Audit Findings for Orbitas Bereavement Services Limited

For the year ended 31 March 2023

March 2024 (re-issued from November 2023)

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March 2024

Dear Board Members,

Audit Findings for Orbitas Bereavement Services Limited for the year ended 31 March 2023

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/transparency-report-2022_v08.pdf

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Michael Lowe

Partner
For Grant Thornton UK LLP

Contents

Introduction and status of the audit

Grant Thornton

Introduction and status of the audit

Status of the audit

- Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion.

No matters outstanding

Status:
- Significant elements outstanding – high risk of material adjustment or significant change to disclosures
- Some elements outstanding – moderate risk of material adjustment or significant change to disclosures
- Not considered likely to lead to material adjustment or significant change to disclosures

Audit findings

Significant risks

Improper revenue recognition

Risk identified

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

We considered the risk to be specific to revenue to external customers and in variations to standard contracts.

Audit procedures performed

We performed the following:

- Reviewed and tested the revenue recognition procedures to ensure compliance with IFRS 15
- Reviewed the key contracts and tested the design and implementation of controls for each significant revenue stream
- Substantively tested a sample of transactions for each material external revenue stream
- Reviewed invoices raised either side of year end to confirm that cut off was correct, and revenue had been recognised in the correct periods

Key observations

No issues identified in the procedures performed.

Significant risks (continued)

Management override of controls

Risk identified

In accordance with ISA (UK) 240, we have identified a risk of fraud in respect of management override of controls.

Audit procedures performed

We performed the following:

- Reviewed accounting estimates, judgements and decisions made by management
- Obtained an understanding of the design and implementation of the Company's internal controls through which journals are initiated, recorded, processed and reported
- Confirmed the completeness of general ledger reports by developing an expected closing trial balance for comparison to the actual closing trial balance
- Our primary testing of journals included identification and substantive testing of journals that pose a heighted risk of material misstatements. These were period end transactions, material post close entries, entries that constitute unusual posting combinations as well as journals that meet defined characteristics
- For our supplementary testing we analysed all remaining entries within the population using our data analytics software, Inflo, to generate a sample based on specific risk criteria, determined by an understanding of the entities undertakings. The sample was then agreed to supporting documentation to confirm the accuracy of amounts posted and understand the business rationale behind each selected transaction.

Key observations

No issues identified in the procedures performed.

Observations in respect of other risks

Risk identified

Completeness of creditors and accruals

There is a risk that creditors and accruals could be understated or not recorded in the correct period.

Audit procedures performed

We performed the following:

- Reviewed significant post year end bank payments to determine whether they related to pre year end transactions and, if so, whether they have been recorded in the correct period
- Reviewed post year end invoices to ensure all items which related to pre year end have been corrected accrued for at the year end

Key observations

No issues identified in the procedures performed.

Risk identified

Cash and bank

Cash and bank may have been overstated.

Audit procedures performed

We performed the following:

- Obtained and reviewed bank statements for all accounts at year end
- Obtained and reviewed bank reconciliations for every bank account at year end and one month post year end, and tested a sample of reconciling items to post year end clearance and supporting documentation
- Obtained confirmation of all account balances direct from the bank

Key observations

No issues identified in the procedures performed.

Going Concern

Risk identified

The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern in the financial statements.

Audit procedures performed

We performed the following:

- Obtained and reviewed management's paper and assessment of going concern (for a period of at least 12 months from the date of approval of the financial statements), and challenged the assumptions used in the budgets and cash flow forecasts, including the associated sensitivity analysis.
- Challenged the key assumptions in the forecasts and the scope of scenario planning undertaken given current social and economic conditions in the UK and wider world.
- Considered the ability of management's historic forecasting accuracy and the extent to which this impacts the forecasts produced.
- Tested the adequacy of the supporting evidence for the budgets and cash flow forecasts, review and perform arithmetical checks and consider the headroom available.
- Reviewed disclosures that management have made in the financial statements in respect of going concern to ensure that all uncertainties and assumptions made by management are adequately disclosed.

Key observations

No issues identified in the procedures performed. We concur with Management’s assessment that the going concern basis of accounting applied is appropriate.

Other findings – update on internal control findings issued in prior year)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	**Differences between VAT returns and the VAT TB codes** • We noted during fieldwork that there is a difference between the VAT return balance at year end versus the TB. Per discussions with management this is due to invoices received in April that have a tax point in FY22. These get picked up in the Q4 VAT return because the transaction date is in FY22. However, they aren't picked up in the VAT nominal because they are received after year end (but management have appropriately accrued for the transactions). • We don't believe there to be a material misstatement, however there is a greater risk of error when performing a reconciliation manually. • We note this is relatively unusual when compared to other entities we audit.	• We recommended that management seek a system fix to address this matter. We have identified a similar difference in FY23, therefore control recommendation remains.

Assessment:
✓ Action completed
× Not yet addressed

Other communication requirements

	Issue	Commentary
1	Matters in relation to fraud	• We have previously discussed the risk of fraud with the Board. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance.
4	Written representations	• The following specific representations have been requested from Management: • The monies due to Cheshire East Council at year end are payable upon demand and we regularly review this as part of our debt management process. There is also an associated receivable balance due from Cheshire East Council and therefore there is sufficient liquidity to pay any monies owed to Cheshire East Council.
5	Confirmation requests from third parties	• We have obtained confirmations from third parties regarding the year end bank balances.
6	Disclosures	• Our review found no material omissions in the financial statements.

Adjusted misstatements

No adjusted misstatements were identified.

Unadjusted misstatements

		Profit and Loss account		Balance sheet			
Journal reference	**Detail**	**Debit**	**Credit**	**Debit**	**Credit**	**Profit effect**	**Reason for not adjusting**
	Profit/(Loss) per final accounts			978,000	978,000	73,000	
1	VAT Creditor				5,662		
	Profit and loss	5,662				(5,662)	
	Being the difference between the VAT return and the General Ledger (GL)						Not material
	Potential Profit/(Loss)					**67,388**	

Impact of unadjusted misstatements in the prior year

No unadjusted misstatements were identified.

Independence considerations

Independence considerations

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 Company 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 Group or investments in the Group 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 Group 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 Group.
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 Group's board, senior management or staff

We confirm that there are no significant facts or matters that impact on our independence 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.

Following this consideration we can confirm that we are independent 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.

Audit Fees	(£)
Audit of Company	14,626

This fee reconciles to the financial statements. There were no non-audit services.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

Additional insights

ISA (UK) 600 (Revised) Audits of group financial statements (including the work of component auditors)

ISA (UK) 600 R deals with the special considerations that apply to a group audit, including in those circumstances when component auditors are involved.

What is changing?

ISA (UK) 600 R includes new and revised requirements that better aligns the standard with recently revised standards such as ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019).

The new and revised requirements also strengthen the auditor's responsibilities related to professional skepticism, planning and performing a group audit, two-way communications between the group auditor and component auditor, and documentation. The changes are to keep the standard fit for purpose in a wide range of circumstances and the developing environment.

When?

ISA (UK) 600 R is effective for audits of group financial statements for periods beginning on or after December 15 2023.

What changes can management expect?

As group management

One of the key changes is the introduction of a proactive risk-based framework for planning and performing group audits. The group engagement team will be required to spend more time at planning with a greater focus on identifying and assessing the risks of material misstatement and planning sufficient and appropriate procedures in response to the assessed risks.

Where applicable, this will include communicating more frequently with component auditors and component management to gain a deeper understanding of component entities to assess possible risk to the group and determine where work is required to be performed, and by whom.

The new and revised requirements include enhanced documentation. This will require more group engagement resource and input from the engagement partner to ensure sufficient quality is achieved.

As group management (cont.)

Where component auditors are involved, there will be greater emphasis on frequent, two-way communication between the group engagement team and component auditor throughout the entire audit process. The group engagement team will be required to include more documentation to demonstrate how the group auditor has sufficiently directed, supervised and reviewed the work of component auditors.

As management of a component within a group audit

Where a component is in scope of a group audit, the component auditor will be involved in all phases of the group audit and provide more frequent two-way communication. The component auditor input will increase in the planning phases of the group audit and information may be required earlier than in previous periods to ensure sufficient and timely review, evaluation and so sufficient documentation can be achieved by the group engagement team.

What do management need to consider in advance of the changes?

With the change to a risk-based framework for planning and performing a group audit, management may see changes in the scope of the group audit, for example, components previously out of scope may be brought into scope for specific targeted areas. Group and component management may find that information is required earlier in the planning process than before.

The group auditor will need to be involved in more discussions with local component management, this could be for both in scope and out of scope components. Group management will need to ensure local component management are aware of such requests and that they are willing to co-operate with the group audit. Group management should notify the group engagement team of any restrictions that may exist as soon they become known.

Future financial reporting changes

FRED 82

The FRC published draft amendments to FRS 102 in its Financial Reporting Exposure Draft 82, in December 2022. The consultation closed in Spring 2023 and a revised version of the standard was expected to be published during Winter 2023. However, the FRC announced in October 2023 that the revised standard would be delayed by a year, meaning that implementation date will be no earlier than for accounting periods starting on or after **1 January 2026**.

The delay is to allow for additional consideration of the consultation responses. FRED 82 introduces IFRS principles to lease accounting and revenue recognition and while this is still expected to feature in the new FRS 102, simplifications are anticipated.

The most significant proposed changes are in relation to revenue recognition and lease accounting, outlined below:

Revenue recognition

The proposed new revenue section brings revenue recognition broadly in line with IFRS 15, ‘Revenue from Contracts with Customers’, and the 5-step revenue recognition model:

1. Identify the contract with a customer
2. Identify the promises in the contract
3. Determine the transaction price
4. Allocate the transaction price to the promises in the contract
5. Recognise revenue as/when the entity satisfies a promise

The proposed amendment uses slightly different language to IFRS 15, referring to ‘promises’ rather than ‘performance obligations’ which may give rise to inconsistencies across reporting frameworks. However, it is expected that these inconsistencies will be removed when the revised standard is published.

FRS 102 currently uses ‘risks and rewards’ to determine when revenue can be recognised which means that the timing of recognition may be different for each stream of revenue. Under the 5-step model, organisations will have to identify distinct promises in their contracts with customers and then assess whether those promises are distinct in the context of that contract. This new approach could result in changes to the way revenue is recognised, as well as introducing new complexity to the process. For some entities, there could be significant impacts on when revenue can be recognised.

Lease accounting

FRED 82 proposed an on-balance sheet lease accounting model which is based on IFRS 16, ‘Leases’, with some simplifications. This means that all leases, other than those that are either short-term leases or leases of low-value assets, will be recognised on the balance sheet. From a lessee’s perspective, there will be no need to make a distinction between operating and finance leases.

Lessees will recognise a right of use asset and a lease liability. The liability will be accounted for using the effective interest method, meaning that the interest cost (and depreciation of the right-of-use asset) will be recognised in the statement of comprehensive income. FRED 82 proposed two additional types of interest rate that are not included in IFRS 16 that can be used to discount the future lease payments. These are the lessee’s obtainable borrowing rate or a gilt rate. However, it is expected that the choice of using a gilt rate will be removed when the amended standard is published.

Summary

A revised standard is expected in the first half of 2024 and although application is delayed until 1 January 2026, organisations should look ahead to prepare for the changes. Organisations should make sure that they find all of their existing lease agreements and make sure that agreements are kept for all new lease arrangements. They should also start to assess existing sales contracts to understand what effect the adoption of the revised standard may have on the timing of revenue recognition.

Environmental, Social and Governance (ESG) reporting

The Financial Reporting Council's (FRC) update to its '2021 Statement of Intent on ESG'*

We draw attention to the FRCs communication News I Financial Reporting Council (frc.org.uk) issued in January 2023 which includes the update ESG Statement of Intent – What's Next (frc.org.uk) as well as the key areas of supervisory focus for 2024/2025.

1. Why are we communicating this to you?

Improving transparency on climate and wider ESG risks and opportunities, and related governance activities and behaviours, is a key priority of the FRC's ESG strategy. Management and Those Charged With Governance should consider the detail of the update, given the prominence placed on this area by the FRC for 2024 and beyond, how it may affect you and the actions that need to be taken.

2. What will the FRC's key areas of focus be in 2024?

The FRC have noted that one of their key areas of focus will be climate related risks, including TCFD disclosures.

They have also noted that their priority sectors are:

- Construction and Materials
- Food Producers
- Gas, Water & Multi-utilities
- Industrial Metals and Mining
- Retail

3. What does the update address?

- Areas where ongoing challenges in ESG reporting remain
- Actions for preparers to produce decision relevant information
- The FRC's plans to engage with the market to ensure that stakeholder needs are met as demand for ESG information continues to evolve

4. What resources relating to ESG reporting and governance do the update include?

To assist in navigating what remains a challenging and evolving reporting landscape, several links are included throughout the update on a wide range of material produced by the FRC.

Note: *The FRC published its first Statement of Intent on ESG in 2021, which identified underlying issues with the production, audit and assurance, distribution, consumption, supervision and regulation of ESG information. Since then, it has undertaken a significant number of initiatives both in the UK and internationally, to assist and support its wide range of stakeholders and drive best practice in high-quality and comparable ESG reporting and disclosure.

Climate Change – The roles and responsibilities of management

Why do management need to consider climate change?

Climate change is topical for investors and other stakeholders. The effects of climate change are increasingly visible, and it has the potential to impact a growing number of entities of all natures and sizes in various industries. This can be directly or indirectly, eg through their supply chain, customer base, financing, insurance and laws and regulations (both global and local).

This has led to growing demand by stakeholders for climate-related information for decision making. Reporting needs to consider both how a company is considering climate-related impacts on its business, as well as the impact the company has on the environment. This, together with the financial statement impact of climate-related considerations now and in the future, provides a key insight for investors and other stakeholders. It helps to understand the future the company faces, and the future it intends to help bring about.

Management's assessment of the potential impact on the entity's financial statements is an area of focus for the FRC. In the 'Annual Review of Corporate Reporting' published in October 2023, they highlighted detailed findings and expectations on corporate reporting. The full report can be accessed at FRC Annual Review of Corporate Reporting 2022/2023.

One of the expectations that the FRC has from companies in relation to financial statements is ensuring that

- Material climate change risks and uncertainties discussed in narrative reporting have been appropriately considered in the financial statements – both the impact on numbers and narrative disclosures
- Narrative reporting is consistent with the financial statements

We encourage management to stay abreast of developments in this area, as guidance and reporting requirements will continue to evolve in the coming years.

What do management need to consider when thinking about climate change?

We ask management to consider the aspects below and while these considerations are not exhaustive, it will be used as part of our audit procedures.

- The climate reporting requirements, directives, or legislation that the entity is required to comply with. See "Summary – current 'climate-related' reporting requirements for companies reporting in the UK" for further detail
- How management identifies and responds to climate related issues. This will include management's process(es) and controls for identifying and responding to the impact of climate change/ climate related issues and risk assessment of climate change to the business

What is our role when considering climate change?

The auditor's objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and report on whether the financial statements are prepared, in all material respects, in accordance with the financial reporting framework. If climate change impacts the entity, the auditor needs to consider whether the financial statements appropriately reflect this. This requires consideration of factors presenting a potential risk of material misstatement of the financial statements as a result of climate change. Where risks are identified, auditors need to determine an appropriate audit response to determine if they have a material impact on the financial statements.

Summary – current 'climate-related' reporting requirements for companies reporting in the UK

	Category of company				
	Small private	Medium private	Large private	AIM	Main markets[5]
Directors' report	✓	✓	✓	✓	✓
• SECR report			✓	If large	✓
• Stakeholder engagement			✓	If large	✓
Strategic report[1]		✓	✓	✓	✓
• s172 statement			✓	✓	✓
• Environmental matters					✓
• Non-financial and sustainability report ('TCFD aligned')[2]			> 500 employees and > £500m sales	> 500 employees	> 500 employees
TCFD report					✓[3]
Viability report					✓
Financial statements [4]	✓	✓	✓	✓	✓

Notes

1. Forthcoming (not yet endorsed in the UK but are effective from periods beginning on or after 1 January 2024): IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures
2. For accounting periods starting on or after 6 April 2022
3. For accounting periods starting on or after 1 Jan 2021 (Premium listed) and 1 Jan 2022 (most standard listed)
4. FRS 102 Factsheet 8 (frc.org.uk) and IFRS standards and climate related disclosures_IASB
5. Main Markets include: LSE Main Market, IPSX, The London Metal Exchange, ICE Futures Europe, Aquis Stock Exchange Limited and Cboe Europe Equities Regulated Market

Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs (BEIS)

Overview

For financial years starting on or after 6 April 2022, mandatory TCFD-aligned climate disclosure requirements on climate change related risks and opportunities, where these are material, are required. These requirements have been built into the Companies Act.

Entities within scope are:

- All UK companies that are currently required to produce a non-financial information statement, being UK companies that have more than 500 employees and have either transferable securities admitted to trading on a UK regulated market and banking companies or insurance companies (Relevant Public Interest Entities (PIEs))
- UK registered companies with securities admitted to AIM with more than 500 employees
- UK registered companies not included in the categories above, which have more than 500 employees and a turnover of more than £500m
- Large LLPs, which are not traded or banking LLPs, and have more than 500 employees and a turnover of more than £500m
- Traded or banking LLPs which have more than 500 employees

Disclosure requirements

Disclosure requirements include descriptions of governance arrangements, how climate-related risks and opportunities are identified and the actual and potential impacts of the climate-related risks and opportunities identified. This is not an exhaustive list of the requirements.

The requirements can be found in here: The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

Further guidance on the application of these requirements can be found here:
Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs (publishing.service.gov.uk)

Reminder – Streamlined energy and carbon reporting (SECR)

The SECR requirements came into force on 1 April 2019 and extended existing greenhouse gas reporting already in place for UK quoted companies, to UK registered, unquoted, large companies as defined in the Companies Act 2006. [Refer to the 'Streamlined energy and carbon reporting slide' for more information.]

Financial Conduct Authority (FCA) requirements to make Task Force Climate-related Financial Disclosures (TCFD)

Overview

Premium listed entities have since 2021 been required to include a statement in their annual financial report, setting-out whether they have made disclosures consistent with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations. Where disclosures have not been made, there must be an explanation of why and a description of any steps they are taking or plan to take to make consistent disclosure in the future.

The Financial Conduct Authority (FCA):

- Extended the application of these requirements to issuers of **standard listed** shares and global depositary receipts representing equity shares (excluding standard listed investment entities and shell companies) via listing rule LR 14.3.27R, which came into force for accounting periods beginning on or after 1 January 2022
- Introduced new TCFD-aligned disclosure rules for **asset managers and certain asset owners**, which came into force for the largest firms on 1 January 2022 and will apply to smaller firms one year later

Entities within scope are:

- Premium listed entities with an accounting periods starting on or after 1 January 2021
- Standard listed entities for accounting periods starting on or after 1 January 2022

Further review

We draw attention to FRC communication News Financial Reporting Council issued in July 2023.

The FRC and Financial Conduct Authority published two reports which found that premium listed companies have made significant steps forward in the quality of climate-related information provided in their financial reports, but further improvements are needed. These reports can be found here:

The FRC report FRC Thematic review of climate-related metrics and targets July 2023

The FCA report Review of TCFD-aligned disclosures by premium listed commercial companies | FCA

Included in these reports is a full list of areas where companies will need to raise the quality of their disclosures.

The FRC noted that there have been improvements in the reporting of climate-related metrics and targets but there are still areas for further improvement. These include better linkage to risks and opportunities, more transparency and disclosure of how the impact of announced climate-related targets and transition plans have been considered.

Reminder – BEIS and FCA disclosures

BEIS reporting applies to entities in the scope of the TCFD requirements.

Also note TCFD disclosures are "comply or explain". This is not the case for BEIS requirements.

Reminder – Streamlined energy and carbon reporting (SECR)

The SECR requirements came into force on 1 April 2019 and extended existing greenhouse gas reporting already in place for UK Quoted companies, to UK registered, unquoted, large companies as defined in the Companies Act 2006. [Refer to the 'Streamlined energy and carbon reporting slide' for more information.]

Corporate Sustainability Reporting Directive (CSRD)

Overview

If the group has branches or subsidiaries of a specified size that are trading in EU member states, then those entities will be required to provide extensive sustainability disclosures from 1 January 2025 in the annual reports and accounts of those entities.

The European Union's (EU) Corporate Sustainability Reporting Directive (CSRD) came into effect on 5 January 2023. Individual EU member states have 18 months from the effective date to incorporate the requirements of the CSRD into their domestic law. While member states cannot deviate from the minimum requirements set out in the CSRD they are able to make a number of elections during this exercise. These include the scoping requirements, the determination of the language that should be used for the sustainability report and permitting assurance to be provided by alternative providers to the statutory auditor.

What are the goals of the corporate sustainability reporting directive?

A key objective of the CSRD is enabling businesses to increase transparency and accountability of their reporting, and give stakeholders insight and guidance through analysis, benchmarking, and auditing. It's also intended to broaden the scope of sustainability management and reporting to include sustainability risks and opportunities. Ultimately, this should encourage businesses to develop a strategy to improve on sustainability.

The disclosure required by the CSRD is extensive. It covers the complete range of sustainability related topics such as climate change, biodiversity, employee working conditions, human rights etc.

Key things to know about the CSRD

Double materiality

Double materiality is fundamental to the new rules. In-scope companies will now have to report on a double materiality basis, identifying sustainability risks and opportunities, and the impact of the company on people and the environment. This means that companies will have to identify both the external impact on society and the environment (impact materiality), as well as the impact on the enterprise value (financial materiality).

Sustainability reporting standards

On 31 July 2023, the European Commission adopted 12 European Sustainability Reporting Standards (ESRS) that underpin the requirements of the CSRD. These standards have become law and will be published in the EU's Official Journal and will apply from 1st January 2024. There is no requirement, unlike the CSRD, for these to be included in the domestic law of EU member states.

Sustainability assurance

The CSRD has a requirement for mandatory assurance for all reported sustainability information. The assurance level commences with 'limited assurance' and over time will increase to 'reasonable assurance' following an assessment as to whether such a level of assurance is feasible for both auditors and entities. This is expected to have been completed by no later than 1 October 2028.

Corporate Sustainability Reporting Directive (CSRD)

Which companies are in scope?

Entities not listed on an EU regulated market within scope are:

- Large EU companies and groups – periods commencing on or after 1 January 2025
- Non-EU headquartered companies – periods commencing on or after 1 January 2028

Size criteria

An EU entity will be a large entity if at least two of the following metrics are exceeded on two consecutive annual balance sheet dates:

- Total assets of €20 million
- Net turnover (revenue) of €40 million
- Average of 250 employees

The same thresholds apply to an EU parent company, including intermediate parent companies, on a consolidated basis. In this case, the group consists of all subsidiary undertakings irrespective of where in the world they are located. It's possible that the EU parent may be exempt from preparing consolidated accounts. However, that exemption does not apply to CSRD reporting.

From 1 January 2028, certain non-EU headquartered companies will be required to publish and make available the ultimate parent entity's sustainability report. This reporting will be based on either 'Non-EU dedicated standards', ESRSs or 'equivalent standards'. It is unclear when the Non-EU dedicated standards will be published for consultation or what sustainability standards, if any, the European Commission will deem to be equivalent.

Non-EU headquartered companies that are in scope of this reporting requirement are those that have at least one EU entity in the group that is in scope of the CSRD or has at least one EU branch that generated net turnover (revenue) of more than €40 million in the prior financial year and consolidated net turnover (revenue) generated in the EU is in excess of €150 million for each of the prior two consecutive financial years.

Recommended action to take

- Identify which entities in the group are in the scope of the CSRD, taking into account any changes made by member states in their domestic laws
- Identify what information is required to be disclosed by the ESRS and determine how any data gaps will be addressed. This includes comparing new disclosure requirements to the current state
- Undertake a double materiality assessment. This may include policies, KPIs, and targets
- Determine what EU taxonomy* disclosures and KPIs will also need to be reported along with the ESRS disclosures

* The EU Taxonomy is a classification system developed by the European Union (EU) to identify and define economic activities that are considered environmentally sustainable.

Streamlined energy and carbon reporting (SECR)

The SECR framework

The SECR requirements came into force on 1 April 2019 and extended existing greenhouse gas reporting already in place for UK Quoted companies, to UK registered, unquoted, large companies as defined in the Companies Act 2006.

Size Limits	Two out of:
Turnover	>£36m
Balance sheet	>£18m
Employees	>250

Large Limited Liability Partnerships (LLPs), which are already required to undertake energy audits under Energy Savings Opportunities Scheme (ESOS) Regulations also fall within scope of the SECR framework. Companies using 40,000kWh or less energy in the 12 month reporting period are exempt. Public organisations, charities or voluntary bodies fall outside this legislation unless they operate as companies or LLPs and are above the relevant reporting thresholds.

The SECR was developed with the intention of making environmental reporting more consistent and to encourage more businesses to realise the benefits of measuring their environmental performance. Measurement is often the first step in reducing energy and other resource consumption and can assist businesses in gaining a better understanding of these increasingly important environmental challenges.

Group reporting

If reporting at the group level, when making energy and carbon disclosures, information of any subsidiaries included in the consolidation must also be taken into account. However, there is the option to exclude any information relating to a subsidiary which the subsidiary would not be obliged to include if reporting on its own accounts.

Furthermore, a subsidiary might not be obliged to include the energy and carbon information in its own accounts and reports, if it is included in the group report of a parent undertaking.

What needs to be in the financial statements?

Disclosure requirements include UK energy usage with comparatives, UK scope 1 and 2 greenhouse gas emissions with comparatives and methodology of how the data has been collated and prepared. This is not an exhaustive list of the requirements.

There are also voluntary Scope 3 greenhouse gas emissions disclosures that are encouraged.

A full list of requirements can be found at Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance

These disclosures need to be made in the directors' report. Where energy usage and carbon emissions are of strategic importance to the company, disclosure may be included in the strategic report instead of the directors' report.

FRC Thematic Review

In September 2021, the FRC published their thematic review on SECR. The key findings from this review is that more needs to be done to make the disclosures understandable and relevant for users:

- Reports did not always provide sufficient information about the methodologies used to calculate the emissions and energy use information
- It was not always clear which entities were included in groups' SECR disclosures
- More thought is needed about how to integrate these disclosures with narrative reporting on climate change, where relevant, and make them easier for users to navigate
- It was sometimes unclear whether the ratios selected were the most appropriate for the entities' operations
- Disclosures about energy efficient measures did not always clearly describe the 'principal measures' taken by the entity in the current year
- The extent of third party assurance obtained over the SECR information was not adequately explained in most cases

The thematic review report provides a number of best practice examples, along with the expectations of the FRC for good SECR disclosures.

Appendices

Delivering audit quality – proven success in regulatory inspections

You are working with a firm who has quality at the heart of their audit culture; a firm with a consistent track record in driving quality; and the first firm ever to have 100% of files reviewed in the highest quality gradings bracket awarded by the Financial Reporting Council (FRC) – for two consecutive years.

Consistently delivering high-quality results

- In 2022, we were the first firm to ever be awarded the highest quality gradings bracket for 100% of files reviewed by the FRC. We're delighted that this is consistent for the 2022-23 findings
- The graph to the right shows Grant Thornton is the only firm to have all files reviewed in the highest quality gradings bracket awarded ("Good or limited improvements required"). It also shows the progress of our quality journey, following the enhancements and investments we've made in recent years
- Furthermore, this year's report by the FRC includes findings from the ICAEW's Quality Assurance Department (QAD) where, again, 100% of those reviewed for our firm are in the highest bracket awarded

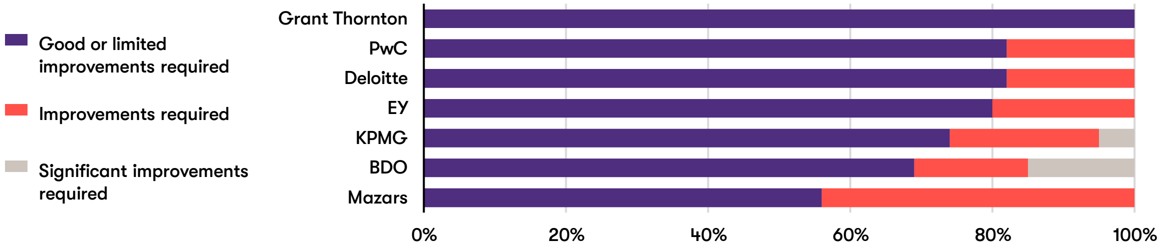
Click here to see the latest annual Audit Quality Inspection for our firm, as published by the regulator, the FRC, on 6 July 2023.

Continued commitment to audit quality

We've established a 2025 audit strategy focussed around further enhancing our audit practice to ensure we continuously deliver high-quality audits through:

- **Creating an environment which allows us to excel in our chosen markets, consistently.** We've structured our audit practice to enable our teams to work across one of three markets (public interest, private capital, or entrepreneurial services), so our people have both the experience and enthusiasm to audit similar businesses
- **Delivering exceptional results in four key areas of Quality, Inclusion & Diversity, Environmental, Social, Governance and People Experience.** Our people and our client relationships are our greatest asset and we've cultivated a strong audit culture
- **Investing in talent, technology and infrastructure.** We continually re-invest in the very best people, technology and infrastructure to instill a mindset of continuous improvement

FRC's Audit Quality Inspection and Supervision Report Findings 2022-23 (%), July 2023



The FRC have introduced 'targeted activity' – extracted directly from the report, the FRC state: "targeted activity: reduce inspection and supervision activity at firms where we have seen sufficient and sustained improvements in audit quality. This enables us to invest resources elsewhere, including at firms where quality improvements have been insufficient". We're delighted that, our firm, as a result, will see fewer inspections in future years.

What has the FRC said about us?

Our firm is immensely proud of the "good practice" areas highlighted by the FRC in our recent inspections, all of which remain integral to ensure we continue to deliver outstanding quality:

- Use of specialists, including at planning phases, to enhance fraud risk assessment
- Effective deployment of data analytical tools, particularly in the audit of revenue
- Robust challenge and effective assessment around capitalisation of costs, and consistency in assumptions used around valuations
- Clear oversight at group level when working with component auditors, including detailed review of working papers and evidencing interactions with component teams

We also welcome the FRC's comments around our own Internal Quality Monitoring process as "good practice" and other areas highlighted around our challenging of accounting around complex areas; holding discussions with those outside the finance team to provide broader audit evidence, and detailed and effective communication to Audit Committees.

Delivering audit quality – Quality Management Approach

Our Quality Management Approach (QMA) is structured around a number of components and is designed to meet the requirements of International Standard on Quality Management (UK) 1 as well as several other standards. The objectives of the QMA are:

- to deliver a risk-based approach to continually improving quality
- for individuals to see quality is more than just basic "tick box" compliance. Quality is at the centre of everything we do and allows us to meet our stakeholder's expectations
- to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:
  - the firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements and
  - engagement reports issued by the firm or engagement partners are appropriate in the circumstances
- to establish and maintain a robust monitoring, reporting, root cause and remediation programme
- to ensure the firm is resilient and can identify and respond to changes in the regulatory environment

The components of the QMA have a number of detailed objectives and requirements designed to meet the overall objectives noted above. We identify risks to the achievement of these objectives and requirements and have developed and implemented responses to these risks. Our responses are designed around our:

Underlying structures | **Policies** | **Processes** | **Controls**

The risks identified are rated according to the firm's risk taxonomy and risk rating model.

The QMA has a range of monitoring activities embedded within it but is also subject to a detailed review and testing process on an annual basis. The QMA provides consistency in the quality of our audits through the breadth and depth of our responses to quality risks.

Our quality components are outlined below

Culture – We create a culture where quality is embedded in everything people do.

Leadership and governance – We behave ethically and meet the expectations of our regulators and society.

People – We recruit, develop and nurture people from all backgrounds. We ensure they have the skills, ability, confidence and enthusiasm to deliver quality work across the business.

Risk assessment, mitigation and resilience – We manage risk and build our resilience to support the firm's strategy and deliver quality in all our work.

Operating environment and new initiatives – We monitor our operating environment for changes impacting quality. We consider quality, risk and legal requirements for new initiatives, including digital solutions, services and market offerings.

Reputation – We behave ethically and meet the expectations of our regulators and society.

Technology and data – We have a digital mindset. We manage our information and records to protect confidentially, maintain their integrity, ensure accessibility and support work done.

Take On – We only accept and continue work with clients aligned to our purpose, where we can deliver quality and only once all legal, commercial and ethical requirements have been met.

Delivery – We provide clear and easy to understand policies and procedures to guide and support our people to deliver quality assignments. We challenge each other, prior to providing assignment delivery, to ensure our work meets our high-quality standards.

Monitoring, reporting and root cause analysis – We monitor processes and controls on an ongoing basis. Reporting and root cause analysis allow us to take appropriate actions to address issues and focus on continuous quality improvement.

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	●	
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 Group'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		●
Expected modifications to the auditor's report, or emphasis of matter		●

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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings report

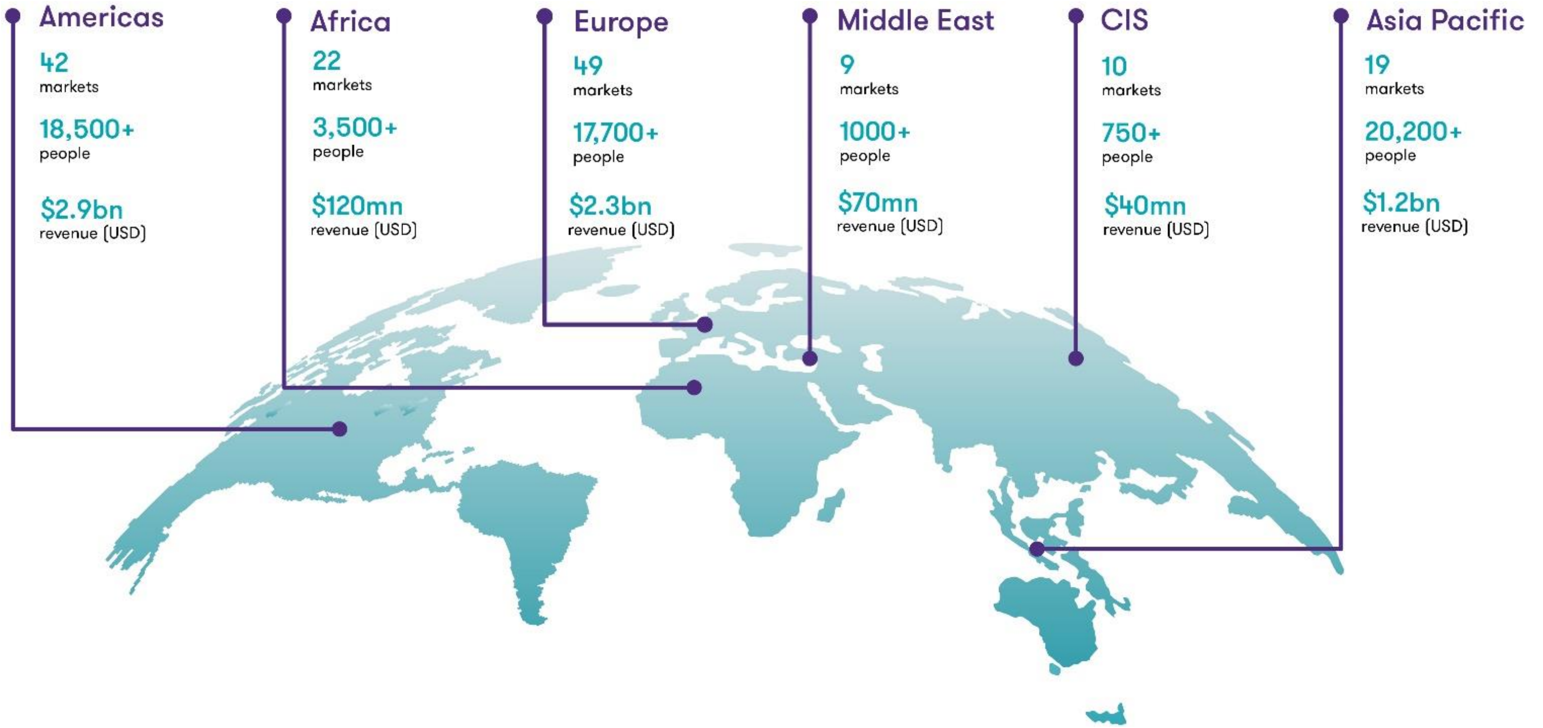
Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

Grant Thornton at a glance

We are the UK member firm of a global network that employs 62,000 people in 140 countries. We combine global scale with local insight and understanding to give you the assurance, tax, and advisory services you need to realise your ambitions.

We go beyond business as usual, so you can too. We make business more personal by investing in building relationships.

Whether you're growing in one market or many, you consistently get a great service you can trust. We work at a pace that matters – yours – bringing both flexibility and rigour. We celebrate fresh thinking and diverse perspectives to bring you proactive insights and positive progress.



27
UK offices

200+
Partners

5,000
UK employees

£570m
Turnover

No.1
Independent nominated adviser of AiM

6th
Largest auditor – FTSE 350

6th
Largest auditor – UK's top privately-held companies

51%
FTSE 100 are non-audit clients

Grant Thornton