

Rushmoor Borough Council

Audit planning report

Year ended 31 Month 2026

April 2026



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23 April 2026



Audit and Governance Committee
Rushmoor Borough Council
Council Office, Farnborough Road
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Hants
GU14 7 JU

Dear Audit and Governance Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Audit and Governance Committee (“AGC”). The purpose of this report is to provide the AGC Committee of Rushmoor Borough Council (the Council) with a basis to review our proposed audit approach and scope for the 2025/26 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office’s 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements. This report summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

This report is intended solely for the information and use of the AGC Committee and management, and is not intended to be, and should not be used, by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 4 June 2026 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Simon Mathers

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment and further guidance (updated October 2025)' issued by the PSAA ([Terms of appointment and further guidance from 1 October 2025 - PSAA](#)) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the AGC Committee and management of Rushmoor Borough Council. Our work has been undertaken so that we might state to the AGC Committee and management of Rushmoor Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the AGC Committee and management of Rushmoor Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2025/26 audit strategy

2025/26 audit strategy overview: Rebuilding Assurance

The purpose of this report

As the Council's body charged with governance, the AGC Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will significantly increase the level of resources required to fulfil our respective responsibilities.

As part of our responsibilities, we assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the AGC Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. Wherever necessary, we will consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements. We direct AGC Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

Our shared strategy to rebuild assurance

We are now in Phase 2 of the implementation of the Ministry for Housing, Communities and Local Government's (MHCLG) measures to address the backlog facing local government audit. Throughout 2023/24 and 2024/25, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements. Our approach recognises that recovery depends heavily on the Council's own capacity and preparedness and that audit effort must be targeted where it can deliver meaningful assurance.

Management has overall responsibility for leading and sustaining the Council's recovery from a disclaimed audit opinion. This includes ensuring that the financial statements are prepared in accordance with proper practices and supported by complete, accurate and timely audit evidence.

To deliver this, it is essential that management:

- Strengthen the underlying control environment, particularly in areas linked to prior year disclaimers.
- Provide high quality working papers and ensure that all audit evidence is complete, consistent and readily accessible.
- Actively engage with auditors, promptly addressing findings and resolving weaknesses in financial reporting arrangements.
- Communicate transparently with the AGC Committee, as Those Charged with Governance, ensuring that Committee members have clear visibility of risks, progress and emerging issues.

In line with the National Audit Office's Local Audit Reset and Recovery Implementation Guidance (LARRIGs) - and specifically the guidance on rebuilding assurance following a disclaimed opinion - management must support the restoration of reliable opening balances and enable a phased progression from disclaimed to qualified and ultimately unmodified audit opinions. Achieving this requires sustained delivery of the "natural rebuild," through the completion of all planned audit procedures across successive annual cycles, alongside targeted work to rebuild assurance over historical balances, including both usable and unusable reserves, where cumulative gaps in evidence present the most significant challenges.

2025/26 audit strategy overview: Rebuilding Assurance

Our shared strategy to rebuild assurance continued

Appendix A explains the expected timeline to full assurance set out within the NAO's LARRIG 01 guidance, along with our assessment of the Council's status. During 2023/24 and 2024/25, the focus of the rebuild process has been on this "natural" rebuild, to complete all planned audit procedures for each respective audit year. As we set out in Appendix A and in our Audit Results Reports for 2023/24 and 2024/25, we were not able to complete all planned audit procedures to gain assurance on the valuation of property, plant & equipment and investment property in either 2023/24 or 2024/25 because of weaknesses in the quality of evidence provided and in certain assumptions adopted by the Council's valuer for assets valued at Depreciated Replacement Cost, Existing Use Value and Fair Value.

As part of our interim audit procedures for 2025/26, we will undertake a detailed risk assessment to evaluate the risk of material misstatement in the opening reserves balances at 1 April 2025, and to assess management's readiness to support the historic rebuild process over transactions and balances in 2020/21, 2021/22 and 2022/23, that were not subject to audit. This work is expected to be completed by 30 June 2026 and is essential to determining whether the pre-2023/24 gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed to support future progression towards qualified or unmodified audit opinions.

We will discuss the outcome of our risk assessment over the opening reserves balances with management to confirm our planned approach for 2025/26. However, because we were unable to complete all planned audit procedures for 2023/24 and 2024/25 for the reasons outlined above, it is unlikely that we will commence any rebuilding of assurance over the historic position during the 2025/26 audit cycle. In line with our established prioritisation principles, we will focus our audit resources on rebuilding assurance for those bodies where planned audit procedures were completed in 2023/24 and 2024/25, in order to support the sector wide objective of returning to unmodified audit opinions as quickly and sustainably as possible.

It is therefore critical that management ensure they can provide high quality working papers, robust audit evidence, and resolve the underlying issues identified in prior years as part of the 2025/26 audit cycle. This will be essential to avoid any further delay in the eventual process for rebuilding assurance over the Council's historic position.

2025/26 audit strategy overview: Rebuilding Assurance

Preparedness for audit

Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. Our 2024/25 reporting included our assessment of the effectiveness of the Council's arrangements to support the external audit process across a range of relevant measures (reproduced in Appendix A). We concluded that improvements had been made in the Council's arrangements to support the audit, but that further improvements were required in relation to:

- The quality of evidence to support the valuation of property, plant and equipment, land and buildings and investment property from the Council's valuer.
- Detail breakdowns of closing debtors and creditor balances which were not provided, with only in-year transactions available. Consequently, this resulted in additional time being spent by both management and the audit team.

We will continue to report on our assessment of the quality of the Council's financial statements' preparation and support, to support ongoing transparency of the audit process to those charged with governance, and to facilitate benchmarking and tracking of progress in future years.

Scope of our audit

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an Audit Results Report that summarises our opinion on the financial statements by 29 January 2027 and other procedures required by the Code. This includes our assessment of the control environment, including our follow up of the recommendations that we made in 2024/25 (refer to Appendix C). In addition, our Auditor's Annual Report will conclude on whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Rushmoor Homes Limited ("RHL") have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

Our Group risk assessment and procedures are outlined in Section 5.

Timeline

An audit timetable has been agreed with management. In Section 7 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

Our independence considerations

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2025 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Please refer to Appendix B for our update on independence.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

The purpose of our audit is to obtain reasonable assurance to express an opinion about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error. There is one significant change to the scoping for the audit of the 2025/26 financial statements, relating to the implementation of CIPFA's Bulletin 22 in relation to the valuation of Property, Plant and Equipment.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the AGC Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.




| Risk/area of focus | Risk identified | Change from PY | Details |
|--|------------------|----------------------------|--|
| Presumptive risk of management override of controls | Fraud risk | No change in risk or focus | There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. |
| Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure | Fraud risk | No change in risk or focus | Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure. |
| Valuation of land and buildings and valued under the depreciated replacement cost (DRC) method and the existing use value (EUV) method | Significant risk | No change in risk or focus | The valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY. The estimates heighten the risk of material errors. In the prior year, we were unable to substantiate some key inputs and assumptions used in the valuation of land and buildings valued using Depreciated Replacement Cost (DRC), Equivalent Use Value (EUV) and Fair Value (FV). This includes PPE Other Land and Buildings valued at EUV, DRC and FV In the 2025/26 financial statements the Council will be required to consider revisions to the Code of Practice on Local Authority Accounting (the Code) and apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The Code mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. Successful implementation will depend on the Council ensuring that their existing valuation programme is adapted in line with the guidance and that appropriate indices are selected to be applied in intervening years. Rushmoor Borough Council will be implementing the 5-year rolling programme for formal valuations, supported by annual indexation in the intervening years. |

2025/26 audit strategy overview: Audit risks and materiality (cont'd)

Audit risks and areas of focus continued

| Risk/area of focus | Risk identified | Change from PY | Details |
|---|-------------------------------|----------------------------|---|
| Valuation on investment property | Significant risk | No change in risk or focus | <p>The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.</p> <p>Similar to the valuation of land and buildings, we were unable to substantiate some key inputs and assumptions used in the valuation of investment property.</p> |
| Valuation of pension assets and liabilities | Risk of material misstatement | No change in risk or focus | <p>Accounting for the Council's participation in the Hampshire Pension Fund involves significant estimation and judgement, including financial and demographic assumptions. There is a risk that the net pension asset/liability recognised is materially misstated, as its recognition and measurement is subject to significant management judgement, including the application of the IAS 19 asset ceiling and the assessment of the Council's ability to realise future economic benefits.</p> <p>The Council engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> |

Materiality

| | | |
|--|---|--|
|  <p>Materiality has been set at £1.65 million, which represents 2% of forecast gross expenditure in 2025/26 (2024/25: £2.03 million, 2%).</p> |  <p>Performance materiality has been set at £0.83 million, which represents 50% of materiality.</p> |  <p>We will report all uncorrected misstatements) greater than £82,000 impacting expenditure. Other misstatements identified will be communicated to the extent that they merit the attention of the AGC Committee.</p> |
|--|---|--|




2025/26 audit strategy overview: Value for Money

Our risk assessment

Under the NAO Code we are required to:

- Satisfy ourselves that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, having regard to [NAO AGN 03](#).
- Design work to provide sufficient assurance to support reporting against the Code's specified reporting criteria outlined below; and
- Apply a risk-based approach to our work, informed by sector knowledge, the annual governance statement, evidence from the financial statements audit and relevant work of other bodies.

In undertaking our risk assessment, we obtain an understanding of the key processes the Council has in place, including financial management, risk management and partnership working arrangements. Our Final Auditor's Annual Report, which will be issued before 30 November 2026 will include a summary of our commentary on the arrangements in place against each of the three value for money criteria and recommendations raised as a result of any significant weaknesses identified. A key part of our work will be the follow up of previous recommendations to provide the Committee with assurance on the pace of planned improvements.

| |  Financial sustainability How the Council plans and manages its resources to ensure it can continue to deliver its services. |  Governance How the Council ensures that it makes informed decisions and properly manages its risks. |  Improving economy, efficiency and effectiveness How the Council uses information about its costs and performance to improve the way it manages and delivers its services. |
|---|--|--|--|
| Risks of significant weaknesses in arrangements identified in 2025/26: | <ul style="list-style-type: none"> ▪ The current debt level and the effect of rising borrowing costs pose a risk to the Council's long-term financial sustainability. The Stability and Resilience Reserve is currently being utilised to balance the budget in the short term; however, it is projected to be depleted over the MTFS period if savings are not achieved. Consequently, by 2027/28, the Council is expected to have insufficient reserves to set a balanced budget or address further anticipated deficits. ▪ This risk is the same as prior year. | No risk | <ul style="list-style-type: none"> • No risk |
| Recommendations identified in 2024/25 (refer to Appendix D): | <ul style="list-style-type: none"> ▪ See Appendix C | <ul style="list-style-type: none"> ▪ No recommendations identified | <ul style="list-style-type: none"> ▪ No recommendations identified |



02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Presumptive risk of management override of controls*

What is the risk, and the key judgements and estimates?

In accordance with ISA 240, the presumptive risk of management override of controls is present at every entity and we design the appropriate procedures to consider such risk.

- Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.
- Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

We consider this risk to be relevant to the Group (and Council as a single entity).

Our response: Key areas of challenge and professional judgement

In order to address the risks outlined we will carry out a range of procedures including:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud and determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertaking procedures to identify significant unusual transactions.
- Considering whether management bias was present in the key accounting estimates and judgements in the financial statements.

Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|--|---|
| <p>We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:</p> <ul style="list-style-type: none"> Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so. Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year. <p>If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE)/Investment Property (IP) additions and/or REFCUS in the financial statements.</p> | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.</p> <p>We consider this risk to be relevant to the Council as a single entity.</p> | <p>In order to address the risks outlined we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> Testing Property, Plant and Equipment (PPE)/Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. Assessing whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred. Considering whether any development or other related costs that have been capitalised are reasonable to capitalize, i.e., the costs incurred are directly attributable to bringing the asset into operational use. Testing REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year. Seeking to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. |

Our response to significant risks

Valuation of land and buildings and valued under the depreciated replacement cost (DRC) method and the existing use value (EUV) method

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|---|
| <p>The valuation of land and buildings represent material figures within the Council's financial statements.</p> <p>Those valued on an Existing Use Value (EUV), Depreciated Replacement Cost (DRC) and Fair Value (FV) basis are reliant upon judgements and assumptions which can have a material impact on the values on the Council's balance sheet. Errors within the judgments, assumptions, or information provided to the valuer can have a material impact on the financial statements.</p> <p>The relevant 2024/25 account balances in the audited financial statements were:</p> <p>Property, plant and equipment: £81 million</p> <p>Relating to land and buildings: £64 million</p> <p>Additions totalled: £13 million</p> | <p>These valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY.</p> <p>These estimates heighten the risk of material error.</p> <p>In our 2023/24 and 2024/25 audits, we were unable to substantiate some key inputs and assumptions used in the valuation of land and buildings valued using Depreciated Replacement Cost (DRC), Equivalent Use Value (EUV) and Fair Value (FV). This includes PPE Other Land and Buildings valued at EUV, DRC and FV.</p> <p>EY's valuation specialists (EYRE) applied their own judgments based on available market information and evidence provided by the Council and its external valuer. Results of EYRE review identified weaknesses in the quality of evidence provided and that certain assumptions adopted by the Council's valuer for assets valued at DRC and FV were not supportable or inconsistent with wider valuation practice. Due to the statutory backstop date of 27 February 2026, we will not be able to complete further procedures to resolve the judgmental differences or conclude on whether potential errors are more pervasive across the untested population.</p> <p>In the 2025/26 financial statements the Council will be required to apply the revised CIPFA Code and related guidance in Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. These changes do not impact investment property which is still required to be revalued in full each year.</p> <p>The Bulletin suggests that the BCIS all-in Tender Price Index (BCIS all-in TPI) could be used for DRC valuations. This approach is considered reasonable but only considers the calculation of the Gross Replacement Cost, which is only part of the DRC valuation. Management should assess whether an adjustment for obsolescence is required.</p> <p>We consider this risk to be relevant to the Council as a single entity.</p> | <ul style="list-style-type: none"> ▪ Review and assess management's assessment and planned approach to the revised CIPFA Code and related guidance in Bulletin 22, in the context of other challenges in the application. In particular considering the appropriateness of indices applied to assets not revalued during intervening years and triggers for revaluation. ▪ Review and appraise the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. ▪ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support price per square metre). ▪ Involve EY internal specialists to challenge the work performed by the Council's valuers, focusing on more material assets which have been subject to audit differences in the past. ▪ Assess any changes to useful economic lives against the most recent valuer assessments. ▪ Test accounting entries have been correctly processed in the financial statements. ▪ Review and assess management's impairment assessment of ongoing and completed capital projects to ensure assets are held at an appropriate value. |

Our response to significant risks

Valuation of Investment Property valued at fair value

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|--|--|--|
| <p>The valuation of investment property represent a material figure within the Council's financial statements.</p> <p>Fair Value (FV) basis are reliant upon judgements and assumptions which can have a material impact on the values on the Council's balance sheet. Errors within the judgments, assumptions, or information provided to the valuer can have a material impact on the financial statements.</p> <p>The relevant 2024/25 account balances in the audited financial statements were:</p> <p>Investment Property: £134.5 million</p> | <p>These valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY.</p> <p>These estimates heighten the risk of material error.</p> <p>In our 2023/24 and 2024/25 audits, we were unable to substantiate some key inputs and assumptions used in the valuation of Investment Properties valued at FV.</p> <p>These valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY.</p> <p>These estimates heighten the risk of material error.</p> <p>We consider this risk to be relevant to the Group (and Council as a single entity).</p> | <ul style="list-style-type: none"> ▪ Understand the Council's approach to the valuation of Investment Property. ▪ Consider the use of management's specialists - the external valuers - including the scope of work and the professional competencies of the specialist. ▪ Challenge the assumptions made by management and their specialists, with input from EY real estates (EY specialists). ▪ Sample test key asset information used by management's specialists. We will consider if there are any specific changes to assets and whether they have been appropriately communicated;. ▪ Test that accounting entries have been correctly processed in the financial statements. |

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

| Financial statement impact | What is the risk, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|--|--|--|
| <p>Valuation of Pension Assets and Liabilities</p> | | |
| <p>The Council's net pension liability is measured as the sum of the long-term payments due to members as they retire against the Council's share of the Hampshire Pension Fund investments. At 31 March 2025 the Council's net pension asset (funded) totalled £13.9 million which was limited to nil in line with the accounting requirements of IFRIC 14.</p> <p>An unfunded liability of £2.3 million was also recorded on the Council's balance sheet and a material Group pension asset is considered in full.</p> | <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>We consider this risk to be relevant to the Council as a single entity.</p> | <p>In response to the risk, we will:</p> <ul style="list-style-type: none"> ▪ Liaise with the auditor of Hampshire Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions. For 2025/26 we will specifically request for work to be done by the Pension Fund auditor to gain assurance over membership data used to inform the 31 March 2025 triennial valuation of the Fund. ▪ Engage our actuarial specialists to assess the work of the actuary. This will involve a consideration of the net asset/liability and any calculation of the asset ceiling in accordance with IFRIC 14 where relevant . ▪ Assessing the work of PwC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies. ▪ Review and test the accounting entries and disclosures made within the Group Council's financial statements in relation to IAS19. ▪ Consider the valuation and disclosure of unfunded liabilities, for which there are no plan assets to meet the pension liabilities. <p>As part of our audit procedures, we will request that the Group and Council obtain an asset ceiling report from its actuaries. Our actuarial specialists will review the asset ceiling report to satisfy themselves that it is materially correct. Following review, we will also ensure that pension assets and liabilities are appropriately recorded within the Group financial statements.</p> |



03 Value for money

Value for money

Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together a commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money in its use of resources.

Auditor responsibilities

Under the NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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

Value for money

Planning and identifying risks of significant weakness in value for money arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The annual governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered significant if it:

- Exposes, or could reasonably be expected to expose, the council to significant financial loss or risk;
- Leads to, or could reasonably be expected to lead to, significant impact on the quality or effectiveness of service or on the council's reputation or unlawful actions;
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the AGC Committee.

Reporting on value for money arrangements

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's attention. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2025/26 Auditor's Annual Report must be issued in draft by 30 November 2026 to comply with the revised requirements of the NAO Code.

Value for money

Value for money risk assessment

We have completed our initial value for money planning, where we have considered:

- Our entity level controls and understanding the business assessment
- The Council's Risk Register/the Annual Governance Statement
- Council meeting minutes and our planning meetings with management
- Key financial and budget information
- Key performance reports/internal audit reports
- Findings of other inspectorates, review agencies and other relevant bodies including the Care Quality Commission.

As part of our initial planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing value for money 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

| Criteria | 2024/25 judgements on arrangements | 2025/26 risk assessment | 2025/26 expected procedures to respond |
|--------------------------|---|---|--|
| Financial sustainability | <p>The current debt level and associated borrowing costs pose a risk to the Council's long-term financial sustainability. Although a long-term asset disposal programme has been agreed to generate capital receipts that could be used to reduce the level of external borrowing, the Council has not delivered the volume and value of asset disposals within planned timescales to allow it to generate the capital receipts needed to reduce external borrowing. Further potential asset sales need to be identified and the rate of delivery of capital receipts needs to be increased.</p> <p>Reserves are currently being used to balance the budget in the short term and, although revenue savings were achieved in 2024/25, the Council did not identify and deliver sufficient recurrent revenue savings to allow it to balance future budgets. Should the Council not be able to identify a permanent reduced cost base there is a risk this will lead to insufficient reserves to balance the budget in the 2026/27 financial year and beyond.</p> | <ul style="list-style-type: none"> ▪ A risk of significant weakness has been identified relating to weakness in arrangements to secure future financial sustainability. ▪ The prior year significant weakness is an indicator of a risk in the current year. Based on our current understanding we consider it likely we will continue to report by exception in 2025/26. | <ul style="list-style-type: none"> ▪ We will review the changes that the Council has made to forecasting within the Medium-Term Financial Plan. ▪ We will consider the effectiveness of the Council's savings plans including delivery to 31 March 2026. ▪ We will consider the effectiveness of the implementation of capital disposal plan to reduce the Capital Financing Requirement (CFR) and its impact on external borrowings. |

Value for money (cont'd)

Value for money risk assessment

| Criteria | 2024/25 judgements on arrangements | 2025/26 risk assessment | 2025/26 expected procedures to respond |
|---|---|---|---|
| Governance | Based on 2024/25- the Council had proper arrangements in place in 2024/25 in how it uses information about its costs and performance to improve the way it manages and delivers its services. | <ul style="list-style-type: none"> No risk of significant weakness has been identified | <ul style="list-style-type: none"> We will continue to assess the Council's arrangements for the production of financial statements and supporting working papers by the statutory deadline of 30 June 2026. |
| Improving economy, efficiency and effectiveness | Based on 2024/25- the Council had proper arrangements in place in 2024/25 in how it uses information about its costs and performance to improve the way it manages and delivers its services. | <ul style="list-style-type: none"> No risk of significant weakness has been identified | <ul style="list-style-type: none"> As above |

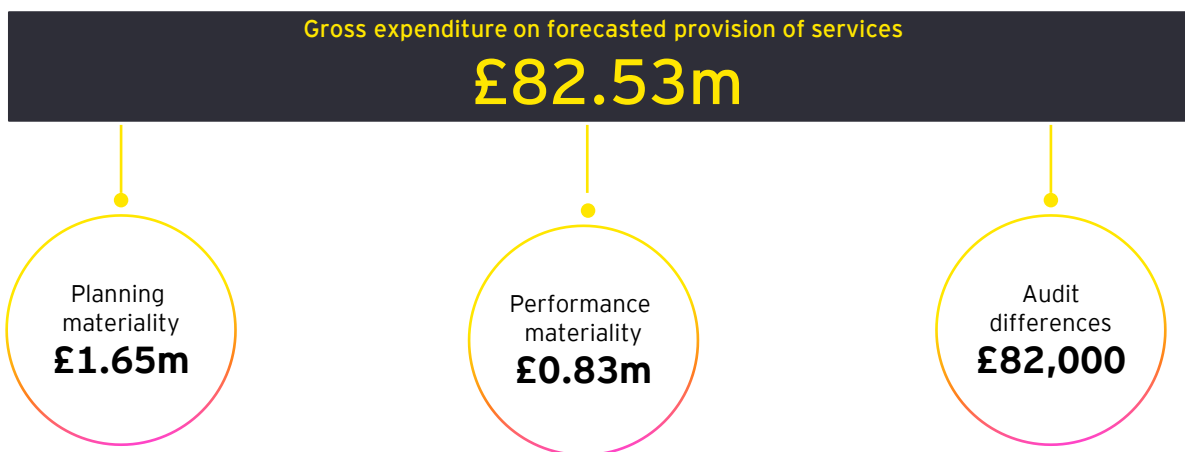


04 Audit materiality

Materiality

Group materiality

For planning purposes, Group materiality for 2026 has been set at £1.65 million. This represents 2% of the 2025 forecasted gross expenditure on provision of services. It will be reassessed throughout the audit process. Include rationale for choosing this basis and percentage in line with what is anticipated in the auditor's report. Include the qualitative factors which were considered when setting the level of materiality. We have provided supplemental information about audit materiality in Appendix F.



We request that the AGC Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.83 million which represents 50% of council materiality.

The number of audit differences identified in our 2024/25 audit, and we disclaimed more than one opinion prior to 23/24, therefore is more likely that the delays in the audits were due to a weaker control environment at the entity and more misstatements.

Component Materiality - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. The Group consists of The Council and RHL. As outlined on page 7, RHL is exempt from audit. The component materiality is therefore the same as the Group Materiality. Please refer to page 26 for details regarding group scoping.

Audit difference threshold – We will report to you all uncorrected misstatements over £82,000, relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the AGC Committee, or are important from a qualitative perspective.



05 **Scope of our audit**

Audit process and strategy

Objectives of our audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the financial position of the group and its expenditure and income for the period in question; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- Whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

In 2024/25, the Council's Internal Audit Annual Report concluded that there is reasonable assurance over the internal control environment for Rushmoor Borough Council.

Scoping the group audit

Group scoping

The Council prepares its annual report and financial statements on a group basis. In line with ISA (UK) 600, our audit strategy for performing an audit of a group with multiple components is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group financial statements.

We first determined whether centralised procedures could be performed before we determined which components to include in the group audit scope, and the work to be performed at those components. We determined that centralised audit procedures can be performed on all components.

We next identified individually relevant components based on various risk characteristics and applied professional judgement to determine which accounts were to be included in the work performed at these components. We then considered whether the remaining group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the group financial statements. When

determined that these residual balances could give rise to a risk of material misstatement of the group financial statements, we determine whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the risks of material misstatement of the group financial statements. Having identified the components for which work will be performed, we determined the scope to assign to each component.

For the remaining residual amount of balances and accounts of the group financial statements which are not included within the group scope we perform further risk assessment procedures to confirm that there is no risk of material misstatement within those amounts.

Details of procedures performed centrally

All required audit procedures relating to The Council and RHL can be performed centrally.



06 Audit team

Audit team

Audit team leadership

The engagement team is led by Simon Mathers, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY.

Our approach to the use of specialists

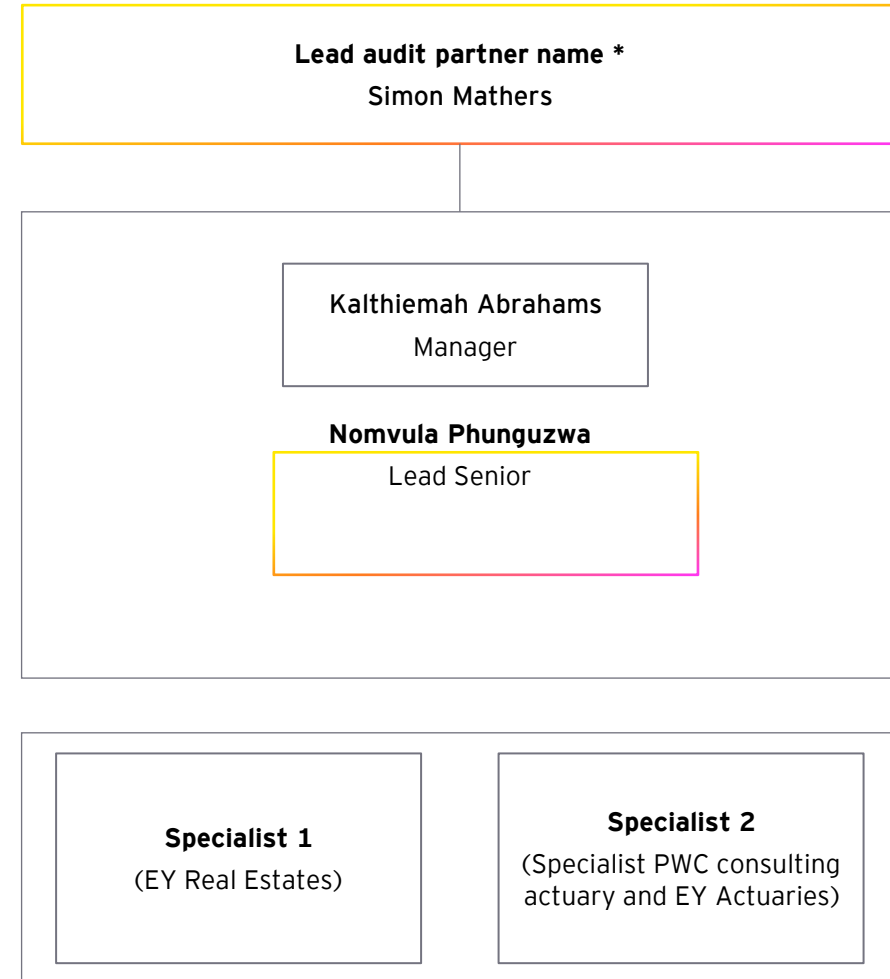
When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

| Area | Specialists |
|---|---|
| Valuation of Land and Buildings and Investment Property | EY Valuations team |
| Pensions disclosure | EY Actuaries PWC (Consulting Actuary to the NAO) |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





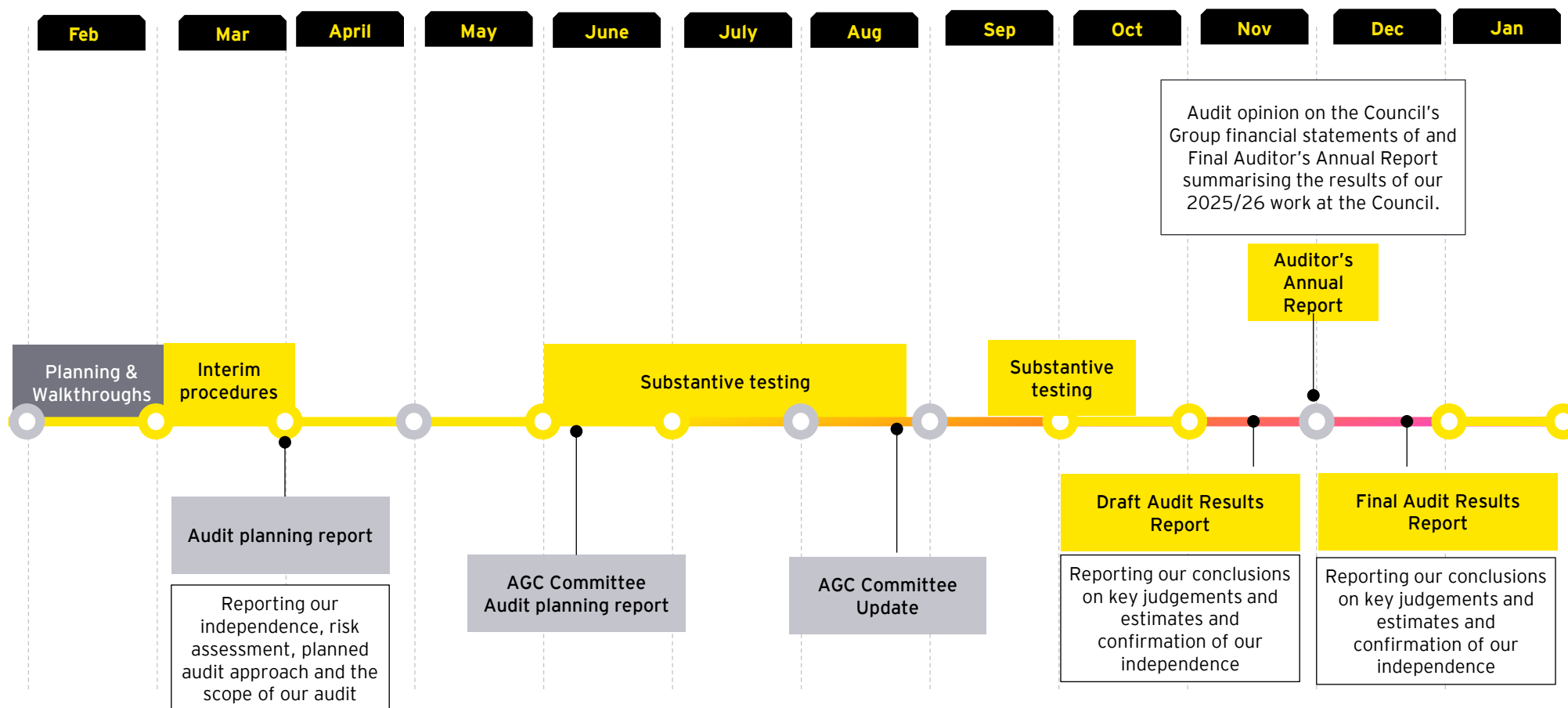
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2026.

From time to time matters may arise that require immediate communication with the AGC Committee and we will discuss them with the AGC Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08 Appendices

Appendix A – Rebuilding assurance: responsibilities

The Council's responsibilities

As set out in Appendix B our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular, the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable, and the start date of the audit will be delayed.

Observations from 2024/25

As we have outlined in prior years, our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. We presented our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures as part of our 2024/25 Audit Results Report.

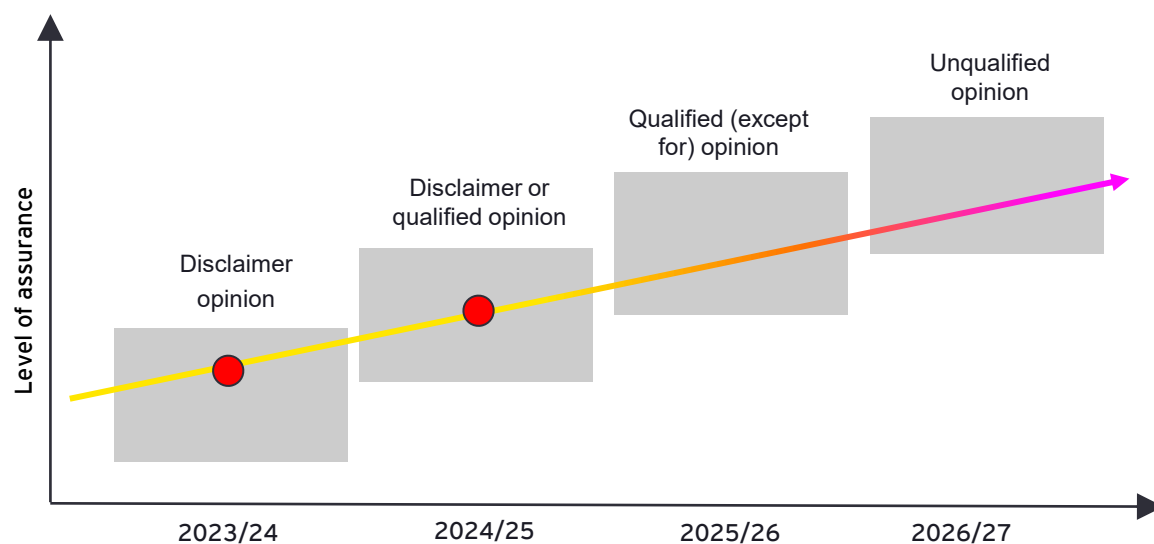
We have repeated this assessment on the following page. Where we have been unable to undertake all planned procedures, this is likely to extend the timetable to recover assurance on the Council's financial statements, see page 40 for further details.

Appendix A – Rebuilding assurance continued

Progress to full assurance

The chart below sets out the illustrative timescale for the process of rebuilding assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that assessment and what still needs to be done to successfully rebuild assurance.

The guidance recognises that the path to full assurance, and therefore an unqualified opinion, will usually take a number of years to achieve, and depends upon co-ordination and engagement between the Council and audit team. Since 2022/23, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements.



Rushmoor Borough Council progress

● In the audit reports for the years ended 31 March 2024 and 31 March 2025, a disclaimer of opinion was issued due to the application of the backstop. This means the auditor has not been able to form an opinion on the financial statements.

In our view, the Council's progress is in accordance with the expected timescales set out in LARRIG 01.

In 2024/25, additional assurance was achieved in relation to other disclosure, cash flow statement and collection fund. However, there is a continuing lack of assurance over comprehensive income and expenditure statement, property plant and equipment, investment property balances, grants received in advance and reserves. As a result, we anticipate that for 2025/26:

- We will have limited assurance over the opening balances for 2025/26; and
- Limit assurance over property, plant and equipment
- Limited assurance over the closing reserves balance, due to uncertainty over the opening amount.

We will continue to work with the Council to rebuild assurance over time. It is essential that the prior-year recommendation relating to PPE and investment property valuations, as set out in Appendix C, is addressed by management to enable us to fully complete our audit procedures in this area within future statutory backstop dates. Our objective is to continue to rebuild assurance, by providing assurance over the in year 2025/26 transactions and movements, where possible, and closing balances which can be materially determined without the opening balance.

Appendix A – Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

| Area | Status | | | Explanation | Further detail |
|---|----------------------|---|---|---|--|
| | R | A | G | | |
| Timeliness of the draft financial statements | Effective | | | The financial statements were published by the 30 th June 2025 deadline set out in the Accounts and Audit Regulations. | N/A |
| Quality and completeness of the draft financial statements | Effective | | | There were only a small number of non-material internal inconsistencies, typographical and arithmetic errors in the draft financial statements. | N/A |
| Delivery of working papers in accordance with agreed client assistance schedule | Effective | | | Working papers were provided to the agreed timetable. | N/A |
| Quality of working papers and supporting evidence | Requires Improvement | | | The working papers and supporting evidence were generally of a high standard. However, for debtors and creditors, listings of closing balances were not provided, with only in-year transactions available. This led to additional time required to complete these sections. | N/A |
| Timeliness and quality of evidence supporting key accounting estimates | Requires Improvement | | | In general, management provided timely and good quality supporting evidence in response to the majority of our audit requests. However, during our land and building and IP valuation, EYRE raised concerns during the review of the Council's external valuer's work, particularly regarding the provision of supporting evidence for the valuation of PPE and IP assets. The evidence and explanations provided were insufficient, leading to additional requests for clarification and further documentation. EYRE applied their own judgments based on available market information and evidence provided by the Council and its external valuer. Results of EYRE review showed that certain assumptions used by the external valuer were inconsistent with the wider valuation practice. Due to the statutory backstop date of 27 February 2026, we were unable to complete further procedures to resolve the judgmental differences or conclude on whether it resulted in misstatements in the financial statements. We raised a recommendation on this in the prior year which we do not consider has been addressed - see Section 06. To be able to fully restore assurance on the Council's financial statements it is essential that this issue is addressed by management. | We were unable to complete all our planned procedures against the significant risk in this area. |

Key:

Red: Ineffective. In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

Amber: Requires Improvement. Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

Green: Effective. There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix A – Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

| Area | Status | | | Explanation | Further detail |
|--|----------------------|---|---|--|----------------|
| | R | A | G | | |
| Access to finance team and personnel to support the audit in accordance with agreed project plan | Effective | | | There were no issues with access to the finance team and key personnel. | N/A |
| Volume and value of identified misstatements | Requires improvement | | | A moderate number of misstatements that were above performance materiality in aggregate were detected as a result of our work across both the main Financial Statements and Disclosures. Management have indicated that these will be adjusted but we have not received the final Statement of Accounts. | N/A |
| Volume of misstatements in disclosure | Requires improvement | | | A moderate number of misstatements in disclosures were detected in our work. | N/A |

Key:

Red: Ineffective. In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

Amber: Requires Improvement. Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

Green: Effective. There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix B - Independence and Fees

The FRC Ethical Standard 2024 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence
- The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence (for breaches of the FRC Ethical Standard include details of its significance); and
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Appendix B - Independence and Fees continued

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Simon Mathers, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees and no planned non-audit services.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Appendix B - Independence and Fees continued

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

EY Transparency Report

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2025 and can be found here: [EY UK 2025 Transparency Report](#).

Appendix B – Independence and Fees continued

PSAA opted-in bodies: The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Other Bodies – A breakdown of our fees is shown in the table to the right.

The agreed fee presented is based on the following assumptions:

- officers meeting the agreed timetable of deliverables;
- our financial statement opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Council;
- an effective control environment; and
- compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

| | 25-26 | 24-25 | 23-24 |
|-----------------------|------------|------------|------------------|
| | £m | £m | £m |
| Total Fee – Code Work | 164,413 | 159,935 | 145,266 |
| Scale Fee Variation | Note 3 | Note 2 | 80,320 Note 1 |
| Total fees | TBC | TBC | 225,586 |

All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA has used its fee variation process to determine the final fee for 2023/24 of £80,320 which has been accepted by the Council.
2. As set in our 2024/25 Audit Results Report, a scale fee variation was submitted to PSAA covering the following areas:
 - Additional work in relation to introduction of IFRS16 Leases.
 - Additional work in relation to work undertaken by an expert from within the firm, i.e., PPE valuation work performed by EY Real Estates and review the assumptions used in the Pensions Liability and asset ceiling calculation performed by EY actuaries.
 - Additional work performed on debtors and creditors
 - Additional work in relation to responding to significant VFM risks being raised in the audit year.
 - Additional work specifically in relation to build back
 - The costs of disclaiming a backstopped audit
3. For 2025/26 the planned fee represents the base fee, i.e., not including any extended testing The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:
 - Consideration of correspondence from the public and formal objections.
 - Non-compliance with law and regulation with an impact on the financial statements.
 - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
 - Modified financial statement opinions.
 - Additional work in relation to work undertaken by an expert from within the firm, i.e., PPE valuation work performed by EY Real Estates and review the assumptions used in the Pensions Liability and asset ceiling calculation performed by EY actuaries.
 - Audit team review of the PPE and IP valuations, following the issues noted around the key inputs and assumptions used in the valuation PPE and IP valued at EUV and FV.

Appendix C – Prior year recommendations

As part of our annual audit procedures we will follow up the specific open and in progress recommendations reported within our 2024/25 reporting, including those relating to value for money arrangements. The three open recommendations from prior years are outlined below, along with the response from management.

| Classification of recommendations | | |
|--|---|---|
| Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently. | Grade 2: Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by management. | Grade 3: Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by management. |

Internal control weaknesses

| No. | Finding | Recommendation and grading | Management response |
|-----|--|---|---|
| 1. | <p>Land and Building valuation and Investment Property</p> <p>Observation: During our land and building and investment property valuations testing we identified weaknesses in the quality of evidence provided and assumptions made by the Council's external valuer for assets valued using DRC/EUV/FV method. EYRE applied their own judgments based on available market information and evidence provided by the Council and its external valuer. Results of EYRE review showed that certain assumptions used by the external valuer were inconsistent with the wider valuation practice. Due to the statutory backstop date of 27 February 2026, we were unable to complete further procedures to resolve the judgmental differences or conclude on whether it resulted in misstatements in the financial statements.</p> <p>Impact: The issue has the potential to delay the Council's progress against the expected timescales for rebuilding assurance set out in LARRIG 01 (see Appendix A for illustration), as this recurring matter has an impact on the audit opinion.</p> | <ul style="list-style-type: none"> ▪ Grade 1 ▪ Continue to challenge both the key inputs and assumptions used in the valuation and the outputs from its professional valuer. | <ul style="list-style-type: none"> ▪ The Council has appointed a new external valuer for 2025/26 year-end and is working with the new valuer and property services to deliver asset valuations which are appropriately evidenced and challenged. |

Appendix C – Prior year recommendations (cont'd)

Internal control weaknesses

| No. | Finding | Recommendation and grading | Management response |
|-----|---|--|--|
| 2. | <p>Journal Testing</p> <p>Observation</p> <ul style="list-style-type: none"> During journal testing, we were unable to obtain evidence that a journal above £20,000 was approved by Deputy S151 officer as required in terms of management policy on processing journals. <p>Impact</p> <ul style="list-style-type: none"> Management override of controls is a significant risk and inappropriate review, and approval of journals could result in fraudulent transactions being processed. The journal related to an impairment of PPE. We are satisfied that the Deputy S151 officer did consider the adjustment as part of review of the Statement of Accounts and that it is supportable. We are therefore satisfied that the journal does not relate to fraudulent reporting. | <ul style="list-style-type: none"> Grade 2 Ensure that appropriate documentation exists to demonstrate that journals have been reviewed by the designated individual in accordance with the established journal review process. | <ul style="list-style-type: none"> Management action has been taken to ensure all journals are appropriately reviewed. There will be increased continuity and additional senior technical capacity to deliver the accounts in 2025/26. Additional accounts management sign off process is being considered with this capacity for the 2025/26 financial year. |
| 3. | <p>Related Parties</p> <p>Observation</p> <p>Twelve Councillors did not submit their interest declarations as required by the Code of Conduct.</p> <p>Impact</p> <p>The Council will not be aware of a potential conflict of interest and/or if they are transacting with a related party.</p> <p>All Councillors are required to declare their interest at the beginning of each meeting. Based on our review of Council minutes, and other relevant procedures we did not identify any conflicts</p> | <ul style="list-style-type: none"> Grade 2 Ensure that complete declarations are obtained from all Councillors before the end of the financial year. | <ul style="list-style-type: none"> The Related parties process will be reviewed to ensure complete declarations are completed by all Councillors and appropriate guidance given and escalated where not provided. |

Appendix C – Prior year recommendations continued

Value for money arrangements

| No. | Value for money reporting criteria | Finding and/or risk | Recommendation and grading | Management response |
|-----|------------------------------------|--|--|---|
| 1. | Financial sustainability | Forecast budget shortfall over the medium term | <ul style="list-style-type: none"> High Urgently identify recurrent savings to bridge the budget gap forecast by the Council's updated Medium Term Financial Strategy. | Work is underway, senior capacity and focus has been a challenge on this priority. Consideration will be required in the senior management restructure to address this. |
| 2. | Financial sustainability | Level of external borrowing | <ul style="list-style-type: none"> High Improve delivery of the asset disposal programme, both in terms of the identification of asset sales and level of capital receipts achieved to reduce the ongoing cost pressures this creates on the Council's revenue budget. | Management will be reviewing the capacity and capability to deliver currently identified disposals, and identification of further disposals to reduce the CFR. |
| 3. | Financial sustainability | Level of external borrowing | <ul style="list-style-type: none"> High Continue to seek to replace short-term with long-term borrowing to reduce the Council's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements. | Progress has been made, as at end of October only 14% of borrowing was due in less than 1 year compared to one year ago, 60% is between 1 and 2 years and 26% between 2-5 years, further opportunity to extend borrowing maturity structure will be in April to June 2026 when the next replacement borrowing is due. |

Appendix D – Regulatory update

Key regulatory changes

There are a number of key regulatory developments underway relating to local authority governance and the audit of the Council's financial statements. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

| Name | Summary of key measures | Impact on Rushmoor Borough Council |
|--|---|---|
| <p>English Devolution and Community Empowerment Bill</p> | <p>The Bill has completed all scrutiny stages in the House of Commons and is now at Committee stage (Grand Committee) in the House of Lords. The following measures therefore remain proposals until Royal Assent is granted:</p> <ul style="list-style-type: none"> ▪ Local audit system reforms: The Bill includes provisions to reform elements of the local audit framework in England alongside support measures intended to address the audit backlog. The Bill will also enable changes to the way audit oversight and local audit responsibilities operate. Section 61 of the Bill provides for the establishment of the Local Audit Office (LAO). Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more Code of Audit Practice. ▪ Combined authorities and Combined County Authorities: The Bill expands powers and functions of combined authorities and places combined county authorities on a clearer statutory footing. This will allow further transfer of functions from constituent councils. ▪ Devolution of functions to “Strategic Authorities”: The Bill expands the category of Strategic Authorities and allows transfer of responsibilities from central government and councils. ▪ Local Government Reorganisation: The Bill supports changes to council structures to support devolution. | <ul style="list-style-type: none"> ▪ Local audit system reforms may result in changes to audit timescales or responsibilities and there may therefore be transition risks in future years. ▪ The Bill provides that the Council must have an audit committee, and that at least one member of the committee be an independent person. |
| <p>Renters Right Act</p> | <ul style="list-style-type: none"> ▪ The Renter's Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. ▪ Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters' Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area. | <p>Enforcement guidance for local Councils has now been published. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation. There will be a bespoke programme of training, webinars and resources through 'Operation Jigsaw', a cross-local Councils initiative; Changes will start coming into effect from 1st May 2026.</p> |

Appendix D – Regulatory update continued

Key regulatory changes continued

| Name | Summary of key measures | Impact on Rushmoor Borough Council |
|---|--|--|
| Public Office (Accountability) Bill | <p>The Public Office (Accountability) Bill aims to impose a duty on public authorities and public officials to “at all times act with candour, transparency and frankness in their dealings with inquiries and investigations.” Breach of the duty would be a criminal liability.</p> <p>The Bill is expected to apply not only to both core public bodies delivering public services but also private bodies delivering public functions such as those on a government contract.</p> <p>The Bill also proposes:</p> <ul style="list-style-type: none"> ▪ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or “Nolan Principles”; ▪ Reforms that will make it easier to prosecute misconduct in public office; and ▪ An offence of misleading the public. | <ul style="list-style-type: none"> ▪ While the Bill continues to make its way through the House of Commons Committee processes, the Council should ensure that training and support for Councillors is enhanced to take account of greater expectations in relation to local government standards. |
| Fair Funding Review | <ul style="list-style-type: none"> ▪ On 20 November 2025, the government announced a multi-year Local Government Finance Settlement in a decade, together with the Fair Funding Review . Key measures include: ▪ There will be a single settlement for 2026/27 to 2028/29 ▪ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and ▪ The Children and Young People’s Services formula will use the latest index of deprivation affecting children. <p>The new indices are expected to lead to greater transparency and a reduced reliance on competitive bidding for funds. The Government also announced it will simplify 33 funding streams, worth almost £47 billion over three years.</p> | <p>Using new indices will result in some Councils seeing increases in their allocations, whilst others see decreases. The government has, however, set out transitional arrangements to help with managing change:</p> <ul style="list-style-type: none"> ▪ A Recovery Grant funding guarantee to upper tier authorities in receipt of Recovery Grant; ▪ Funding floors and phasing in of new allocations across the multi-year settlement; and ▪ Additional money in the national settlement for children’s social care and a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years. |

Appendix D – Regulatory update continued

Other reporting

There are a number of key publications that have an impact on the Council. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

| Name | Summary of key messages | Impact on Rushmoor Borough Council |
|--|---|---|
| Local government finance report 2026 to 2027 | <p>The 2026-27 Local Government Finance Report introduces a multi-year settlement covering 2026/27 to 2028/29 and implements the Fair Funding Review 2.0. Updated distribution formulas will reallocate resources between councils, reflecting more recent demographic and deprivation data.</p> <p>The report confirms the continuation of council tax referendum principles and introduces significant changes to Special Educational Needs and Disabilities (SEND) funding, including the extension of the statutory override for DSG deficits to 2027/28 and a government-funded write-off of approximately 90% of historical DSG deficits. These policy changes represent one of the most substantial re-baselining exercises in recent years.</p> | <ul style="list-style-type: none"> ▪ Councils must re-model their Medium-Term Financial Plans (MTFPs) to account for formula redistribution effects and redesigned SEND funding arrangements. The ongoing restrictions on council tax increases will continue to limit local financial flexibility. For many authorities, particularly those with substantial DSG deficits, the reforms will have material implications for reserves management and financial stability. |
| Exceptional Financial Support for local authorities for 2025-26 | <p>Exceptional Financial Support (EFS) remains a mechanism for councils facing acute short-term financial pressures.</p> <p>For 2025-26, thirty authorities received in-principal approval for EFS, allowing them to treat certain revenue costs as capital expenditure through capitalisation directions. The government has removed the additional 1% borrowing premium previously applied and has imposed conditions including enhanced assurance reviews and restrictions on community-asset disposals.</p> <p>The NAO notes that, although EFS can prevent immediate failure, it shifts the burden to future years through increased borrowing.</p> | <ul style="list-style-type: none"> ▪ For the sector, the continuation of EFS signals sustained financial fragility. Authorities using EFS must demonstrate credible, independently-scrutinised recovery and savings plans, along with significant improvements in governance, financial management, and internal controls. ▪ Councils should expect intensive oversight and stringent follow-up from central government when accessing this mechanism. |
| Local audit reform: Government response to the consultation to overhaul local audit in England | <p>The government response sets out a comprehensive overhaul of the local audit system in England. Central to the reforms is the creation of the Local Audit Office (LAO), which will assume responsibility for appointing auditors, preparing Codes of Audit Practice, enforcing quality standards, and overseeing audit delivery.</p> <p>A phased transition plan will move existing responsibilities from Public Sector Audit Appointments (PSAA) and other bodies to the NAO between 2026 and 2027, with the aim of stabilising the system, addressing audit backlogs, and restoring confidence in the timeliness and quality of local audit.</p> | <ul style="list-style-type: none"> ▪ For councils, the reforms will lead to more prescriptive expectations around audit readiness, governance, documentation quality, and responsiveness. Authorities should anticipate tighter reporting deadlines and increased scrutiny of working papers, internal controls, and VFM arrangements. |

Appendix D – Regulatory update continued

Other reporting continued

| Name | Summary of key messages | Impact on Rushmoor Borough Council |
|---|---|---|
| Local Government Financial Sustainability | <p>The National Audit Office most recently reported on the context of local government finances in February 2024, which included their consideration of service and financial pressures. They concluded that although total local government funding has risen modestly in recent years, it has not kept pace with population growth, rising service demand, or the increasing complexity and cost of supporting people with high needs. Real-terms funding per person fell between 2015-16 and 2023-24, while demand for essential services such as adult social care, children’s social care, SEND provision and homelessness continued to escalate. The NAO highlights growing evidence of strain across services, including delays in Education, Health and Care Plans and a sharp rise in families housed in temporary accommodation for longer than legally permitted. Repeated delays to long-promised funding reforms mean councils continue to rely on short-term, stop-gap measures. Exceptional Financial Support has become increasingly common, but while it prevents immediate failure, it also shifts financial risk into future years, reflecting underlying structural weaknesses in the local government finance system</p> | <ul style="list-style-type: none"> ▪ The report signals deepening financial fragility across the sector, with many councils facing heightened risk of issuing Section 114 notices unless systemic pressures are addressed. Rising demand and cost escalation in statutory services are absorbing an ever-greater share of local authority budgets, reducing the capacity to invest in preventative activity and long-term service improvement. The NAO warns that widespread reliance on temporary fixes—including Exceptional Financial Support—creates additional future liabilities and limits councils’ ability to plan sustainably. Without coordinated, cross-government reform of funding, accountability and service oversight frameworks, councils will remain locked in reactive financial management, with growing consequences for service quality, citizen outcomes and long-term financial resilience. |
| Unlocking land for housing | <p>The National Audit Office reported in February 2026 that the government aims to deliver 1.5 million new homes by July 2029. To support this ambition, various land-unlocking programmes have been introduced to address constraints such as inadequate infrastructure, land assembly challenges, and site viability issues. Since 2016, £10.5 billion has been allocated across 768 projects, with £8.4 billion committed and £5.7 billion spent.</p> <p>Although these programmes collectively predict enabling around 713,000 homes, the NAO highlights that only a small proportion—around 33,300 homes—can currently be evidenced as completed, pointing to gaps in monitoring and programme assurance. Additionally, the creation of the National Housing Delivery Fund and a new National Housing Bank from April 2026 signals a shift toward a more consolidated and strategic funding model.</p> | <ul style="list-style-type: none"> ▪ The sector will experience increased expectations to produce detailed and evidence-based infrastructure planning to secure funding from the new mechanisms. Councils will be required to strengthen the robustness of business cases, improve monitoring of actual housing delivery, and anticipate tighter central-government scrutiny of riskier or larger projects. The shift to a single-gateway funding structure will also compel councils to maintain well-developed pipelines to access multi-year support. |
| Improving local areas through developer funding | <p>The NAO identifies developer contributions—primarily Section 106 agreements and the Community Infrastructure Levy (CIL)—as essential tools for funding local infrastructure and affordable housing. However, the report finds significant variation across councils in both the application and governance of these mechanisms. Negotiated viability assessments often reduce the contributions developers agree to provide, while only around half of planning authorities have formally adopted CIL.</p> <p>Developer contributions account for roughly 44% of affordable housing delivery nationally, yet over 17,000 S106-linked affordable homes with planning consent lacked a housing association buyer at the time of review, indicating a delivery bottleneck. The government is providing additional planning capacity funding and establishing a Section 106 Affordable Homes Clearing Service to support councils in unlocking stalled developments.</p> | <ul style="list-style-type: none"> ▪ For councils, strengthening internal governance and transparency around developer contributions will be increasingly important. Authorities will need improved planning capacity, including specialist viability expertise, to mitigate risks of reduced contributions and ensure developer obligations are properly monitored. With the proposed Infrastructure Levy no longer being taken forward, councils must optimise and professionalise the existing S106 and CIL frameworks. |

Appendix E – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

| | | Our Reporting to you |
|-------------------------------------|---|--|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | Audit planning report - June 2026 Audit and Governance Committee |
| Planning and audit approach | <p>Communication of:</p> <ul style="list-style-type: none"> ▪ The planned scope and timing of the audit ▪ The planned use of internal audit ▪ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p> | Audit planning report - June 2026 Audit and Governance Committee |
| Significant findings from the audit | <ul style="list-style-type: none"> ▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Other significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management ▪ Circumstances that affect the form and content of our auditor's report ▪ Other matters if any, significant to the oversight of the financial reporting process ▪ Findings and issues regarding the opening balance on initial audits | Audit results report- Expected November 2026 Audit and Governance Committee |

Appendix E – Required communications with the Audit Committee continued

| Required communications | What is reported? | Our Reporting to you |
|-------------------------|--|--|
| | | When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▪ Whether the events or conditions constitute a material uncertainty related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements | Audit results report- Expected November 2026 Audit and Governance Committee |
| Misstatements | <ul style="list-style-type: none"> ▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods | Audit results report- Expected November 2026 Audit and Governance Committee |
| Fraud | <ul style="list-style-type: none"> ▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▪ Unless all of those charged with governance are involved in managing the entity, unless prohibited by law or regulation any identified or suspected fraud involving: <ul style="list-style-type: none"> ▪ Management; ▪ Employees who have significant roles in internal control; or ▪ Others, when the identified or suspected fraud is other than clearly inconsequential. ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▪ Matters, if any, to communicate regarding management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▪ Any other matters related to fraud, relevant to Audit Committee responsibility | Audit results report- Expected November 2026 Audit and Governance Committee |

Appendix E – Required communications with the Audit Committee continued

| Required communications | What is reported? | Our Reporting to you |
|-------------------------|--|--|
| | | When and where |
| Related parties | Significant matters arising during the audit in connection with the entity's related parties | Audit results report- Expected November 2026 Audit and Governance Committee |
| Independence | <p>Communication of the relevant ethical requirements, including those related to independence, that we apply for the audit engagement, including any independence requirements specific to audits of financial statements of the entity.</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence ▪ Breaches of IESBA Code of Ethics, local independence regulations or professional standards (for breaches of the FRC Ethical Standard, include details of the breach and its significance) <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.</p> | <p>Audit planning report - June 2026 Audit and Governance Committee</p> <p>Audit results report- Expected November 2026 Audit and Governance Committee</p> |

Appendix E – Required communications with the Audit Committee continued

| | | Our Reporting to you |
|---------------------------------------|---|--|
| Required communications | What is reported? | When and where |
| External confirmations | <ul style="list-style-type: none"> ▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report- Expected November 2026 Audit and Governance Committee |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Audit results report- Expected November 2026 Audit and Governance Committee |
| Internal controls | <ul style="list-style-type: none"> ▪ Significant deficiencies in internal controls identified during the audit | Audit results report- Expected November 2026 Audit and Governance Committee |
| Group audits | <ul style="list-style-type: none"> ▪ An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams ▪ Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern ▪ Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted ▪ Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud has the potential for having a "more than inconsequential" effect ▪ Significant deficiencies identified in the group's system of internal control | Audit results report- Expected November 2026 Audit and Governance Committee |

Appendix E – Required communications with the Audit Committee continued

| Required communications | What is reported? | Our Reporting to you |
|--|---|--|
| | | When and where |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report- Expected November 2026 Audit and Governance Committee |
| System of quality management | How the system of quality management (SQM) supports the consistent performance of a quality audit | Audit results report- Expected November 2026 Audit and Governance Committee |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report- Expected November 2026 Audit and Governance Committee |
| Auditors report | <ul style="list-style-type: none"> ▪ Key audit matters that we will include in our auditor's report ▪ Any circumstances identified that affect the form and content of our auditor's report | Audit results report- Expected November 2026 Audit and Governance Committee |

Appendix F – Additional audit information

Objective of our audit

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Other required procedures during the course of the audit

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the audit committee reporting appropriately addresses matters communicated by us to the audit committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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