Smart decisions. Lasting Value

Rykneld Homes Limited

Audit Findings Report to the Board

Year ended 31 March 2023

Presented to the Board on 10 July 2023

Audit / Tax / Advisory / Risk

Strictly Private and Confidential

The Members of the Board
Rykneld Homes Limited
Pioneer House
Wingerworth
Chesterfield
Derbyshire, S42 6NG

5 July 2023

Dear Members of the Board

I have pleasure in submitting our audit findings report for the year ended 31 March 2023. The primary purpose of this report is to communicate to the Board and the Board the significant findings arising from our audit that we believe are relevant to those charged with governance.

I look forward to discussing our report with you, as well as any further matters you may wish to raise with us, and I shall be attending the Board meeting virtually on 13 July 2023

I would like to take this opportunity to express our appreciation for the assistance provided to us by the finance team and the other staff at Rykneld during this year's audit.

Updated on 17 August 2023 to reflect the final position with amendments being shown in this format.

Yours sincerely

Guy Biggin
Partner

Contents

1. Executive summary

Our report to you

We are pleased to present our Audit Findings Report to the Board and we welcome the opportunity to discuss our findings with you at your meeting on 13 July 2023

The primary purpose of this report is to communicate to the Board the significant findings arising from our audit that we believe are relevant to those charged with governance.

In accordance with International Standards on Auditing (UK) the matters in this report include

- the results of our work on areas of significant audit risk
- our views about significant qualitative aspects of the company's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- significant difficulties, if any, encountered during the audit
- any significant matters arising during the audit and written representations we are requesting
- unadjusted misstatement identified during the audit
- circumstances that affect the form and content of our auditor's report, if any
- any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention.

Conclusions in relation to the areas of significant audit risk

As explained in our Audit Planning Report, in line with ISA (UK) 315 (Revised), we have considered the inherent risks, including the likelihood and magnitude of a potential misstatement

In line with our audit plan we focussed our work on the significant audit risks identified:

- Revenue recognition
- Estimates and Judgements – Impairment (fixed assets)
- Management override of controls

The results of our audit work in these areas is set out below:

Significant risk	Control deficiency identified	Adjustment(s) identified	Other reported matters
Revenue Recognition	×	×	×
Estimates and judgements – impairment (fixed assets)	×	×	×
Management override of controls	×	×	×

Other audit findings

Section 3 sets out various comments on other important matters which we have identified from our audit.

Fraud and irregularities

Section 4 sets out the Boards and our responsibilities in respect of fraud and irregularities.

Audit materiality

The audit materiality for the financial statements set as part of our audit planning took account of the level of activity of by Rykneld and was set at 2% of income. We have reviewed this level of materiality based on the draft financial statements for the year ended 31 March 2023 and are satisfied that it continues to be appropriate.

Details of the materiality levels are set out in Appendix 3.

Unadjusted misstatements

We report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be 5% of our audit materiality. We are pleased to report there are no unadjusted items.

We have listed in Appendix 1 the misstatements identified during the audit.

Audit completion and our Audit Reports

We have carried out our audit in accordance with our Audit Planning Report which was sent to you and the senior management team on 7 March 2023, subject to the matters below.

- Finalisation of audit procedures following manager and partner review – now completed
- Receipt of fraud assessment questions from the Board and management – now received
- Completion of the going concern and post-Balance Sheet events reviews – to be done as part of the final assessments
- Review of the final financial statements – now complete
- Receipt of the signed letter of representation (Appendix 4) – to be received with the signed financial statements

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from progressing these outstanding matters.

On the satisfactory completion of these matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the 2023 financial statements.

Responsibilities and ethical standards

We have prepared this report taking account of the responsibilities of the Board and ourselves set out in Appendix 5 of this report.

The matters included in this report have been discussed with management during our audit and at our closing meeting on 3 July 2023. Lorraine Shaw and Rachel Sellars have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

2. Significant audit risks

As reported in our Audit Planning Report, ISA (UK) 315 (Revised) was applicable this year and required us to consider a spectrum of inherent risk, considering both the likelihood and magnitude of a possible misstatement, with risks close to the upper end of the spectrum of inherent risk considered to be 'significant risks'.

Risk is considered in the context of how, and the degree to which, inherent and control risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty, or susceptibility to misstatement due to management bias or other fraud risk factors.

In addition, the auditing standards also set out a number of areas considered to always be a significant risk. Our audit response in respect of risks not identified as significant is set out in Section 3.

We have commented below on the results of our work in these areas as well as on any additional significant risks, judgements, or other matters in relation to the financial statements of Rykneld identified during our audit

2.1 Revenue recognition

Key related judgements

The amounts reported in relation to revenue represent information of significant interest to many users of the financial statements, in particular for the KPI, VfM and covenant reporting. This puts revenue at a greater risk of manipulation, bias and misstatement.

There is a presumption under International Standard on Auditing (UK) 240 "The auditor's responsibility to consider fraud in an audit of financial statements" that revenue recognition is a fraud risk. We therefore presume this is a significant audit risk unless rebutted.

We do not consider there to be a significant risk of fraud (or error) for social housing rents and Housing Management Services and as such we have rebutted the significant risk on the basis of:

Housing Management Services

- The ability to obtain direct 3rd party confirmation to confirm the accuracy, cut off and completeness of the income

Social Housing Lettings

- the automated nature of charging.
- rent and rental increases being governed by the rent standard; and
- rental income being derived of many low value weekly or monthly items.

For all other income streams the presumption is not rebutted for any areas of material income. Our audit will focus on the completeness, accuracy, and cut-off of these income streams.

Crowe response

For all income streams, we reviewed the income recognition policy, ensuring it was in line with SORP requirements and is being appropriately applied and disclosed.

We documented and reviewed the systems and controls in place over rental, service charges, and other income. This is a key area of control to ensure that you are recognising all income that is due and closely managing and monitoring the debtor ledger.

We carried out analytical procedures and substantive testing on all significant income stream including reconciliations to the relevant systems and other records. This included using data obtained from sources external to finance to form an expectation over rental income.

We obtained direct confirmation from NEDDC of the amount of income in the year and the intercompany balance at the year end.

Reviewed a sample of rental and other contracts, vouching these to underlying agreements and records.

Tested significant transactions around the year-end to ensure income has been recognised in the correct period.

Reviewed material debtors at the year-end and a discussion with management over the recoverability of these balances.

Reviewed a sample of items for all other income streams and agreed to relevant documentation and ensured correct recognition in the financial statements.

Documented and confirmed our understanding of the deferred government grant income. We reviewed the basis for amortisation ensuring correct treatment in accordance with the Housing SORP.

Our conclusions and other comments

Other income streams for the year were not material and therefore the risk of material fraud risk was also rebutted.

Housing management services income was confirmed by the NEDDC and our testing of these income streams did not highlight any material issues in relation to the recognition of this income.

We noted that the Housing management system is not capable of producing a report to reconcile to the Trial balance. This is a useful control and something that we recommend be considered with the software providers going forward as to whether it can be undertaken.

2.2 Estimates and Judgements – Impairment (fixed assets)

Key related judgements

At 31 March 2023 the company was carrying total fixed assets of £9.3m.

Judgement is required in determining whether indicators of impairment have arisen in the year and where they are identified there is inherent estimation uncertainty in determining both value in use and fair value less costs to sell and therefore a risk of material misstatement.

Housing Properties

The Housing SORP requires that assets be reviewed for indicators of impairment annually. If such indicators exist, an impairment assessment and estimate of the recoverable amount must be performed. This assessment should be at scheme level. Viability of the properties held may be impacted by:

- A change in demand that is considered irreversible. For example, a material increase in the level of voids exceeding those originally forecast and which is not anticipated to reverse in future periods without material additional expenditure being incurred;
- A material reduction in market value of properties in those circumstances where assets are intended or expected to be sold imminently.
- Obsolescence of a property, or part of a property such as may be the case as a result of decisions on stock conditions and planned works.

Crowe response

Our audit testing in this area included considering the review of impairment indicators completed by management as well as our own consideration of these. From this review neither management nor our own consideration have identified an indicator of impairment.

We also noted that the Pioneer House lease was cancelled at the year end, giving rise to a disposal of the right of use asset and lease liability associated with this.

Our conclusions and other comments

Based on the work undertaken, we agree with management’s assessment that there is no additional impairment required.

2.3 Management override of controls

Auditing standards require us to consider as a significant audit risk areas of potential or actual management override of controls. In completing our audit, we have therefore considered the following matters.

Significant accounting estimates and judgements

ISA (UK) 540 (Revised) Auditing Accounting Estimates and Related Disclosures requires additional audit focus over management’s estimates, including undertaking separate risk assessments for both inherent and control risks. In respect of the former, consideration is given to the estimation uncertainty, the subjectivity, and the complexity of the estimate. We are also required to consider whether the disclosures made in the financial statements are reasonable.

Management have made a number of necessary significant accounting estimates and judgements which impact the financial statements. We identified the following for specific audit review:

- the assessment of impairment of assets (see 2.2 and 2.3)

Estimates and judgements that are not considered to be significant risks are set out in Section 3.

It is important that you are satisfied that the assumptions used by management are appropriate and we will ask you to provide a written representation to us to confirm this.

Controls around journal entries and the financial reporting process

We reviewed and carried out sample testing on the controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements. We also considered the risk of potential manipulation by journal entry to mask fraud.

The processing of journals is limited to the finance team at Rykneld.

Our work on journals is substantially complete, we have completed our analytics and received support from management. We may have some additional follow up queries on the journals sampled and will provide a verbal update at the committee should any matters arise.

At the time of writing, we have not identified any instances of management override of controls or other issues from testing.

Significant transactions outside the normal course of business

We are required to consider the impact on the financial statements if there are any significant transactions occurring outside of the normal course of the BCHA Company’s business.

Our conclusions and other comments

Whilst we are yet to fully complete our work in this area, to date no issues have been identified from our substantive audit procedures on the relevant areas of judgement together with our assessment of the controls over journals operated by the company that would suggest an inappropriate override of controls by management. Our work has now been completed with no issues identified.

3. Other audit findings

In addition to matters relating to the significant audit risks as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Going concern

We explained in our Audit Planning Report that in preparing the financial statements to comply with Financial Reporting Standard 102 the Board and management are required to assess the company's ability to continue as a going concern.

In assessing whether the going concern assumption is appropriate, the Board and management are required to consider all available information about the future of the entity in the period of at least, but not limited to, twelve months from the date when the financial statements are approved and authorised for issue.

The Board's going concern assessment is a key area of emphasis and importance for our audit and, in accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern.

Where the Board identify possible events or scenarios, other than those with a remote probability of occurring, that could lead to failure, then these should be disclosed in the financial statements.

The Board may consider and take account of realistic mitigating responses open to them, considering the likely success of any response.

We have discussed this with management and explained that our work on going concern includes the following:

- reviewing the period used by the Board to assess the ability of Rykneld to continue as a going concern,
- examining budgets and forecasts prepared by management covering the period of the going concern assessment to ensure that these appropriately support the Board's conclusion,
- reviewing the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year, and
- reviewing any other information or documentation which the Board have used in their going concern assessment.

Our conclusions and other comments

As noted above in the audit completion section, the going concern assessment is outstanding but we will review their assessment in due course. However, based on the current 5 year contract in place with NEDDC that runs to October 2026, the ongoing plans for Rykneld together with the letter of comfort proved by NEDDC we understand that there is not expected to be any issues.

We reiterate that it is the Board's responsibility to ensure that they have considered the going concern of the company for a period of not less than 12 months from the date of signing the financial statements and that this consideration, which should include the challenging of management on the underlying assumptions of the forecasts, is documented.

We will be seeking representations that the Board has considered the forecasts and is satisfied that the going concern basis is appropriate for each entity in the company.

We will be seeking representations that the Board has considered the forecasts and is satisfied that the going concern basis is appropriate. Our preliminary work has been completed with no issues noted. We will complete our review as part of the finalisation process.

3.2 Estimates and judgements

As noted in Section 2, management have made a number of necessary significant accounting estimates and judgements which impact the financial statements. The estimates and judgements involved in assessing impairment are discussed are considered to be significant and are discussed in Section 2.

We identified the following non-significant estimates and judgements for specific audit review:

- Assessment of the remaining useful life of assets.
- The assumptions adopted by management and used by the actuary to calculate the pension liability.

It is important that you are satisfied that the assumptions used by management are appropriate and we will ask you to provide a written representation to us to confirm this.

Remaining useful life of assets

Depreciation is charged in a straight-line basis over the useful economic life of the asset. Management have assessed the useful economic lives applied to the various components of Housing Properties and Other Fixed Assets.

We have reviewed the useful economic lives used, with reference to other housing providers. Rykneld is consistent with other providers and our understanding of the agreed useful economic lives.

Our conclusions and other comments

We have nothing to report from our testing detailed above.

Defined Benefit Pensions

Rykneld participates in the following defined benefit pension schemes;

- Derbyshire Pension Fund

The schemes are defined benefit scheme in the UK. In 2023 the net defined benefit liability recognised in the accounts was nil.

Our audit work included:

- Reviewing and benchmarking the key assumptions, including the discount rate, against available information and other clients. We will perform an initial review of the pension liability assumptions proposed by management against those used by other actuaries for the same period. The use of RPI rather than CPI to calculate inflation or a small change to the discount rate or the life expectancy assumptions can have a material impact on the value of the liability;
- Reviewing and agreeing the adjustments and disclosures for compliance with the requirements of FRS 102;
- Considering the impact of the pension deficit on reserves, the reserves policy, going concern and other related disclosures; and
- Assessing the accuracy and completeness of underlying information supplied to the actuary in order to calculate the pension deficit.

Our conclusions and other comments

Liability

We have reviewed the assumptions used by the actuary against those commonly being used and publicly available pension market trends. All numbers fall within our expectation.

Key Assumptions used:	**2023**	**2022**	**Crowe benchmark**
	%	**%**	
Discount rate	4.75%	2.70%	4.77%
Expected rate of salary increases	3.95%	3.90%	3.15%
Future pensions increases (CPI)	2.95%	3.20%	2.78%
Average life expectancy for a pensioner retiring at 65			
	Years	Years	Years
Male	21.0	21.1	21.35
Female	24.0	23.8	23.8
Average life expectancy for a pensioner retiring at 65, aged 45			
	Years	Years	
Male	21.8	22.2	22.45
Female	25.5	25.6	25.5

Defined benefit Asset

The actuarial reports obtained showed that the LGPS position at year end was an asset balance of £8.285m. Per FRS102, an asset can only be recognised if one of the two following criteria are met;

- being able to recover reduced contributions in the future contributions (and then a judgement would need to be made to establish the value of the asset in line with the reduced future contributions) or,
- via a refund from the plan.

We note that neither of the above apply to Rykneld and therefore the asset has been restricted to £Nil which we agree with.

3.3 Income

International Standards on Auditing (ISA (UK) 240) presumes there is always a significant risk of material misstatement due to fraud in revenue recognition unless this is rebutted.

We have detailed in Section 2 our consideration of the various income streams. As detailed we have rebutted the risks around Housing Management Services and Social Housing lettings with details of the testing and result set out therein.

3.4 Payroll

Payroll is one of the largest single expenditure items for Rykneld with £11.1m in 2023. As part of our work we:

- Reviewed the year end reconciliation (agreeing back to payroll records) to gain comfort over the payroll costs disclosed in the financial statements and obtained support for a sample of reconciling items;
- Performed analytical procedures that consider the reasonableness of gross pay, national insurance and pension costs for 2023 in comparison to 2022 and expectations from budget.
- Selected a sample of employees from the payroll (5 employees for 2 months each) and agreed their salary costs to supporting documentation (contracts of employment, overtime forms etc.), as well as reviewed personnel files to obtain evidence of existence; and
- Performed testing over a sample of 6 joiners and 5 leavers during the year to check whether they have been correctly added/removed from the payroll and appropriately authorised.

Our conclusions and other comments

We have nothing to report from our testing detailed above.

3.5 Report and Financial Statements

As noted in the Statement of Board's Responsibilities, the Board are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

We will be undertaking a review of the financial statements prepared by management and provide commentary for consideration. This has now been completed.

4. Fraud and irregularities and our audit reporting

Audit reporting on detecting irregularities, including fraud.

In line with ISA (UK) 700 our audit report includes an additional comment to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

Irregularities are acts of omission or commission which are contrary to the prevailing laws or regulations. Fraud includes both fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our responsibility is to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The additional reporting requirements this year placed increased emphasis on our understanding of the risks to Rykneld from fraud and irregularities. Our audit included discussions with management and those charged with governance to obtain their assessment of the risk that fraud may cause a significant account balance to be materially misstated as well as other procedures to obtain sufficient appropriate audit evidence.

We obtained an understanding of the legal and regulatory frameworks within which the Company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006 and other laws and regulations applicable to a registered social housing provider in England together with the Housing SORP. We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to Rykneld's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the company for fraud. The laws and regulations we considered in this context for the UK operations were requirements imposed by the Regulator of Social Housing, health and safety, taxation and employment legislation.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be within the override of controls by management. Our audit procedures to respond to these risks included enquiries of management and the Board about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals, reviewing accounting estimates for biases, reviewing regulatory correspondence with regulators, and reading minutes of meetings of those charged with governance.

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records including any material misstatements resulting from fraud, error or non-compliance with law or regulations.

However, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected even though the audit is properly planned and performed in accordance with the ISAs (UK). No internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly, our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

We have available a social housing fraud toolkit which can assist with the consideration of fraud and identification of fraud risk.

Board responsibilities

The primary responsibility for safeguarding the entity's assets and for the prevention and detection of both irregularities and fraud rests with the board and management of the organisation. It is important that management, with oversight of those charged with governance, place a strong emphasis on fraud prevention and fraud deterrence. This involves a commitment to creating a culture of honest and ethical behaviours which can be reinforced by an active oversight by those charged with governance.

The following statements will be included in the letters of representation which we require from the Board when the financial statements are approved.

- The Board acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.

- The Board have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The Board are not aware of any fraud or suspected fraud affecting the entity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
- The Board are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the entity’s financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2023 financial statements, or in the period since the previous year end.

Appendix 1 - Reporting audit adjustments

Unadjusted misstatements

International Standards on Auditing (UK) require that we report to you all misstatements which we identified as a result of the audit process, but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

We have noted below the misstatements identified during the audit and whether or not they have been adjusted.

Rykneld Homes Limited
Year Ended 31 March 2023
APPENDIX 1 - Evaluation of Misstatements Identified During the Audit

	SUMMARY OF DIFFERENCES				SUMMARY OF DIFFERENCES NOT CORRECTED			
	Income / Expenditure O/S (U/S) £	Assets O/S (U/S) £	Liabilities / Reserves O/S (U/S) £	Difference Adjusted?	Income / Expenditure O/S (U/S) £	Assets O/S (U/S) £	Liabilities / Reserves O/S (U/S) £	(Surplus) / Deficit Reconciliation £
Original profit as presented for audit planning								**(19,605,864)**
<u>Late client adjustments</u>								
Reduction of pension asset	8,285,000	8,285,000		Yes				8,285,000
<u>Summary of Factual misstatments</u>								
Reclassification of PAYE - other creditors impact			165,502	Yes			165,502	
Reclassification of PAYE - SSOT impact			(165,502)	Yes			(165,502)	
Disclosure error - in respect of depreciation on ROU assets disposed of in the year - depreciation		150,524		Yes		150,524		
Disclosure error - in respect of depreciation on ROU assets disposed of in the year - disposals		(150,524)		Yes		(150,524)		
							Rounding	
Profit per accounts	8,285,000	8,285,000	0		0	0	0	(11,320,864)

Appendix 2 - Systems and controls

We have set out below certain potential improvements to the processes and controls which we noted during our audit work and which we believe merit being reported to you. Our evaluation of the systems of control at Rykneld was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements. We are pleased to report there are no findings in the current year.

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2023 financial statements.

Status		Priority
Recommendation fully implemented or no longer relevant	Green	These findings merit attention within an agreed timescale.
Recommendation partially implemented	Amber	These findings are of a less urgent nature, but still require reasonably prompt action.
These findings merit attention within an agreed timescale.	Red	These findings are significant and require urgent action.

Observations and recommendations in prior years	Priority	Status	Update 2023
1. Review of Payroll Report There is no mechanism whereby Rykneld can review draft payroll reports to check they have been appropriately prepared. There is an overreliance on NEDDC to check the processing done by Bolsover. We would recommend gaining some control over review of the processing. 2022 Update: Payroll is undertaken via an SLA between NEDDC and RHL. The Section 101 Officer at NEDDC is responsible for checking and verifying the payments which is a designated duty by RHL. A full payroll reconciliation is undertaken every month by RHL finance team. RHL did try to verify the payroll before it was approved for processing however it didn't cover everything that HR would have needed so could not be continued or implemented.	Amber	Green	**Management comment** NEDDC undertake and review payroll on our behalf as discussed. We have very strong processes around payroll, no adjustments can be made without it coming from us, we have signatories in place for these set transactions, payroll is checked and verified monthly within the Finance Team to ensure there are no errors and payroll within NEDDC is signed off by the S101 officer on our behalf. **Crowe comment** Noted, this is considered to be suitable controls.

Observations and recommendations in prior years	Priority	Status	Update 2023
2. Documents held on personnel files As discussed above, it was noted that one employee tested had not signed a contract since their transfer from NEDDC, and NEDDC had not provided a copy of the contract under which they were employed before the transfer. This is creating a potential risk for Rykneld Homes that could lead to difficulties in the event of a contract dispute – e.g. there may be confusion over notice periods. We therefore recommend that a review be undertaken to ensure that all current employees have up to date employment contracts. Additionally, it was noted for one other employee tested that there was no evidence of ID having been verified on file. This is considered to be best practice and therefore we recommend that a review be undertaken to ensure this verification process is properly documented. *Management response:* Noted and Agreed			**Management comment** A full review of current personnel files was undertaken following the audit and any missing ID or documentation obtained, the process for new starters was reviewed to ensure that everything is gained at that initial start point **Crowe comment** No issues were noted during the current year testing in respect of this matter.
3. Nil Net Book Value Items t was noted during fixed asset testing that there are a total of £1,509k of assets that have reached nil net book value but are still included in the fixed asset register, and are still in use. This could indicate that items are not being depreciated at the correct rate, or that items are not in use anymore but are not being removed from the fixed asset register. It was noted that a large proportion of this relates to leased assets which have had a short term extension and therefore correctly shown. However, we recommend that there is a fixed asset review performed each year to ensure that all assets are still in use where included. We also recommend that depreciation rates are regularly reviewed to ensure they represent the true useful economic lives of the assets. *Management response* Noted and agreed			**Management comment** Fixed assets are now checked annually and discussed prior to audit for correct treatment. **Crowe comment** Noted – now resolved

Observations and recommendations in prior years	Priority	Status	Update 2023
4. Finance Manual On review of the internal finance audit performed, it was noted that whilst there are documented processes there is no central finance manual in place. This may lead to a loss of procedure and controls if members of the finance team were to leave suddenly. We recommend putting in place a finance manual available to all members of the finance team. *Management Response:* Agreed, this is planned to be undertaken over the next year once a decision has been made on updating the finance system.			**Management comment** The procedures currently in place are under review and a manual being produced by December 2023, this will be reviewed and updated accordingly once a decision on the finance system has been made **Crowe comment** Noted – matter to be resolved in 2023/24
5. Journal entry and Review It was noted during the auditing of management override of controls that there was no authorisation process included for entry of journals into the finance system, and there was no review process in place during the year for journals entered with reliance being placed on high level reviews. Journals can be used to enter fraudulent transactions into the finance system, and no authorisation of review process means this may not be identified. We recommend that a journals review process be implemented on a regular basis. *Management Response:* Agreed, this was identified prior to the audit and a process for review of the journals has been re-implemented.			**Management comment** Journals reviewed as part of quarterly monitoring **Crowe Comment** Noted - appropriate controls are now in place.

Observations and recommendations in prior years	Priority	Status	Update 2023
6. Fixed Asset Depreciation During recalculation of the depreciation charges per assets, it was noted that there were some assets that were not depreciated for the entire year. This was due to the excel spreadsheet not being updated following the year of purchase of some assets. We recommend that the formula's used in the worksheet be reviewed to ensure they are reflecting the correct information. *Management Response:* Agreed – the process has been amended to ensure this does not occur again.			**Management comment** A new fixed asset register was prepared in the year. **Crowe comment** There were no issues identified from our work on fixed asset depreciation, other than the matter related to right of use asset disposals as per appendix 1.
7. Receivables During the review of the Aged Receivables listing, it was noted that it did not match the TB balance. Following investigation it was noted that this due to an older receivable that had been paid but had not been removed from the listing. Evidence was provided to show that this debtor had been paid, therefore it is a system error that the debtor was not removed from the listing. We recommend that this be reviewed by IT, and the balance removed to ensure that an accurate listing can be provided. *Management Response* This occurred a few years ago, with a recurring difference noted. It will be resolved as part of the review of the finance system over the next period.			**Crowe comment** During the work performed around Trade Receivables this year, we noted that the Agreed Receivables listing agreed directly to the TB. Therefore, it appears proper controls are now in place.

Observations and recommendations in prior years	Priority	Status	Update 2023
8. Payables During the review of the Aged Payables listing, it was noted that it did not match the year end TB balance. Investigations showed that this was due to the report being run after the year end, and an historical report not being able to be run by the finance team. Although the circumstances involving this difference are in the process of being explained, we recommend that this report be run at the year end for the purposes of next year's audit. *Management Response:* This was caused by an item being posted into the wrong year. A control has now been put in place to prevent changing of periods for postings.			**Crowe comment** During our work carried out around the Trade Payables figure, we noted that the amount per the Aged Payables listing reconciled directly to the Trial Balance. Therefore, it appears as though adequate controls are now in place.

Appendix 3 - Materiality

Materiality and identified misstatements

As we explained in our Audit Planning Report, we do not seek to certify that the financial statements are 100% correct; rather we use the concept of "materiality" to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment. The assessment of materiality is a matter of professional judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

Our overall audit materiality for the financial statements took account of the level of activity of Rykneld and was set at approximately 2% of income.

We reassessed materiality based on the draft financial statements, and the following is a summary of the overall materiality levels we applied to the company.

Please note, following a change in methodology within the firm, we have reviewed the materiality levels set at planning and removed the dual materiality. As such overall financial statement methodology has been set in line with the lower materiality presented at planning and in the planning addendum.

Entity	Materiality calculation	Final Materiality - £	Reporting threshold - £
Rykneld Homes Limited	Approximately 2% of income	615,000	30,750

Appendix 4 - Draft Representation Letter

Note for Client:
This letter must be typed on your official company letterhead.
It should be considered by the Board at the same time as the Financial Statements and Reports and the Minutes should record that.
The letter should therefore be dated at the date of the approval of the financial statements.

Crowe U.K. LLP
4th Floor
St James House
St James Square
Cheltenham, GL50 3PR

Dear Sirs

We provide this letter in connection with your audit of the financial statements of Rykneld Homes Limited for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the company as at 31 March 2023 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that, to the best of our knowledge and belief we can properly make each of the above representations to you.

1. We have fulfilled our responsibility for the fair presentation of the financial statements in accordance with IFRS.
2. We acknowledge as Board members our responsibility for making accurate representations to you and for the financial statements of the company.
3. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
4. We confirm that we have received confirmation from each member who was on the Board at the time of the approval of the financials statements that:

   (a) They have taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that you are aware of that information; and

   (b) That so far as they are aware there is no relevant audit information of which you are unaware.
5. We have provided you with all accounting records and relevant information, and granted you unrestricted access to persons within the entity, for the purposes of your audit.
6. All the transactions undertaken by the company have been properly reflected and recorded in the accounting records or other information provided to you.
7. In respect of accounting estimates and judgements, we confirm our belief that the significant assumptions used are reasonable.
8. We have considered the adjustments in Appendix 1, proposed by you. We confirm that, in our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements
9. We confirm that we do not wish to adjust the financial statements for the actual errors set out on the attached appendix 1 as we believe that the errors are immaterial, both individually and in aggregate, to the financial statements as a whole.
10. We reaffirm that the written representations previously made with respect to the prior period remain appropriate.
11. We are not aware of any actual or possible litigation or claims against the company whose effects should be considered when preparing the financial statements.
12. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There

have been no breaches of terms or conditions in the application of such incoming resources.

13. There have been no events since the balance sheet date which require disclosure or which would materially affect the amounts in the financial statements. Should any material events occur which may necessitate revision of the figures in the financial statements, or inclusion in a note thereto, we will advise you accordingly.
14. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
15. We are not aware of any fraud or suspected fraud affecting the company involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
16. We are not aware of any allegations by employees, former employees, analysts, regulators or others of fraud, or suspected fraud, affecting the company's financial statements.
17. We confirm that we are not aware of any known or suspected instances of non-compliance with those laws and regulations which provide a legal framework within which the company conducts its business.
18. We confirm that complete information has been provided to you regarding the identification of related parties and that we are not aware of any significant transactions with related parties other than the matters that have been appropriately and adequately disclosed.
19. We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with the requirements of applicable accounting standards and with the recommendations of the applicable Housing SORP.
20. In the event that we publish the Board's report, independent auditor's report and financial statements electronically, we acknowledge our responsibility for ensuring that controls over the maintenance and integrity of the entity's web site are adequate for this purpose.
21. There are no liabilities or contingent liabilities or guarantees that we have given to third parties other than those disclosed in the financial statements.
22. The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the financial statements.
23. The company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
24. We confirm that, having considered our expectations and intentions for the next twelve months and the availability of working capital, the company is a going concern. We are unaware of any events, conditions, or related business risks beyond the period of assessment that may cast significant doubt on the company's ability to continue as a going concern.
25. We have no plans or intentions that might materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
26. We have supplied you with all correspondence from regulators during the financial year.
27. We confirm that, in our opinion, no provision for dilapidations is required at the year end.
28. We confirm that, in relation to the deficit in the local government pension scheme for former NEDDC employees relating to the period prior to the transfer of employment from NEDDC to the company, no liability rests with the company in respect of this other than amounts agreed and invoiced on an annual basis.

Yours faithfully,

…………………
Member
Signed on behalf of the Board

On ………

Appendix 5 - Responsibilities and ethical standards

Audit purpose and approach

Our audit work has been undertaken for the purposes of forming our audit opinions on the financial statements of the Rykneld prepared by management with the oversight of the Board and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit.

Financial statements

The Board of Rykneld are responsible for the preparation of the financial statements on a going concern basis (unless this basis is inappropriate). The Board are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

Legal and regulatory disclosure requirements

In undertaking our audit work we considered compliance with the following legal and regulatory disclosure requirements, where relevant.

- IFRS and applicable accounting standards;
- The Housing and Regeneration Act 2008;
- The Housing SORP;
- Accounting Direction for Private Registered Providers of Social Housing; and
- Companies Act 2006

Directors' responsibilities

Under the provisions of the Companies Act, the Directors' Report is required to include a statement confirming for each director who was a director at the time of the approval of the financial statements that:

- they have each taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information; and
- so far as they are aware there is no relevant audit information of which the company's auditor is unaware.

Ethical Standard

We are required by the Ethical Standard for auditors issued by the Financial Reporting Council ('FRC') to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.

Crowe U.K. LLP has procedures in place to ensure that its partners and professional staff comply with both the relevant Ethical Standard for auditors and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As explained in our audit planning report, in our professional judgement there are no relationships between Crowe U.K. LLP and Rykneld or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

Independence

International Standards on Auditing (UK) require that we keep you informed of our assessment of our independence.

We confirm that we have provided non-audit services to the company as detailed in our planning report. We have not identified any other issues with regards to integrity, objectivity and independence and, accordingly, we remain independent for audit purposes.

The matters in this report are as understood by us as at the date of this report. We will advise you of any changes in our understanding, if any, during our meeting prior to the financial statements being approved.

Non-audit services

We have considered the non-audit services we have provided in the period and have concluded that there are no facts or matters that bear upon the integrity, objectivity and independence of our firm or of the audit partner and audit staff related to the provision of such services which we should bring to your attention.

Use of this report

This report has been provided to the Board to consider and ratify in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Appendix 6 - External developments

We have summarised below some of the developments and changes in the Housing and Non-profits sector over the recent period which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.

We believe it is important to keep our clients up to date on the issues that affect them and, as a part of our ongoing communication, we regularly hold webinars and therefore encourage you to visit our website (https://www.crowe.com/uk/croweuk/industries/webinars).or register to our mailing list (nonprofits@crowe.co.uk) to stay updated on these. Any webinars which you have missed remain available on demand on our website.

Sector update

Social Housing Regulation Bill

Last year, the Social Housing Regulation Bill was laid in parliament to deliver the reforms outlined in the Social Housing White Paper and address the concerns raised following the tragic fire at Grenfell Tower in 2017. The Bill aims to bring forward a stronger and more proactive regulatory regime to drive up standards in the sector and hold landlords to account for the service they provide to their tenants.

The Social Housing Regulation Bill is in the final stages of consideration of amendments before it moves to granting of Royal Assent.

The Bill has received broad support across parliament with all the government's amendments being upheld.

This includes:

- introducing Awaab's Law which requires social landlords to investigate and fix reported hazards in their homes within a specified time frame, or rehouse tenants where a home cannot be made safe.
- providing new powers for the Housing Ombudsman to help social landlords improve performance by instructing them to self-assess against guidance during a complaint investigation.
- enabling the Social Housing Regulator to set a standard relating to information and transparency requiring social landlords to provide residents with information on how they can make a complaint against them.
- A requirement for all social housing managers to have a professional qualification. The aim of this change is to help to protect residents and raise standards, ensuring residents receive a high level of service and are treated with respect at all times.

The National Housing Federation is expected to share further guidance an briefings once the Bill receives Royal Assent.

FRED 82 and Housing SORP (rewrite)

On 15 December 2022 the Financial Reporting Council issued FRED 82 "Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review".

FRED 82 proposes a number of changes resulting from the second periodic review of FRS 102 and other Financial Reporting Standards. The proposals include: a new model of revenue recognition in FRS 102 and FRS 105 based on the IFRS 15 five-step model for revenue recognition with appropriate simplifications; a new model of lease accounting in FRS 102 based on IFRS 16 on-balance sheet model (again with appropriate simplifications); and various other incremental improvements and clarifications. The FRED is accompanied by a consultation stage impact assessment.

The FRED consultation has now closed (end of April 2023). Ongoing discussions between the FRC and stakeholders indicate that the implementation date will be periods commencing on or after 1 January 2025 although a number of respondents to the consultation questioned whether this timetable allowed sufficient time to prepare for the required changes and SORP rewrites.

Should the proposed timeline go ahead, this means that opening balance sheets will need to be prepared for 31 December 2024 and 31 March 2025 for the majority of Registered Providers.

Final amendments are expected to be published by the FRC later this year.

The Housing SORP Making Body response to the consultation is available online - [attachment;.aspx (frc.org.uk)]

Guidance for the new shared ownership model and Right to Shared Ownership

Following changes to the shared ownership model, the SORP Working Party are consulting on guidance to support those who prepare financial statements, as well as guidance on the new Right to Share Ownership Model.

As a reminder, the new model for shared ownership introduced the following changes:

- Reduce the minimum initial share from 25% to 10%
- A new gradual staircasing offer, to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees.
- A 10-year period during which the shared owner will receive support from their landlord to pay for essential repairs.
- Give Shared Ownership leaseholders (shared owners) more control when they come to sell their homes.

In the Social Housing White Paper 2021, the government introduced the Right to Shared Ownership, giving social housing residents living in new rented homes the opportunity to purchase a stake in their home and then purchase further shares when they can afford to do so.

The SORP making-body has developed guidance to support those who prepare financial statements in relation to the new shared ownership model, alongside guidance on the Right to Shared Ownership.

The guidance can be found here

Crowe UK LLP acts as Technical Advisor to the SORP Working Party and as such as actively engaged on these discussions. If you have any further queries as to the potential impact of these consultations on your organisation please speak to a member of your client service team.

Sector Risk Profile 2022

The Regulator published its latest Sector Risk Profile (SRP) 2022 in October 2022. The Regulator highlights the continued extremely uncertain operating environment with high inflation, a tight labour market and the residual impact of the pandemic on supply chains increasing costs for providers as well as the ongoing shocks arising from Brexit, Covid-19 and from Russia's invasion of Ukraine. In addition, providers are facing higher borrowing costs and greater than usual uncertainty over income streams.

As well as facing these ongoing macroeconomic pressures, providers need to make substantial investment in existing stock to deliver against quality, building safety and decarbonisation commitments, as well as continuing to invest in new housing supply.

All of the above has led to a further reduction in RPs forecast interest cover and is likely to have reduced capacity and financial resilience for many providers. Highlighted risks include:

New supply and development – with demand for new homes remaining high, but with current risks in the market meaning that there is a higher risk of house prices falling.

Stock decency and safety – including significant investment in existing stock to meeting the requirements of the Building Safety Act 2022 and to meet decarbonisation targets.

Service delivery and accountability – requirements to meet the new consumer regulation regime and the introduction of new Tenant Satisfaction Measures

Reputation – particularly following high profile cases linked to service delivery, complaints handling and stock quality failures.

The Regulator highlights the need for an effective risk management framework for Board's to manage and mitigate the wide variety of complex risks in order to ensure that their organisations remain compliant with the requirements set out in legislation and regulatory standards, prioritising safety and essential services.

Guidance on hybrid working launch by ACAS

ACAS recently published guidance for employers on hybrid working, following the extended period of remote working as a result of the coronavirus pandemic.

The guidance is broken down into the following five sections:

- Considering hybrid working for your organisation
- Consulting and preparing to introduce hybrid working
- Creating a hybrid working policy
- Treating staff fairly in hybrid working; and
- Supporting and managing staff in hybrid working

The guidance also considers other legal matters that employers should consider, including data and privacy issues, health and safety issues and working time requirements.

The guidance can be found here.

New Tenant Satisfaction Measures

As set out in the government's "The Charter for Social Housing Residents: Social Housing White Paper" published in November 2020, the Regulator of Social Housing, following a consultation process, has introduced a suite of Tenant Satisfaction Measures TSMs) that social landlords will be judged in under the new consumer standards (described above).

There are 22 TSMs, which will be collected through tenant surveys and landlord data will cover five main themes, repairs, building safety, effective complaint-handling, respectful and helpful tenant engagement, and responsible neighbourhood management. The new TSM Standard comes into effect from 1 April 2023 and landlords will need to have ensured that they have both prepared the systems for the collection of this data and understood the TSM requirements in advance of this date. Expectations will vary for different organisations, for example there are specific requirements for small providers, and for those will a large volume of shared ownership. As such landlords (and Those Charged with Governance) will need to ensure that they understand their organisation's individual requirements.

Reshaping Consumer Regulation

In January 2023 the Regulator issued its Implementation Plan for its new approach to consumer regulation. This reshaping of the model for consumer regulation follows the Social Housing Bill Regulation which is currently in Parliament, and the implementation plan sets out the expected process for regulatory reform once the Bill has received Royal Assent. The Regulator will issue a Code of Practice on consumer issues, following a consultation process, and will issue new standards.

Proposed timings of implementation plan - the proposed timing for the implementation of the changes is shown across the page. Subject to the Bill being passed by Parliament early in 2023, it is expected that the new consumer regulation will be implemented in April 2024.

The new regime is expected to be a step change in the regulation of social housing, setting new expectations about the services that landlords provide for their tenants. The four current standards (Home Standard, Tenancy Standard, Neighbourhood and Community Standard and Tenant Involvement and Empowerment Standard) will be replaced with the six new standards below.

Safety

Landlords' safety responsibilities, including safety within the home and in communal areas.

Quality

Quality of the home, communal spaces and services to tenants.

Neighbourhood

Landlords' role, working with other agencies, to contribute to the wellbeing of neighbourhoods in which tenants live.

Transparency

Landlords' role in making information accessible to tenants including roles and responsibilities within landlords, so tenants know who is responsible for matters relating to consumer standards.

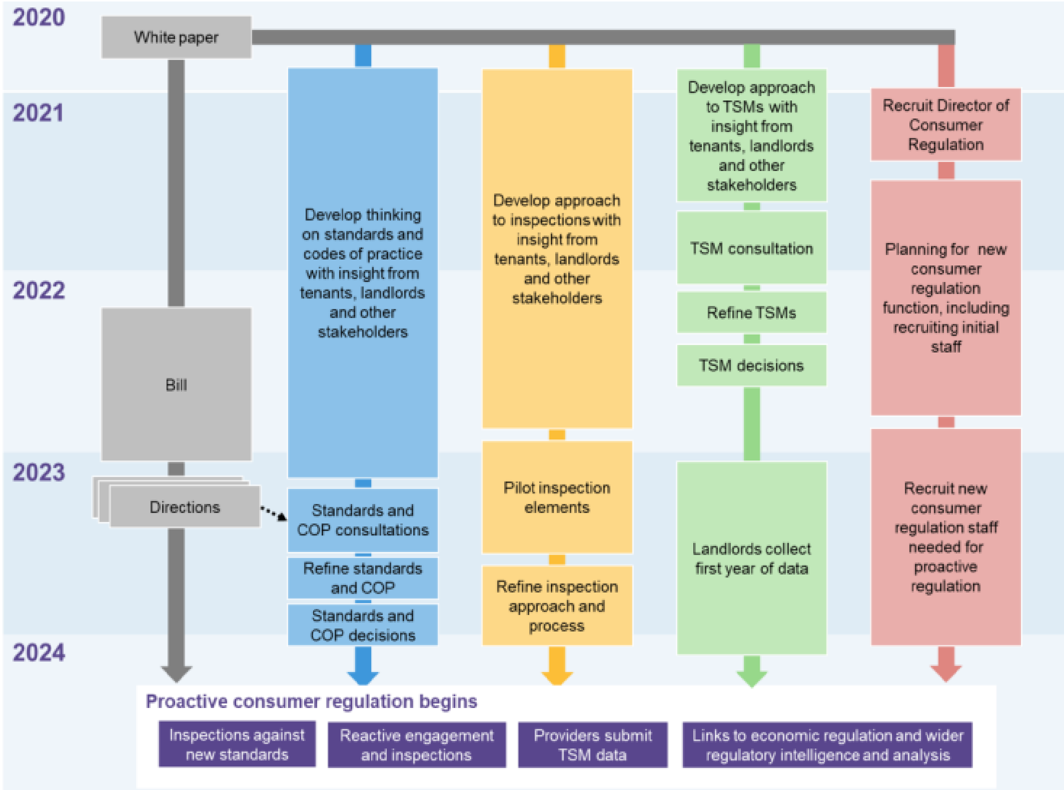
Engagement and accountability

Engagement between landlords and tenants, including how complaints are handled. Landlords' accountability to tenants and treating tenants with fairness and respect.

Tenancy

Requirements on landlords in respect of tenancies, including allocations policies and opportunities for tenants to move.

The Regulator will continue to apply a co-regulatory approach, and thus the onus will continue to be on landlords to comply with the standards and be able to demonstrate their compliance to tenants and the regulator.



The new standards will be regulated through:

- In-depth assessments (IDAs), in the same way as is currently being done for the Economic Standard's; and
- Consumer Inspections, which will build on the IDA process by looking at new sources of evidence and assurance, such as information from tenants (including seeking feedback from tenants) and considering a wider range of board reports on service performance, evidence from tenant satisfaction measures (TSMs), and evidence from the Housing Ombudsman.

Compliance

Harpur Trust vs Brazel – where are we now?

In July 2022 the Supreme Court's judgement in Harper Trust v Brazel made headlines.

The Court set out how holiday pay should be calculated for permanent employees with irregular hours, i.e. 'part-year' workers such as those on zero hours or term time contracts.

Workers are entitled to 5.6 weeks of holiday per year. The Supreme Court stated that part-year workers holiday pay should be calculated with reference to their weekly average hours over a 52-week period, which is then multiplied by the 5.6 to determine the annual entitlement. This change can produce some unusual results e.g. a worker who has worked a 5-day week only once in a 52-week period will receive 28 days holiday.

As a result of the decision a part -year worker will receive more holiday than a part-time worker, who works the same number of hours across the year.

This was referenced in the judgement with the Supreme Court noting that any slight favouring of such workers, was not of a magnitude that would require wholesale revision of the general rules. In response to a strong reaction from industry the government opened a consultation exercise to review the apparent disparity and determine how to formulate a better method of calculation.

The consultation exercise ended on 9 March 2023, but it will be many more months before we have the government's response.

<u>So where does that leave employers?</u>

Until new legislation is introduced the decision of the Supreme Court is still binding, and it's unusual for newly enacted legislation to have retroactive effect.

However, given the upheaval of amending internal policies and procedures for many employers a 'wait and see' approach outweighs the risks of litigation. In taking this approach however we would recommend that an organisation fully understands the potential extent of its liabilities, which can extend for a period of 2 years from the date of the most recent deduction. This evaluation should also include contractors who are potentially open to an employee status challenge.

Employers should consider using a fixed term contract for any new part-year workers to limit further exposure, as holiday pay for a fixed term contract is prorated to reflect the term of the contract rather than being calculated as a full year's entitlement.

Useful links

Gov.uk –

https://www.gov.uk/government/consultations/calculating-holiday-entitlement-for-part-year-and-irregular-hours-workers

https://www.gov.uk/employment-status

ACAS (employment status definitions) - https://www.acas.org.uk/checking-your-employment-rights

Government procurement: carbon reduction plans

The Government has introduced new measures which will require businesses to commit to net zero by 2050 and publish clear and credible reductions plans before they can bid for major government contracts.

Under the new measures, for procurements advertised on or after 30 September 2021, suppliers bidding for contracts above £5million a year will need to have committed to the government's target of net zero by 2050 and have published a carbon reduction plan.

Carbon Reduction Plans ('CRP') must meet the required standard, and includes (but is not limited to):

- Confirming the bidding supplier's commitment to achieving Net Zero by 2050 for their UK operations.
- Providing the supplier's current emissions for the sources included in Scope 1 and 2 of the GHG Protocol, and a defined subset of Scope 3 emissions.
- Providing emissions reporting in CO_2e (Carbon Dioxide Equivalent) for the six greenhouse gases covered by the Kyoto Protocol4
- Setting out the environmental management measures in effect, including certification schemes or specific carbon reduction measures you have adopted, and that you will be able to apply when performing the contract and that support achieving Net Zero by 2050.

Publication of the CRP on the supplier's website

Further details can be found here along with the Procurement Policy Note issued by the Cabinet Office here.

Financial and other reporting

Sustainability Reporting and the Charity SORP

Sustainability and environmental issues continue to be high priority for all sectors. This is a fast-moving area and there a number of different reporting frameworks and requirements depending on side and constitution.

The Charity SORP Committee produced a briefing note reflecting on the current approach to sustainability reporting and this is something being considered by the Housing SORP Working Party.

The full Charity SORP briefing can be found here.

The Sustainability Reporting Standard for Social Housing (SRS) was launched in November 2020 as a means for housing companys to demonstrate their environmental, social and governance (ESG) credentials.

Since its creation, it has been adopted by over 100 organisations across the UK, who completed the first cycle of reporting last year.

The SRS board have now issued a review which looks at the reports and talks to adopters about how the Standard has worked for them.

You can access the report here

Crowe guidance on climate change can be accessed here.

We have recently published a review of annual reports, all including a relevant disclosure, which identified a wide variety in the level of detail provided and the format used. A copy of our report, which includes examples of best practice and areas of improvement can be obtained here.

Taxation

Autumn Statement 2022

The Chancellors Autumn Statement 2022 was published in November 2022.

The key measures relevant for charities are set out below. A copy of the full statement can be found here:

https://www.gov.uk/government/publications/autumn-statement-2022-documents

National Minimum Wage (NMW) and National Living Wage (NLW)

Following recommendations from the Low Pay Commission, the NLW will increase for individuals aged 23 and over to £10.42 an hour from 1 April 2023.

The NMW will also increase from 1 April 2023 as follows:

- Increasing the rate for 21-22 year olds to £10.18 an hour;
- Increasing the rate for 18-20 year olds to £7.49 an hour;
- Increasing the rate for 16-17 year olds to £5.28 an hour;
- Increasing the apprentice rate to £5.28 an hour; and
- Increasing the accommodation offset rate to £9.10 an hour

Income tax additional rate threshold

The income tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023.

Corporation tax rate

The planned increase in the Corporation Tax rate to 25% for companies with over £250,000 in profits will go ahead. Small companies with profits up to £50,000 will continue to pay corporation tax at 19%, with profits between these two figures subject to a tapered rate.

Business Rates: Retail, Hospitality and Leisure Relief

Support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023-24.

Business and non-business activities

In June 2022 HMRC published a policy paper setting out its approach to determining whether or not an activity is a business activity for VAT purposes.

In light of a number of recent cases, HMRC will no longer apply the business test based on the 6 indicators from Lord Fisher and Morrison's Academy in determining whether an activity is business. The 6 indicators were -

- is the activity a serious undertaking earnestly pursued?
- is the activity an occupation or function that is actively pursued with reasonable or recognisable continuity?
- is the activity have a certain measure of substance in terms of the quarterly or annual value of taxable supplies made?
- is the activity conducted in a regular manner and on sound and recognised business principles?
- is the activity predominately concerned with the making of taxable supplies for a consideration?
- are the taxable supplies that are being made of a kind which, subject to differences of detail, are commonly made by those who seek to profit from them?

Consideration for whether activities were business activities for VAT purposes will now be based on a 2-stage test –

- The activity results in a supply of goods or services for consideration; and
- The supply is made for the purpose of obtaining income therefrom

The full policy paper can be read here - https://www.gov.uk/government/publications/revenue-and-customs-brief-10-2022-vat-business-and-non-business-activities/vat-business-and-non-business-activities

Corporation tax returns – Hybrid entity reporting

The corporation tax return was updated in April 2022 to include new questions in supplementary pages CT600B (2022) which require a UK company to disclose whether it is a hybrid entity and whether it transacts with a hybrid entity in the same control company.

While it is unlikely that a UK charity would itself be a hybrid entity, there will be some charity-owned companys that include an entity that is treated as transparent for tax purposes in one territory but not in another, and any transactions with such entities may require disclosure.

Full details can be read here – https://www.gov.uk/government/publications/corporation-tax-controlled-foreign-companies-and-foreign-permanent-establishment-exemptions-ct600b-2015-version-3

Appendix 7 - Understanding the changes to ISA (UK) 315

ISA (UK) 315 (Revised) comes into effect for periods starting in December 2021 and later (i.e. years ending 31 December 2022). The changes to the standard are fairly fundamental, and are intended to change the way that audit firms approach the identification of risks of material misstatement[1], and by extension, how they respond to these risks. We have set out in the table below the key changes to ISA (UK) 315 and the potential impact on the audit of Rykneld.

Key change	Potential impact on the audit
A more robust risk identification and assessment process, with a separate assessment required of inherent risk and control risk	Additional requests for information to enhance understanding of the systems, processes and controls, including but not limited to: - More information regarding the entity's risk assessment process and monitoring of internal controls - Policies and procedure manuals, flowcharts and other supporting information to support our understanding of the information systems relevant to the preparation of the financial statements
Enhanced procedures relating to exercising professional scepticism, and additional documentation requirements	Additional requests for information to clarify areas where evidence obtained appears to contradict information already considered in the audit.
Increased focus on information technology	Additional requests for information to enhance understanding of the IT environment, including: - Information on the IT applications used by Rykneld, including the extent of any automated procedures - Information on the supporting IT infrastructure (i.e. network, operating systems and related hardware and software) and ant third party hosting or outsourcing of IT - information on the access controls in place over the use of IT applications, including the setting up and removal of user accounts

[1] Risk of material misstatement: The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

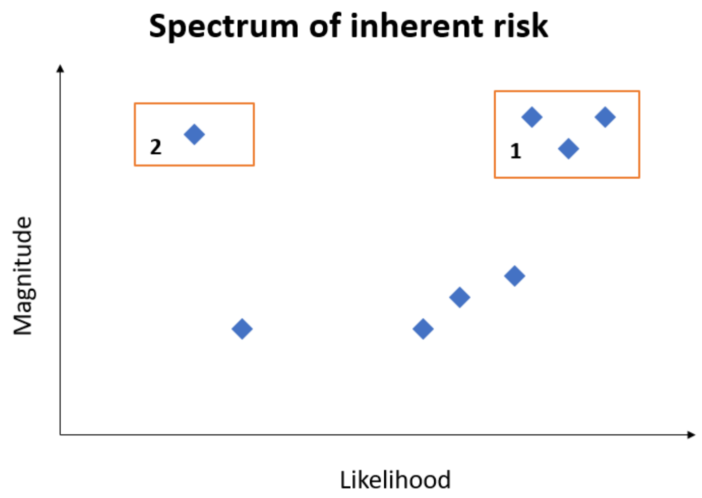
(a) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk – The risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's controls.

Key change	Potential impact on the audit
Inclusion of specific controls where auditors are required to identify and perform design and implementation thereon.	Additional requests for information in respect of the systems, processes and controls in respect of: - Non-standard journal entries - where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments - Standard journal entries - where the journal entries are automated or manual and are susceptible to unauthorized or inappropriate intervention or manipulation - Other controls identified based on auditor judgement, including but not limited to: ○ Controls that address risks that are assessed as higher on the spectrum of inherent risk (not determined to be a significant risk); ○ Controls related to reconciling detailed records to the general ledger; or ○ Complementary user entry controls, if using a service organisation.
A new stand-back requirement when an audit is nearing completion, to evaluate classes of transactions, account balances and disclosures that are material (either quantitatively or qualitatively) but have not been identified as significant and confirm the previous assessed remains appropriate.	Additional audit work may be required where the assessed risk of material classes of transactions, account balances and disclosures are re-evaluated as higher than at the completion of the audit planning.

ISA (UK) 315 (Revised) also introduces the concept of a *'spectrum of inherent risk'*. Risk is considered in the context of how, and the degree to which, inherent risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

The assessment of an inherent risk close to the upper end of the spectrum is indicative of a significant risk (Box 1), however the combination of likelihood and magnitude means that a significant risk could potentially have a low likelihood but the magnitude could be very high if it occurred (Box 2).



We have set out below further details on the inherent risk factors, along with examples of each within a non-profit context.

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Complexity	Arises either from the nature of the information or in the way that the required information is prepared, including when such preparation processes are more inherently difficult to apply.	- A complex company structure, with multiple subsidiaries, branches, in disparate locations and/or joint ventures, which may also include overseas operations - A complex IT environment, such as fundraising information held in a CRM system that is not integrated with the accounting system - The calculation of the actuarial valuation of defined benefit pension schemes
Subjectivity	Arises from inherent limitations in the ability to prepare required information in an objective manner, due to limitations in the availability of knowledge or information, such that management may need to make an election or subjective judgment about the appropriate approach to take and about the resulting information to include in the financial statements. Because of different approaches to preparing the required information, different outcomes could result from appropriately applying the requirements of the applicable financial reporting framework. As limitations in knowledge or data increase, the subjectivity in the judgments that could be made by reasonably knowledgeable and independent individuals, and the diversity in possible outcomes of those judgments, will also increase.	- The assessment of whether a grant is performance related, and the associated impact on income recognition - The selection of the accounting policy adopted in respect of legacy income - Selection of assumptions used in preparing the actuarial valuation of defined benefit pension schemes - Determination of the useful economic life and residual value of fixed assets - Determination of any provisions for bad and/or doubtful debts - The assessment of any provisions for dilapidations
Change	Results from events or conditions that, over time, affect the entity's business or the economic, accounting, regulatory, industry or other aspects of the environment in which it operates, when the effects of those events or conditions are reflected in the required information.	- Loss of a major funder and the corresponding impact on going concern - Development of a new income stream or activity - Expansion into new locations, such as the opening of an overseas branch

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
		- A change in legislation and any impact on operations, for example changes to health and safety legislation
Uncertainty	Arises when the required information cannot be prepared based only on sufficiently precise and comprehensive data that is verifiable through direct observation. In these circumstances, an approach may need to be taken that applies the available knowledge to prepare the information using sufficiently precise and comprehensive observable data, to the extent available, and reasonable assumptions supported by the most appropriate available data, when it is not. Constraints on the availability of knowledge or data, which are not within the control of management (subject to cost constraints where applicable) are sources of uncertainty and their effect on the preparation of the required information cannot be eliminated.	- The outcome of a pending litigation or claim, and the determination of any potential liability or contingent liability disclosure - The assessment of any provisions for dilapidations - The assumptions and judgements applied in the preparation of budgets and forecasts to support going concern
Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk	Results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in preparing the information. Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional. Such indicators include incentives or pressures insofar as they affect inherent risk (for example, as a result of motivation to achieve a desired result, such as a desired profit target or capital ratio), and opportunity, not to maintain neutrality.	- Compliance with funding conditions, including the allocation of expenditure and the assessment of any provision in respect of clawbacks - Loan covenants at risk of being breached - Significant transactions with related parties - Significant amount of non-routine or non-systematic transactions including intercompany transactions and journal entries at the reporting date.

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Other inherent risk factors	Other inherent risk factors, that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure may include: • The quantitative or qualitative significance of the class of transactions, account balance or disclosure; or • The volume or a lack of uniformity in the composition of the items to be processed through the class of transactions or account balance, or to be reflected in the disclosure.	- Lack of personnel with appropriate accounting and financial reporting skills. - Control deficiencies – particularly in the control environment, risk assessment process and process for monitoring, and especially those not addressed by management. - Past misstatements, history of errors or a significant amount of adjustments at period end.

ISA (UK) 315 requires auditors to consider that the risk of material misstatement may occur at two levels – the overall financial statement level, and at the assertion level for classes of transactions, balances and disclosures.

Assertions are defined in ISA (UK) 315 as *'Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement.'*

We have set out below the assertions and a short description of how they pertain to classes of transactions, balances and disclosures.

Assertions about classes of transactions and events, and related disclosures, for the period under audit	Assertions about account balances, and related disclosures, at the period end
(i) Occurrence—transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.	(i) Existence—assets, liabilities and equity interests exist.
(ii) Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.	(ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
(iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.	(iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

Assertions about classes of transactions and events, and related disclosures, for the period under audit	Assertions about account balances, and related disclosures, at the period end
(iv) Cut off—transactions and events have been recorded in the correct accounting period.	(iv) Accuracy, valuation and allocation—assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
(v) Classification—transactions and events have been recorded in the proper accounts.	(v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
(vi) Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.	(vi) Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Follow us on:

@CroweUK

www.crowe.co.uk