing of opening balances as part of the rebuilding assurance strategy
- Collate evidence to support our VFM work, including obtaining key documents and confirming our understanding of arrangements in place, including consideration of whether a significant weakness in arrangements exists

Fieldwork
September to December 2026

- Executing our strategy, starting with significant risks and other higher-risk areas
- Receiving and reviewing the draft financial statements
- Complete remaining audit work required as part of the rebuilding strategy
- Confirm our understanding of VFM arrangements, including determining any identified significant weaknesses, including participation in the firm's Consistency Panel process

Communication
January 2027

- Communicating progress and any issues arising
- Clearance meeting(s)
- Communication of identified significant weaknesses as appropriate throughout the audit
- Confirm outcome of rebuilding work and its impact on our audit report

Completion
January 2027

- Final review of financial statements, and disclosure checklist
- Final partner review
- Agreeing the content of the letter of representation
- Preparing our auditor's report, including our VFM exception reporting
- Reporting to the Audit Committee
- Subsequent events procedures
- Signing our auditor's report

Audit risks and other significant matters

Significant risks

In this section, we have set out the significant and enhanced audit risks we have identified and our planned response. If we identify additional risks or change our risk assessment during our audit, we will report this to you. Refer to Appendix A for definitions. We have also set out in this section of the report any other significant matters that we consider should be brought to your attention.

Risk	Description	Our planned response
Revenue recognition	For Middlesbrough Council we see the risk of fraud in revenue recognition as being principally in relation to fees and charges income	We will address this risk by carrying out a range of substantive procedures including: • testing significant grants and capital receipts recorded around year end to ensure they have been recognised in the appropriate year; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
Management override of controls	Management at various levels within an organisation are 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. The unpredictable in the ways in which such override could occur means we identify a significant risk of management override of controls on our audit.	In line with our methodology, we plan to address the management override of controls risk by carrying out audit work on: • accounting estimates; • journal entries; and • significant transactions outside the normal course of business or otherwise unusual.

Audit risks and other significant matters

Significant risks

Risk	Description	Our planned response
Valuation of property, plant and equipment	The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE). Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.	We will: • critically assess the Council's arrangements for ensuring that land and buildings valuations are reasonable and not materially misstated; • critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers; • consider the competence, skills and experience of the valuers and the instructions issued to the valuers; • substantively test revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; and • where necessary, perform further procedures on individual assets to ensure the basis of valuations is appropriate.

Audit risks and other significant matters

Significant risks

Risk	Description	Our planned response
Valuation of the net defined benefit pension liability	The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We will: • critically evaluate the Council's arrangements relevant controls for making estimates in relation to pension entries within the financial statements; and • challenge the reasonableness of the Actuary's assumptions that underpin entries made in the financial statements, using an expert commissioned by the National Audit Office; • critically assess the competency, objectivity and independence of the Actuary; • liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; • compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and • agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.

Audit risks and other significant matters

Enhanced risks

Risk	Description	Our planned response
Debtors' impairment allowance	At 31 March 2025, the Council disclosed an impairment of debtors' allowance totalling £28.4m as an area of estimation uncertainty.	We will: • critically review the Council’s calculation of its impairment of debtors’ allowance; and • assess whether disclosures are in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt.

Re-building assurance

Background

A range of factors have led to delays in local authority financial reporting and audit over a number of years. Legislation passed by government in 2024, the Accounts and Audit (Amendment) Regulations 2024, addresses the backlog by introducing a series of ‘backstop dates’ by when local authorities or similar bodies must publish financial statements, even if the audit is not completed.

On 3 March 2026, we disclaimed our opinion on the Council’s 2024/25 financial statements. This followed on from disclaimed opinions issued previously in respect of the Council’s 2023/2024 accounts. We issued a disclaimer of opinion because there was not sufficient time to complete all required audit procedures in advance of the backstop date to enable us to form an opinion on the financial statements. As a result, we do not have assurance over all opening balances for the 2025/26 financial statements. This absence of assurance relating to previous years presents particular challenges in relation to reserve balances as these reflect transactions posted in earlier years, including transactions which maintain the split between usable and unusable reserves that is required to comply with the local authority financial reporting framework. We have summarised in the table below the opinions we have issued since the Amendment Regulations came into effect.

Opinions issued since The Accounts and Audit (Amendment Regulations) came into effect			
Financial Year	**Opinion Type**	**Date of Opinion**	**Commentary**
2023/24	Disclaimed	28 February 2025	Insufficient time to complete all required audit procedures due to lack of assurance over opening balances. Predecessor auditor disclaimed 2022/23 and 2021/22 accounts in December 2024.
2024/25	Disclaimed	3 March 2026	Insufficient time to complete all required audit procedures. We planned to complete a balance sheet audit but were unable to finish the planned audit procedures.

Rebuilding assurance

‘Rebuilding assurance’ is the term used by the National Audit Office (‘NAO’) in guidance issued to auditors in the form of Local Audit Reset and Recovery Implementation Guidance (LARRIGs), and describes the process whereby auditors can, usually over more than one audit cycle, return to a position where an unmodified opinion on the financial statements can be issued. Our overall approach to re-building assurance has been developed in line with the LARRIGs and fully complies with the Code of Audit Practice and International Standards on Auditing (UK).

The nature and extent of procedures required to re-build assurance depends on the specific circumstances in place at each entity and the outcome of a detailed risk assessment process which considers factors at both the entity level and the financial statement level over the periods covered by our disclaimed opinions.

Re-building assurance

Our planned work on the financial statements for 2025/26

The focus of our work in 2025/26 will be on:

- specific in-year transactions recognised in the Comprehensive Income and Expenditure Statement;
- the in-year application of statutory accounting requirements in the Movement in Reserves Statement; and
- closing balances as at 31 March 2026 for key elements of net assets and net liabilities on the Balance Sheet.

We have determined that we should focus on these areas as they will support the rebuilding of assurance in subsequent years. We will continue to work with Management to develop our timetable and strategy for rebuilding assurance in 2026/27 and future years in line with guidance issued by the National Audit Office.

The table below sets out the planned timeline based on our current understanding and the latest available guidance.

Year 1 2023/24	Year 2 2024/25	Year 3 2025/26	Year 4 2026/27	Year 5 2027/28
Backstop date: 28 February 2025	Backstop date: 27 February 2026	Backstop date: 31 January 2027	Backstop date: 30 November 2027	Backstop date: 30 November 2028
No opening balances assurance for balance sheet	No opening balances assurance for balance sheet	No opening balances assurance for balance sheet	Partial opening balance sheet assurance	Opening balance assurance for balance sheet
No income and expenditure testing	No income and expenditure testing	No income and expenditure testing	Income and expenditure testing	Income and expenditure testing
No assurance for use of reserves	No assurance for use of reserves	No assurance for use of reserves	No prior year assurance for use of reserves	Partial assurance for use of reserves
Partial closing balance sheet audit	Partial closing balance sheet audit	Closing balance sheet audit	Closing balance sheet audit	Closing balance sheet audit
Disclaimed opinion (opening balances)	Disclaimed opinion (opening balances)	Disclaimed opinion (opening balances)	Disclaimed opinion (comparator CIES)	Modified audit opinion

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Materiality

We consider the gross revenue expenditure of the Council to be the key focus of the users of the financial statements. We have therefore determined our initial materiality levels using gross revenue expenditure as the benchmark.

We expect to set financial statement materiality as 2% of gross revenue expenditure.

Based on currently available information from the prior year accounts we anticipate setting our financial statement materiality and performance materiality at the levels set out in the table adjacent.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

We will accumulate misstatements identified during our audit that are above the reporting threshold set out in the table adjacent, i.e., any misstatements that we identify that are above the reporting threshold will be reported to you and management. Any misstatements that we identify that are below that amount would not need to be reported because we expect that the accumulation of such amounts would not have a material effect on the financial statements. If you have any queries about our reporting threshold, please raise these with me.

Each misstatement above our reporting threshold that we identify will be classified as **adjusted** (corrected by management), or **unadjusted** (not corrected by management). We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to you as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on the financial statements and our audit opinion.

Misstatements also cover qualitative misstatements and quantitative and qualitative misstatements and omissions relating to the notes of the financial statements.

We also consider whether there are any financial statement areas or disclosures where a misstatement of an amount lower than overall materiality could reasonably be expected to influence the economic decisions of users of the financial statements. Our assessment of the financial statements and/or disclosures to which this applies and the specific materiality level we have set is included in the table below.

	2025-26 £'000s	**2024-25 £'000s**
Overall materiality	£10,595	£10,595
Performance materiality	£5,297	£5,297
Clearly trivial	£317	£317
Specific materiality Officers' remuneration and termination payments Member allowances	£50 £70	£50 £70

Fees

Audit fees and other services provided by Forvis Mazars LLP

Our fees (exclusive of VAT) for the audit of the financial statements for the year ended 31 March 2026, and for any non-audit assurance services or other non-audit services provided by Forvis Mazars LLP in the period, are outlined in the table adjacent.

Our fees are designed to reflect the time, professional experience, and expertise required to perform our audit.

The proposed fee reflects the scale fee determined by PSAA and information on how the scale fee is set can be found on PSAA's website. Where an auditor is required to undertake substantially more or less work to deliver their responsibilities a fee variation may be proposed which is subject to approval by PSAA. Examples compiled by PSAA of circumstances that may trigger a fee variation are available on the PSAA website.

Any threats to our independence arising from the provision of non-audit services and the associated safeguards we have identified and/ or put in place are set out on the in the 'Our independence' section of this report.

Nature of service	2025-26 proposed fee	2024-25 actual fee
Statutory audit work to comply with the NAO Code of Audit Practice	£361,966	£208,928 *
Total audit fees	£361,966	£208,928
Housing Benefits Subsidy Assurance	£TBC	£15,600
Teachers' Pensions	£TBC	£6,550
Total non-audit fees	£TBC	£22,150
Total fees	£TBC	£231,078

* 60% of scale fee

Our independence

We are committed to independence and confirm that we comply with the FRC's Revised Ethical Standard. In addition, we have set out in this section any matters or relationships that we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that, in our professional judgement, there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the context of the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration and complete annual ethics training,
- all new partners and staff are required to complete an independence confirmation,
- rotation policies covering audit engagement partners and other key members of the audit team, and
- use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that Forvis Mazars LLP, the engagement team and others in the firm as appropriate, are independent and comply with relevant ethical and independence requirements. However, if at any time you have concerns or questions about our integrity, objectivity, or independence, please discuss these with me in the first instance.

Prior to the provision of any non-audit services, I will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Value for money arrangements

The framework for our money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

We undertake our VFM work in accordance with the 2024 Code of Audit Practice (the Code). Our responsibility, under the Code, is to be satisfied that the Council has proper arrangements in place, and to report in the auditor's report where we are not satisfied that arrangements are in place. Where we have issued a recommendation in relation to a significant weaknesses this indicates we are not satisfied that arrangements are in place. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services;
2. **governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
3. **improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We gather sufficient evidence to support our commentary on the Council 's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified, we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle, and we are not expected to wait until issuing our overall commentary to do so.

Planning	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information; • information from internal and external sources including regulators; • knowledge from previous audits and other audit work undertaken in the year; and • interviews and discussions with staff and members.
Additional risk- based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements which forms part of the Auditor's Annual Report. Our commentary will also highlight: • significant weaknesses identified and our recommendations for improvement; and • emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Value for money arrangements

Identified risks of significant weaknesses in arrangements

The Code of Audit Practice and Auditor Guidance Note 03 issued by the NAO require us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

We have not fully completed our planning and risk assessment work, the table on the next slide outlines the risks of significant weaknesses in arrangements that we identified in previous years. In addition, as part of the previous year's financial statement work, we identified and reported concerns around the Council's interpretation of the CIPFA Code relating to capital accounting which needed to be addressed. Our planning and risk assessment work will consider whether the issues identified lead to concerns about the Council's arrangements for preparing Code compliant financial statements given the continuing gaps in capacity in the finance team and other changes in the team.

We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

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Value for money arrangements

Our work to follow-up on previous recommendations

As part of our audit work in previous years, we identified significant weaknesses in the Council's arrangements. The table below sets out the significant weaknesses identified, our previous recommendations and the work we intend to carry out as part of our 2025/26 audit.

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2024-25 recommendations	Planned procedures for 2025-26
The Council is still reliant on EFS to set a balanced budget.	Financial sustainability	The Council should continue to strengthen the approach to budget setting to ensure assumptions remain data driven and realistic, and planned savings are subject to a detailed delivery plans and risk assessment	Our work will include reviews of: • budget setting reports, including the application for exceptional financial support; • budget monitoring reports; • outturn reports • updated medium term financial plans; • continuous improvement plan; and • links between MTFP and other plans, for example, people strategy.

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Value for money arrangements

Our work to follow-up on previous recommendations (continued)

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2024-25 recommendations	Planned procedures for 2025-26
The Council's DSG deficit has increased in 2024/25 from £14 million to £22 million. Based on current Council projections as at September 2025, the deficit will increase to £55 million in the next three years. The DSG deficit is an indicator of a significant risk to financial sustainability because the Council does not have sufficient usable reserves to cover the potential expenditure needed. The Council has introduced mitigation arrangements and has plans to improve arrangements further but in September 2025 the Director of Finance warned Members that the growing deficit posed a threat to the Council's overall financial position. We therefore consider there to be a significant weakness in arrangements to achieve financial sustainability, particularly in relation to how the Council plans to bridge its funding gaps and plans its finances to support the sustainable delivery if services in accordance with strategic and statutory priorities	Financial sustainability	The Council should continue to implement initiatives to: • improve prevention and early intervention; • transform provision and reduce costs while maintaining standards; and • identify funding to offset high needs spend.	We will review the current position on the DSG deficit considering the latest national guidance and local actions.

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Value for money arrangements

Our work to follow-up on previous recommendations (continued)

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2024-25 recommendations	Planned procedures for 2025-26
A new Council Plan 2024-27 has been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Our work, however, identified a lack of evidence of a clear link between the Council Plan priorities in 2024/25, the strategic workplan and the detailed outcomes and measures reported.	Improving the 3 Es	The Council should ensure the Mayor's priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals.	Review: • updated Council plan and performance monitoring; • continuous improvement plan; and • partnership working.

Appendix A: Other communications

Audit scope and approach

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements. Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are driven primarily by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud), we develop our audit strategy and design audit procedures to respond to the risks we identify.

If we conclude that appropriately designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or if we decide that it would be more efficient, we may take a wholly substantive approach to our audit testing if, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence.

Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required by UK auditing standards to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned and will be performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *'Materiality'* section of this report.

Appendix A: Other communications

Responsibilities

We are appointed to perform the external audit of Middlesbrough Council (the Council) for the year to 31 March 2026. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [Statement of responsibilities of auditors and audited bodies from 2023/24](). Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Our audit does not relieve management or the Audit Committee, as Those Charged With Governance, of their responsibilities.

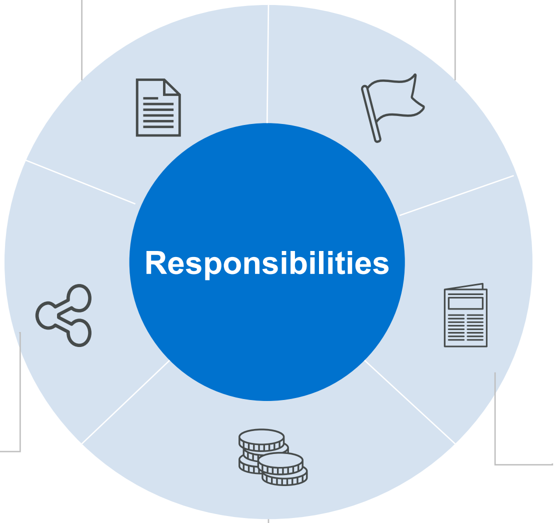
The Chief Finance Officer is responsible for the assessment of Middlesbrough Council's ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists, and
b) the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Internal control

Management is responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Middlesbrough Council's internal control.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of you and key management personnel, on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks.

In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

We also report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Value for money arrangements

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.

Appendix A: Other communications

Required communications

This section of our report sets out the matters that we are required to report to you by UK auditing standards, including which form of our communications satisfy, or will satisfy, those requirements.

<table>
<tr><th>Required communication</th><th>Where addressed</th></tr>
<tr><td>Our responsibilities in relation to our audit of the company’s financial statement and the responsibilities of management and those charged with governance.</td><td>Audit Strategy Memorandum and engagement letter</td></tr>
<tr><td>The planned scope and timing of our audit, including any limitations (specifically with respect to significant risks and key audit matters, if applicable).</td><td>Audit Strategy Memorandum</td></tr>
<tr><td>With respect to misstatements:
• uncorrected misstatements and their effect on our audit opinion;
• the effect of uncorrected misstatements related to prior periods;
• a request that any uncorrected misstatement is corrected; and
• in writing, corrected misstatements that are significant.</td><td>Audit Completion Report</td></tr>
<tr><td>With respect to fraud communications:
• inquiries with you to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the company;
• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and
• a discussion of any other matters related to fraud.</td><td>Audit Completion Report and discussion at Audit Committee meetings, audit planning meetings, and audit clearance meetings</td></tr>
<tr><td>Significant matters arising during our audit in connection with the entity’s related parties including, when applicable:
• non-disclosure by management;
• inappropriate authorisation and approval of transactions;
• disagreement over disclosures;
• non-compliance with laws and regulations; and
• difficulty in identifying the party that ultimately controls the entity.</td><td>Audit Completion Report</td></tr>
</table>

Appendix A: Other communications

Required communications

Required communication	Where addressed
Significant findings from our audit, including: • our view about the significant qualitative aspects of accounting practices, including accounting policies, accounting estimates, and financial statement disclosures; • significant difficulties, if any, encountered during our audit; • significant matters, if any, arising from our audit that were discussed with management or were the subject of correspondence with management, • written representations that we are seeking; • expected modifications to our auditor's report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified during our audit that we believe are relevant to those charged with governance in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during our audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and inquiry of you into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that you may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the company's ability to continue as a going concern, including: • whether the event or condition constitutes a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Audit Completion Report

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Appendix A: Other communications

Required communications

Required communication	Where addressed
Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm's system of quality management team completes, as part of an ongoing and iterative process, key steps to assess and conclude on our firm's system of quality management, including: • ensuring there is an appropriate assignment of responsibilities; • establishing and reviewing quality objectives each year, ensuring our firm's quality objectives align with our strategies and priorities; • identifying, reviewing, and updating quality risks each quarter, taking into consideration multiple input sources (such as FRC/ ICAEW review findings, internal monitoring findings, findings from our firm's root cause analysis and remediation functions, etc.); • identifying, designing, and implementing responses to strengthen our firm's internal control environment and overall quality; and • evaluating our quality responses and remediating control gaps or deficiencies. We perform an evaluation of our system of quality management on an annual basis. We publish the details of our annual evaluation, and our conclusion, in our Transparency Report, which can be accessed on our website at: https://www.forvismazars.com/uk/en/who-we-are/corporate-publications/transparency-reports.	Audit Strategy Memorandum (the communication adjacent satisfies this requirement)
We are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include: • significant delays in management providing information that we require to perform our audit; • an unnecessarily brief time within which to complete our audit; • extensive and unexpected effort to obtain sufficient, appropriate audit evidence; • unavailability of expected information; • restrictions imposed on us by management; and • unwillingness by management to make or extend their assessment of the company's ability to continue as a going concern when requested. We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).	Audit Completion Report, discussion at Audit Committee meetings, and audit clearance meetings

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Appendix A: Other communications

Definitions

Term	Definition
Materiality	An expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements. We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to the company. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to you (reporting threshold). Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users. An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users: • have a reasonable knowledge of business, economic activities, and accounts; • have a willingness to study the information in the financial statements with reasonable diligence; • understand that financial statements are prepared, presented, and audited to levels of materiality; • recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and • will make reasonable economic decisions based on the information in the financial statements. We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors. When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks. We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage. The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

Appendix A: Other communications

Definitions

<table>
<tr><th>Term</th><th>Definition</th></tr>
<tr><td>Significant risk</td><td>A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by UK auditing standards), including management override of controls and revenue recognition.</td></tr>
<tr><td>Enhanced risk</td><td>An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:
• key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
• risks relating to other assertions and arising from significant events or transactions that occurred during the period.</td></tr>
<tr><td>Standard risk</td><td>A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.</td></tr>
<tr><td>Key audit matter</td><td>A matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement (whether due to fraud or error) we identified, including those which had the greatest effect on our overall audit strategy, the allocation of resources in our audit, and directing the efforts of our engagement team.

It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way it is described. This report highlights which of the significant and other risks are expected, at this stage, to be determined as key audit matters. It should be noted, however, that other audit areas may be determined as key audit matters during our audit.</td></tr>
</table>

Appendix A: Other communications

Definitions

Term	Definition
Key audit partner	(a) An individual who is eligible for appointment as a statutory auditor and who is designated by our firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of our firm. (b) In the case of a group audit, any of the following: (i) an individual who is eligible for appointment as a statutory auditor and who is designated by our firm as being primarily responsible for carrying out the statutory audit of the consolidated accounts of the group on behalf of our firm; (ii) an individual who is eligible to conduct the audit of the accounts of any subsidiary undertaking determined by us to be a ‘material subsidiary’ and who is designated as being primarily responsible for that audit. (c) An individual who is eligible for an appointment as a statutory auditor and who signs the audit report.

Appendix B: Current year updates, forthcoming accounting & other issues

HM Treasury changes to non-investment asset valuation

Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the "Code")

Following a thematic review of non-current asset valuations for financial reporting in the public sector, HM Treasury has made a number of changes to its requirements for the valuation frequency, valuation methodology and classification of non-investment property assets. The changes are effective from 1 April 2025 as set out in the 2025-26 Code and include:

- a change to the requirements regarding revaluation frequency. Rather than adhering to paragraph 34 of IAS 16 which requires an asset to be revalued whenever its carrying value differs materially from its current value, entities will be required to revalue assets on a quinquennial basis, i.e. every five years, supplemented by annual indexation in the intervening years. This requirement can be adhered to either as part of a full revaluation or as part of a rolling programme. The Code requires bodies to use the best index available to them. Should management determine that there is no appropriate index to use, then the quinquennial valuation is supplemented by a valuation in the third year;

- revaluations carried out prior to 2025/26, in line with former requirements of the Code, remain valid throughout the transition period (being 1 April 2025 to the date the next revaluation is due for a given asset). During the transition period, the maximum period between revaluations must not exceed five years; and

- the requirement to consider indicators of impairment under IAS 36 remains, so management will still be required to undertake an annual assessment of whether there are indicators of impairment, and where these are present, it may be necessary to undertake valuations outside of the 5-yearly valuation programme.

Whilst management will no longer need to consider annually whether it is necessary to revalue non-investment assets, they will need to be satisfied that they have appointed a suitably qualified valuer to undertake the valuation of assets whenever they fall due either as part of a full valuation or a rolling programme. If local indices are used, management will need to have sufficient evidence to demonstrate these indices are appropriate and relevant to the entity's circumstances, and to provide this evidence to the auditor.

Appendix B: Current year updates, forthcoming accounting & other issues

Effective for accounting periods beginning on or after 1 January 2027

IFRS 18 Presentation and Disclosure in Financial Statements

The standard was UK-adopted in December 2025, and the date of incorporation into the Code is not confirmed, though expected to be within the 2028/29 financial year. It is not yet confirmed what interpretations and adaptations HMT will determine are necessary for implementation in the public sector. We have provided an outline of the main changes arising from IFRS 18 as unadapted and without interpretation and will provide an update on the expected impact on the Council as and when detail is available as to when and how the standard is incorporated into the Code.

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements.

New categories and subtotals for inclusion within the statement of profit or loss

- Income and expenses are to be classified into three new defined categories: operating, investing and financing, in addition to the income taxes and discontinued operations categories.
- All companies are to present new defined subtotals – operating profit and loss, and profit or loss before financing and income taxes.

New reporting requirements on Management Performance Measures (MPMs)

- New requirements are introduced for management-defined performance measures (MPMs), which may also be called Alternative Performance Measures (APMs). These are described as subtotals of income and expenses that an entity: (a) uses in public communications outside financial statements; (b) uses to communicate to users of financial statements management's view of an aspect of the financial performance; and (c) are not listed within IFRS 18 or specifically required to be presented or disclosed by another IFRS Accounting Standard.
- All MPMs are required to be disclosed in a single note in the financial statements setting out:
  - an explanation of why the MPM is reported; and
  - a reconciliation to a directly comparable GAAP measure within IFRS 18 or another IFRS Accounting Standard.

Enhanced requirements for aggregation & disaggregating information

- Enhanced requirements are set out for the aggregation and disaggregation of items based on similar and dissimilar characteristics. Items that have dissimilar characteristics must be disaggregated when the resulting information is material. Guidance is also included on how to describe items within the financial statements, requiring an entity to label items presented or disclosed as 'other' only if a more informative label cannot be found.
- New guidance is provided on whether information should be reported in the primary financial statements or the notes. This includes guidance on presentation and disclosure of expenses classified in the operating category, alongside introducing more prescribed requirements for an entity that classifies expenses by function as well as the requirement to disclose expenses by nature in a single note for certain amounts - depreciation, amortisation, employee benefits, impairment and write-downs of inventories.

Many principles and requirements have been brought forward from IAS 1 to IFRS 18 such as frequency of reporting, comparative information, offsetting, capital disclosures and the requirements for the statement of financial position and for the statement of changes in equity.

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