

The Audit Plan for Pendle Borough Council

Year ending 31 March 2025

April 2025



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01 Key developments impacting our audit approach

Local Government Reorganisation

External factors

English Devolution White Paper

On 16 December 2024, the Secretary of State for Housing, Communities and Local Government, Angela Rayner, Presented to Parliament the English Devolution White Paper.

The White Paper sets out the direction of travel for the devolution of power across England. Devolution is seen by the government as being fundamental in achieving the change the public expect and deserve. The government's aim is for devolution to promote growth, a joined-up delivery of public services, and politics being done with communities, not to them. England is one of the most centralised countries in the developed world. The goal is universal coverage of strategic authorities in England.

Strategic authorities will be a combination of pre-existing Combined Authorities and Mayoral Strategic Authorities (MSAs). They will be funded through an integrated settlement which can be used by the Council across housing, regeneration, local growth, local transport, retrofit, skills and employment support. This removes the complexity of numerous grants, conditions and reporting requirements, simplifying it into a single mutually agreed outcomes framework monitored over a supply review period. In combination with this Mayors will be given more control over the devolution of transport, skills & employment support, housing and planning, environment and climate change, supporting business and research, reforming and joining up public services.

The government plans to facilitate a programme of local government reorganisation for 2-tier areas across England. It will also facilitate the reorganisation of unitary councils where there is evidence of failure, or where their size and/or boundaries are a hinderance to local decision making. This will be done in a phased approach and for most will mean creating councils serving a population of 500 000 or more. Along with devolution government wants to reset its relationship with local government, end micro-management and enable local governments through multi-year settlements.

The next steps are:

- A widening and deepening of devolution, expanding on the 2 new Mayors and 6 non-mayoral devolutions already noted in the white paper, with a priority programme for those with plans ready for action;
- An invitation from all remaining 2-tier areas and unitary councils where appropriate, to submit proposals for local reorganisation;
- And re-committing to the English Devolution Bill by putting the devolution framework into statute and moving to a systematic approach that ensures local leaders have the powers they need.

Update

Jim McMahon, Minister for Local Government and English Devolution, wrote to two-tier authorities in February 2025 to set out a timetable for reorganisation proposals to be submitted. We are expecting an interim plan by 21 March 2025 and a full proposal by 28 November 2025.

Local Audit Reform

External factors

Proposals for an overhaul of the local audit system

On 18 December 2024, the Minister of State for Local Government and English Devolution, Jim McMahon OBE, wrote to local Council leaders and local audit firms to announce the launch of a strategy to overhaul the local audit system in England. The proposals were also laid in Parliament via a Written Ministerial Statement.

The government's strategy paper sets out its intention to streamline and simplify the local audit system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. A new Local Audit Office will be established, with responsibilities for:

- Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers;
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- Setting the Code of Audit Practice;
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Minister also advised that, building on the recommendations of Redmond, Kingman and others, the government will ensure the core underpinnings of the local audit system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system;
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- enhancing capacity and capability in the sector;
- strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

Our Response

Grant Thornton welcomes the proposals, which we believe are much needed, and are essential to restore trust and credibility to the sector. For our part, we are proud to have signed 83% of our 2022/23 local government audit opinions without having to apply the local council backstop. This compares with an average of less than 30% sign off for other firms in the market. We will be keen to work with the MHCLG, with existing sector leaders and with the Local Audit Office as it is established to support a smooth transition to the new arrangements.

Key developments impacting our audit approach

National Position

Local governments face many challenges, the pandemic along with the cost of living crisis has left local governments with economic, social, and health challenges to address:

Staffing: A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

Climate change: As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local council pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

Funding : Local governments face many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, enforce taxes, and prevent tax evasion. Strained budgets are making it challenging to fund essential services, infrastructure projects and the ongoing stream of section 114 notices will not come as a surprise this year.

Digital Transformation : The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

Cybersecurity: Local government needs to protect against malware and ransomware attacks. They also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as economic growth, and climate change

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our value for money audit work continues to identify significant weaknesses in all criteria of the Code of Audit Practice. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Council bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

New accounting standards and reporting developments

- Local Councils will need to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on the next slide.

Our Response

- Detailed review of the Council's implementation of IFRS 16. More information can be found on slide no.8.

Key developments impacting our audit approach (continued)

Our commitments

- As a firm, we are absolutely committed to audit quality and financial reporting in local government. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Head of Resources.
 - To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. Please confirm in writing if this is acceptable to you, and that your staff will make themselves available to our audit team.
 - At an appropriate point within the audit, we would also like to meet informally with the Chair of your Accounts and Audit Committee, to brief them on the status and progress of the audit work to date.
 - Our Value for Money work will continue to consider the arrangements in place for you to secure economy, efficiency and effectiveness in the use of your resources.
 - We will continue to provide you and your Accounts and Audit Committee with sector updates providing our insight on issues from a range of sources via our Accounts and Audit Committee updates.
 - We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.
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IFRS 16 Leases



Summary

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

IFRS 16 updates the definition of a lease to:

- “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major change from the requirements of IAS 17 in respect of operating leases.

There are however the following exceptions:

- leases of low value assets (optional for LG)
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). However, if an LG body is an intermediary lessor, there is a change in that the judgement, as to whether the lease out is an operating or finance lease, is made with reference to the right of use asset rather than the underlying asset. The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

Systems and processes

We believe that most LG Bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate

Planning enquiries

As part of our planning risk assessment procedures, we have made written enquiries to management. We would appreciate a prompt response to these enquires in due course.

The Backstop

Local Government National Context – The Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local council's audits. These Regulations required audited financial statements to be published by the following dates:

- for years ended 31 March 2023 and earlier by 13 December 2024; and
- for years ended 31 March 2024 by 28 February 2025; and
- for years ended 31 March 2025 by 27 February 2026.

The Statutory Instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.



02 Introduction and Headlines

Introduction and headlines



Purpose

- This document provides an overview of the planned scope and timing of the statutory audit of Pendle Borough Council for those charged with governance.

Respective responsibilities

- The National Audit Office (“the NAO”) has issued the Code of Audit Practice (“the Code”). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Pendle Borough Council. We draw your attention to these documents.

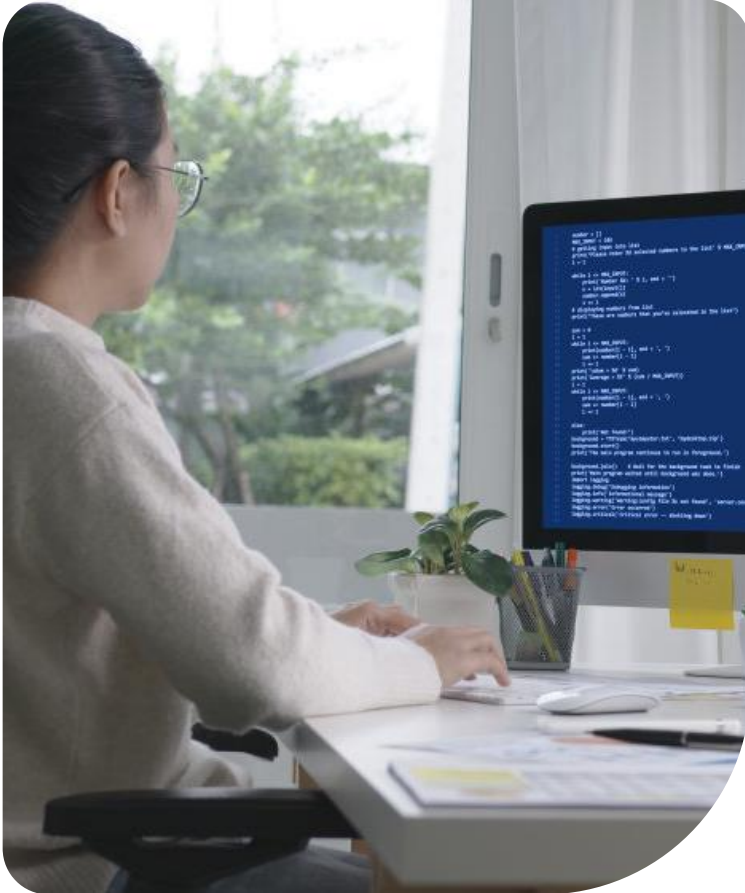
Scope of our Audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council’s financial statements that have been prepared by management with the oversight of those charged with governance (the Accounts and Audit committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

The audit of the financial statements does not relieve management or the Accounts and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Introduction and headlines (continued)



Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of land, buildings and surplus assets
- Valuation of the pension fund liabilities

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.066m (PY £0.850m) for the Council, which equates to 1.80% of your prior year gross expenditure for the year (unaudited). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.053m (PY £0.042m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any significant weakness areas or related risks, requiring separate attention. We will continue to monitor and update our risk assessment and responses until we issue our Auditor's Annual Report.

Audit logistics

Our interim visit took place in March and our final visit will take place from September to December. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor's Report and Auditor's Annual Report.

Our proposed fee for the audit is £ 142,185 (PY: £ 75,845 the lower fee is due to the audit being backstopped) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

03 Identified risks

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.	We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals • Analyse the journals listing and determined the criteria for selecting high risk unusual journals • Test unusual journals made during the year and the accounts production stage for appropriateness and corroboration • Gain an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).



Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue	<p>We have identified and completed a risk assessment of all revenue streams for the Council. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because :</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited; • The culture and ethical frameworks of local authorities, including Pendle Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures.</p> <p>We will :</p> <ul style="list-style-type: none"> • Review and test, on a sample basis, revenue transactions to supporting evidence, ensuring the correct accounting treatment and that it remains appropriate to rebut the presumed risk of revenue recognition • Design and carry out appropriate audit procedures to ascertain the recognition of income is in the correct accounting period using cut-off testing. • Evaluate the Council's accounting policy for revenue recognition for appropriateness
The expenditure cycle includes fraudulent transactions	Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.	<p>We have identified and completed a risk assessment of all expenditure streams for the Council. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is no significant risk. This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the expenditure streams both individually and collectively.</p>	<p>As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures.</p> <p>We will :</p> <ul style="list-style-type: none"> • Review and test, on a sample basis, expenditure transactions, ensuring the correct accounting treatment and that it remains appropriate to rebut the presumed risk of expenditure recognition. • Design and carry out appropriate audit procedures to ascertain the recognition of expenditure is in the correct accounting period using cut-off testing.

Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
Valuation of the pension fund liabilities/asset	<p>The Council's pension fund net defined benefit balance, as reflected in its balance sheet, represents a significant estimate in the financial statements. The pension fund balance is considered a significant estimate due to the size of the numbers involved, and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that, there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation , salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.</p> <p>Our consulting actuary has indicated that a +/-0.1% change in the discount rate, inflation or salary increase would have approximately +/-1.5% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS19 estimate due to assumptions used in their calculation.</p> <p>With regard to these assumptions, we have therefore identified valuation of the Council's pension fund net balance as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net balance is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability component; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report; evaluate the Council's assessment of IFRIC 14 (if applicable) and • obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the Lancashire Pension Funds financial statements.


Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
Valuation of land, buildings and surplus assets	<p>The Council revalues its land and building on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of numbers involved, and the sensitivity of this estimate due to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified the closing valuation of land, buildings and surplus assets are a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Evaluate the competence, capabilities and objectivity of the valuation expert • Write to the valuer to confirm the basis on which the valuation was carried out • Challenge the information and assumptions used by the valuer to assess • Completeness and consistency with our understanding • Test revaluations made during the year to see if they had been input correctly into the Council's asset register • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • For all assets not formally revalued, evaluate the judgement made by management or others in determination of current value of these assets.

Other risks identified

Other risks are, in the auditor’s judgement, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for another risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day-to-day activities of the business.

Risk	Description	Planned audit procedures
IFRS 16 implementation	<p>From the adoption by local government of IFRS 16 leases on 1 April 2024, the distinction between operating and finance leases for lessees has been removed. Now all leases, apart from those that are deemed low value or short term, are accounted for on balance sheet by lessees. IFRS 16 has preserved the distinction between finance and operating lease accounting for lessors.</p> <p>In the public sector, the definition of a lease has been extended to include the use of assets for which little or no consideration is paid, often called “peppercorn” rentals. This is one instance where the right of use asset and its’ associated liability are not initially recognised at the same value.</p> <p>Key judgements include</p> <ul style="list-style-type: none">• determining what is deemed to be a low value lease. This is based on the value of the underlying asset when new and is likely to be the same as the Council’s threshold for capitalising owned assets;• determining whether an option to terminate or extend the lease will be exercised. This is important as it affects the lease term and subsequently the calculation of the lease liability based on the expected payments over the lease term; and• the valuation of the right of use asset after recognition. An expert valuer may be required to support management in this. <p>We have therefore identified completeness of the identification of relevant leases and valuation as a risk.</p>	<p>We will:</p> <ul style="list-style-type: none">• Review the Council’s IFRS16 implementation processes to identify relevant transactions such as peppercorn leases and leases that have “rolled over” at the end of the term• Review the proposed accounting policy• Review reconciliation of 31/03/2024 IAS17 operating lease commitment disclosure to 01/04/24 IFRS16 lease liabilities• Assess how leases with options to extend or terminate have been identified and the likelihood of these options to be exercised



“The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (UK) 330 (Revised July 2017), to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.” (ISA (UK) 315)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

04 Progress against prior years audit recommendations

Progress against prior year audit recommendations

We identified the following issues from previous years audit of the Council's financial statements, given the 2023-24 audit was backstopped, these matters were not reported on, therefore we have followed up on recommendations reported in the 2022-23 Audit Findings Report. We have followed up on the implementation of our recommendations. There are 7 items marked as in progress as we will need to assess these as part of our 2024-25 audit to ensure actions are fully implemented.

Audit Year	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
2022-23	Complete	The outturn position the Council reported to members in July 2023 was superseded following amendments made to the financial statements. As such this report did not agree with the Expenditure and Funding Analysis note. No further information was reported to members to show the outturn position	This matter was highlighted to members in accounts & audit committee on the 30th September 2024
2022-23	Complete	As part of our testing we noted the Bank Reconciliation for April 2023 was only completed in February 2024. The council should ensure the bank reconciliation is balanced in the month following.	Bank Reconciliations are performed monthly and are up-to-date.
2022-23	In progress	Our testing of 5 new lessors identified variances in 4 of these leases between the lease listing as compared to the actual lease. The total variances were trivial and amounted to £4k. The Council reviewed the entire population of leases and identified errors in a further 10 leases. The total of errors were trivial. The council should conduct a review of its leases listing in order to prevent discrepancies.	Review of leases has been undertaken with the application of IFRS16 in 2024/25 Accounts.
2022-23	In progress	Our testing on the useful remaining life of vehicles, plant and equipment identified one asset which was not in use whereas the asset register included the asset. The council should conduct a review of its fixed asset register to identify any further assets that have been disposed of but not written out of the register.	Useful life review of all VPE completed in 2023/24 closedown
2021-22	Complete	There was no process for Gift and Hospitality Register to be monitored in 2021/22. Service Managers had been contacted for a response for 2021/22 as part of the audit. No issues were identified which required disclosing	Process moved to JADU (intranet based) in 2022/23
2021-22	In progress	We have noted the Council has long term assets under construction which run for a number of years. These are currently recorded at cost and will be revalued when they come into use. Management has not assessed these assets for any potential impairment. Documentation should be provided for the audit process to demonstrate this review.	Impairment of AUC in place annually from 2023/24
2021-22	Complete	Management have a number of long term debtors with the Pearl companies, however not all the agreements are in place. We received 1 agreement out of the 4 required. Without signed agreements, the Council is at risk of not being able to pursue the repayment of the loans should there be any dispute over payment and/or payment is not received.	All agreements provided as part of 22/23 audit

Progress against prior year audit recommendations

Audit Year	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
2021-22	Complete	The Council should review the capital financing requirement to ensure it is calculated in line with the Prudential Code.	CFR reviewed and brought in-line so both calculation methods match from 22/23
2020-21	Not actioned	Assets are revalued as at the 1 April but we recommend that valuation of land and buildings is undertaken as at 31 March of the year of the accounts. There is a risk that valuations undertaken as at 1 April could move by a material amount if there were any significant fluctuations in the market over the year.	Assets continue to be valued at 1st April Market conditions are reviewed Quarterly by property team for any significant changes to be considered
2020-21	In progress	Assets are revalued on a 5 year rolling program however no further work has been completed on assets not revalued. Management should complete their own assessment on these assets to confirm the value has not been materially changed.	Review of rolling year programme completion to take place for 2024/25 accounts
2020-21	In progress	The Code requires Surplus Assets to be stated at fair value therefore these assets are required to be revalued on an annual basis. The Council has revalued one surplus asset and used that as a basis to assess the value of other surplus assets. However this is not in line with Code requirements and there is a risk that other surplus asset valuation movements may not necessarily be the same as the asset revalued.	Update to follow
2020-21	In progress	The current policy is to depreciate assets the year after acquisition however the Code requires assets to be depreciated as and when they are put into use. The current depreciation policy does not comply with Code requirements and there is a risk that over time depreciation will become increasingly misstated.	Update to follow
2020-21	In progress	Assets revalued in year have a valuation date of 01/04/2021 but have not been depreciated in the year. As assets are revalued as at the start of the year, depreciation should be applied for the remaining of the year. The current depreciation policy does not comply with Code requirements and that there is a risk over time depreciation will become increasingly misstated.	Depreciation calculations within FAR have been updated to reflect this from 2023/24

05 Our approach to materiality

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
01	Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.066m, which equates to 1.8% of your prior year gross expenditure for the period (unaudited).	<ul style="list-style-type: none"> We determine planning materiality in order to: <ul style="list-style-type: none"> establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements assist in establishing the scope of our audit engagement and audit tests determine sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements
02	Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements	<ul style="list-style-type: none"> An item may be considered to be material by nature when it relates to: <ul style="list-style-type: none"> instances where greater precision is required
03	Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process	<ul style="list-style-type: none"> We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality
04	Matters we will report to the Accounts and Audit Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Accounts and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	<ul style="list-style-type: none"> We report to the Accounts and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.053m (PY £0.041m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Accounts and Audit Committee to assist it in fulfilling its governance responsibilities.



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Council’s financial statements	£1.067m	In determining materiality, we have considered the level of misstatement which could reasonably be expected to influence the economic decisions of users of the financial statements. Materiality has been set at £1.066m being 1.8% of your 2023-24 gross expenditure (unaudited).
Performance materiality for the Council’s financial statements	£0.640m	Performance materiality has been set at £0.640062m being 60% of your headline materiality.
Triviality for the Council’s financial statements	£0.053m	The amount below which findings would be clearly inconsequential both individually or in aggregate to any reader of the financial statements
Materiality for specific transactions, balances or disclosures – senior officer remuneration	£0.030m	<p>This balance is material by nature due to the sensitivity of the disclosure.</p> <p>Specific materiality is lower than the materiality of the financial statements and is set to purport the level of misstatement which may influence the users of the Financial Statement have over the remuneration disclosures which has been set at £0.018m</p>



06 IT audit strategy

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Civica Financials	Financial reporting	<ul style="list-style-type: none">A review of the IT General Controls related to security management, development and maintenance and technology infrastructure.
Northgate	Council Tax, Business Rates, Benefits	<ul style="list-style-type: none">A review of the IT General Controls related to security management, development and maintenance and technology infrastructure.
Chris21	Payroll	<ul style="list-style-type: none">A review of the IT General Controls related to security management, development and maintenance and technology infrastructure.
Techforge	Valuers Fixed asset register (Land and building)	<ul style="list-style-type: none">A review of the IT General Controls related to security management, development and maintenance and technology infrastructure.

07 Value for Money Arrangements

Value for Money Arrangements

Approach to Value for Money work for the period ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Risks of significant VFM weaknesses



As part of our initial planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed on the table overleaf along with the further procedures we will perform. We will continue to review the body's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant weakness in VFM arrangements (continued)

initial Risk assessment of the Council’s VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor’s work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2024/25. We will continue to evaluate risks of significant weakness and if further risks are identified , we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2023/24 Auditor judgement on arrangements	2024/25 risk assessment	2024/25 risk-based procedures
Financial sustainability	<div>R</div> <div>One significant weakness raised in relation to financial sustainability of with a key recommendation raised and three improvement recommendations</div> <div>The level of budget gap compared to the Council’s available reserves is high and the current position is unsustainable.</div>	Risk of significant weakness in arrangements	Given the risk of significant weakness identified, we will undertake additional risk-based procedures around financial sustainability, we will document our understanding of your arrangements and follow up on improvement recommendations made in 2023/24.
Governance	<div>R</div> <div>Significant weakness in arrangements around desicion-making, planning process, arrangement for the council's relationship with its Joint Venture companies, the council's finance team capacity and its information governance were identified, and five key recommendations made.</div>	Risk of significant weakness in arrangements	Given the risk of significant weakness identified, we will undertake additional risk-based procedures around governance, we will document our understanding of your arrangements and follow up improvement recommendations made in 2023/24.
Improving economy, efficiency and effectiveness	<div>A</div> <div>No risks of significant weakness reported; two improvement recommendations made</div>	No risks of significant weakness identified	As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code and follow up improvement recommendations made in 2023/24.

We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor’s annual report. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. We report our value for money work in our Auditor’s Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor’s Report and included within our audit opinion.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

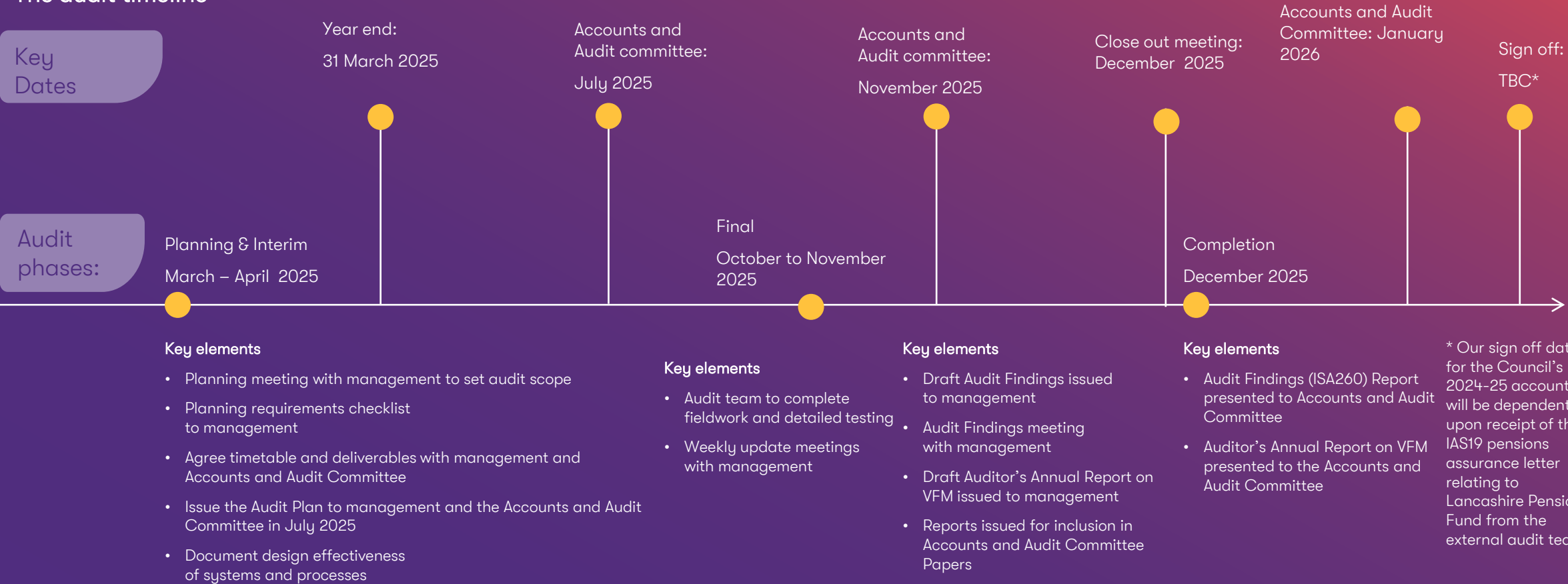
08 Logistics

Logistics

The audit timeline

Key Dates

Audit phases:



Our team and communications

Grant Thornton core team

Georgia S Jones
Engagement Lead/
Key Audit Partner

- Key contact for senior management and the Accounts and Audit Committee
- Overall quality assurance

Dipesh Patel
Audit Manager

- Audit planning
- Main contact for the finance team
- Project and Resource management of the delivery of the audit
- Performance management reporting

Simbongile Sibiya
Audit In-charge

- Audit team management
- Day-to-day point of contact
- Audit fieldwork

Amber J Mackenzie - Banister
VFM Lead

- Value for Money (VFM) planning
- Main contact for the review of VFM arrangements
- Development of the VFM commentary in the Auditor's Annual Report

	Service delivery	Audit reporting	Audit progress	Technical support
Formal communications	<ul style="list-style-type: none">• Regular meetings with the Head of Resources	<ul style="list-style-type: none">• The Audit Plan• Audit Progress and Sector Update Reports• The Audit Findings Report• Auditor's Annual Report on VFM	<ul style="list-style-type: none">• Audit planning meetings• Audit clearance meetings• Communication of issues log	<ul style="list-style-type: none">• Technical updates
Informal communications	<ul style="list-style-type: none">• Open channel for discussion		<ul style="list-style-type: none">• Communication of audit issues as they arise	<ul style="list-style-type: none">• Notification of up-coming issues

As part of our overall service delivery we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

09 Fees and related matters

Our fee estimate

Our estimate of the audit fees is set out in the table across, along with the fees billed in the prior year

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC’s [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audit for Pendle Borough Council to begin with effect from 2023-24. The scale fee set out in the PSAA contract for the 2024/25 audit is £142,185.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

	Audit Fee for 2023/24	Proposed fee for 2024/25
	(£)	(£)
Scale fee	75,845**	142,185
Additional work owing to IFRS 16 implementation		TBC*
Total (Exc. VAT)	75,845	142,185

Our fee estimate:

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

* Additional time and work will be required to be performed in relation to the Council implementing IFRS 16 standard.

Previous year

In 2023/24 the scale fee set by PSAA was £128,100 (£135,630 including ISA 315). The actual fee charged for the audit was £75,845 due to the audit being backstopped although some work was completed such as planning and vfm (**subject to PSAA approval which commensurate with the work undertaken in connection to the 2023/24 Council audit)

10 Independence considerations

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we confirm that there are no matters that we are required to report.

As part of our assessment of our independence at planning we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council’s board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council’s Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Following this consideration we can confirm that we are independent at planning and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Other services

There are no other services either audit related, or non-audit related provided by Grant Thornton.

11 Communication of audit matters with those charged with governance

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	●	
Planned use of internal audit	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Views about the qualitative aspects of the Council's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

12 Delivering audit quality

Delivering audit quality

Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

Working with premium clients

We work with great public sector clients that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of journals

The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

Oversight and control

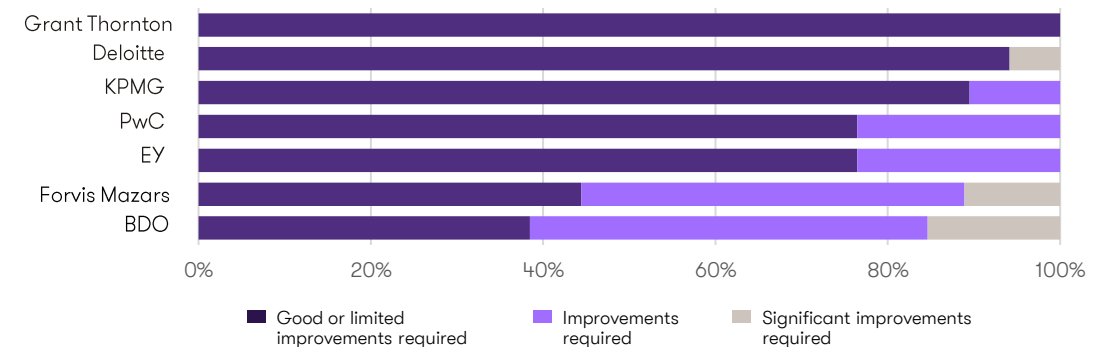
Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing clients where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell
Partner, UK Head of Audit



FRC's Audit Quality Inspection and Supervision Inspection
(% of files awarded in each grading, in the most recent report for each firm)



13 Appendices

IFRS reporters

New or revised accounting standards that are in effect

IFRS 16 amendments

Lease liability in a sale and leaseback

- These amendments add requirements for how an entity accounts for a sale and leaseback after the date of the transaction
- After the commencement date, the seller-lessee applies the subsequent measurement requirements in IFRS 16 to the right-of-use asset and the lease liability that arise from the leaseback, including the lease modification requirements. The seller-lessee determines 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. However, this does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease
- The amendments apply for annual reporting periods beginning on or after **1 January 2024** but may be applied earlier.

IAS 1 amendments

Non-current liabilities with covenants

- These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
- The amendments to IAS 1 are effective for annual reporting periods beginning on or after **1 January 2024** but may be applied earlier.

Amendment to IAS 7 and IFRS 7

Supplier finance arrangements

- These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.
- The amendments apply for annual reporting periods beginning on or after **1 January 2024**, with transitional reliefs in the first year. Early application is permitted.

IFRS reporters

Future financial reporting changes

Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are effective from **1 January 2025**.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are effective from **1 January 2026**.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is effective from **1 January 2027**.

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal.
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 will be effective from **1 January 2027**, with earlier adoption allowed. Comparatives will require restatement.

The Grant Thornton Digital Audit – Inflo

A suite of tools utilised throughout the audit process

01 Collaborate

Information requests are uploaded by the engagement team and directed to the right member of your team, giving a clear place for files and comments to be uploaded and viewed by all parties.

What you'll see

- Individual requests for all information required during the audit
- Details regarding who is responsible, what the deadline is, and a description of what is required
- Graphs and charts to give a clear overview of the status of requests on the engagement

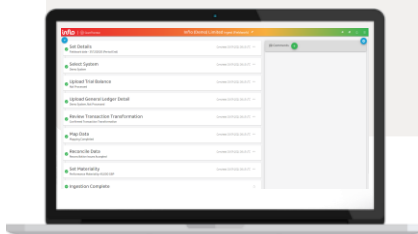


02 Ingest

The general ledger and trial balance are uploaded from the finance system directly into Inflo. This enables samples, analytical procedures, and advance data analytics techniques to be performed on the information directly from your accounting records.

What you'll see

- A step by step guide regarding what information to upload
- Tailored instructions to ensure the steps follow your finance system



03 Cascade

A data analytic tool which visualises every transaction impacting revenue and receivables and highlights those impacting general ledger accounts outside of the normal course of business.

What you'll see

- A visualisation of your revenue process, highlighting potentially unusual transactions
- Significant reduction in sample sizes, but testing focussed where there are potentially unusual transactions

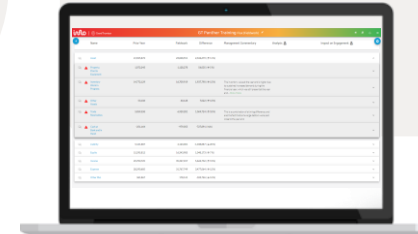


04 Detect

Journals interrogation software which puts every transaction in the general ledger through a series of automated tests. From this, transactions are selected which display several potential unusual or higher risk characteristics.

What you'll see

- Journals samples selected based on the specific characteristics of your business
- A focussed approach to journals testing, seeking to only test and analyse transactions where there is the potential for risk or misstatement





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