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Hendeca Group Limited

For the year ended

31 March 2023

Knowing all your business,
tax and wealth needs

Our values

Our values define who we are and how we do things at Kreston Reeves. They reflect our attitudes and behaviours and represent a promise of quality, personal service and commitment to our clients, communities and colleagues.

Collectively and individually we aim to:

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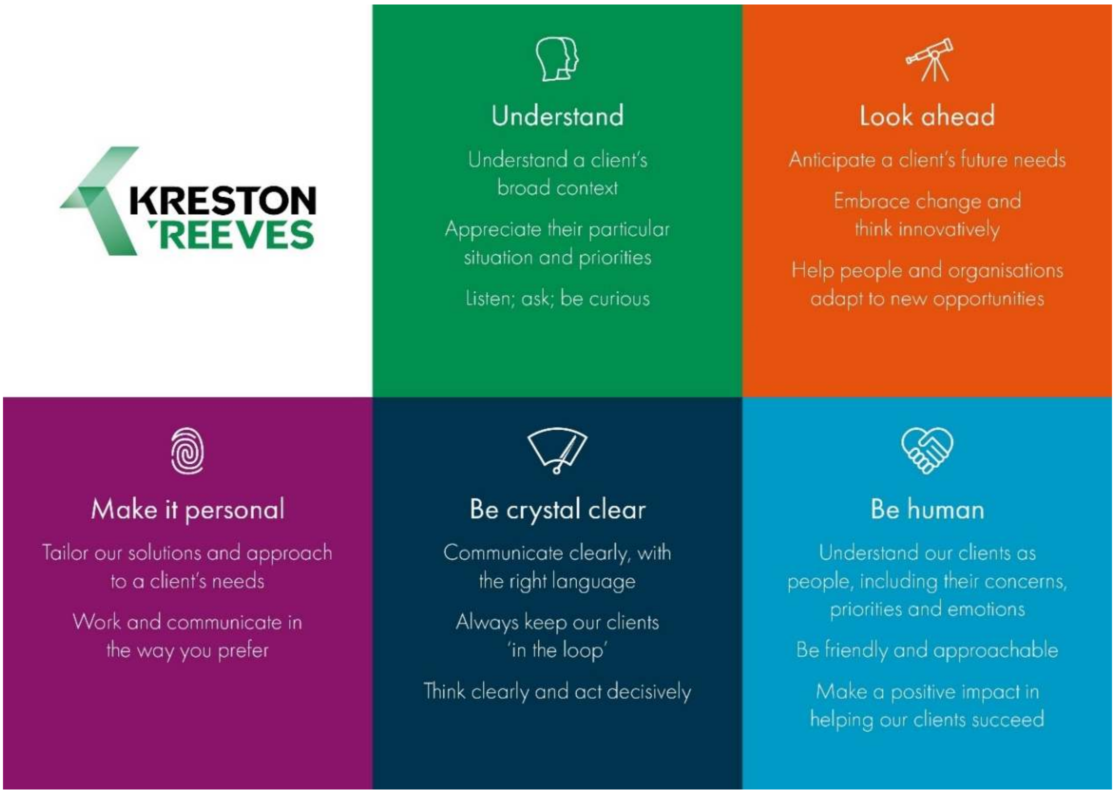

Our awards

We are regularly recognised and shortlisted in prestigious national, regional and industry awards. As well as receiving award recognition ourselves, it's important to us to help recognise and award the successes and growth stories of other businesses. We regularly support and sponsor awards such as Kent MegaGrowth and Sussex Super Growth Awards.

Hendeca Group Limited

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For the year ended March 2023

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Hendeca Group Limited

Key Audit Findings
For the year ended March 2023

1. Introduction and audit summary

The purpose of this report is to bring to your attention our findings from the recent audit carried out on Hendeca Group Limited. We appreciate that you will already be aware of the majority of the matters contained in this report through earlier discussions you will have had with the audit team, but we hope that you will find this report a useful summary of those discussions.

We would like to take this opportunity to thank Joe Stockwell, Lynne Hobbs, Cristina Robinson and the rest of your accounts team for the assistance they have provided to us during the course of our audit.

Our audit has given us a unique opportunity to understand your business and processes. We have used this opportunity to provide you a service that is of real positive benefit to you.

During the course of our audit work this year we have performed the following tasks which we hope that you will have found to have been of benefit.

- We have assisted you with the preparation of the company's financial statements, ensuring that they comply with all statutory requirements and with accounting standards. In doing so we have ensured that the company has taken advantage of any accounting exemptions available to it so as to avoid any unnecessary over-disclosure of the company's affairs that are not required to be published in publicly available financial statements.

- In order to be able to assist you with the preparation of the company's financial statements we have highlighted to you misstatements in the accounting records discovered by our audit work, and worked with you to ensure that where material these have been corrected. Further information related to misstatements discovered during our audit are set out in Section 6 of this report and supporting Appendices II and III.

- As part of our audit, we have reviewed the financial reporting framework under which the company prepares its financial statements. As part of this review, we have ensured that the company is complying with Generally Accepted Accounting Principles as well as best practice for your industry sector.

- We have advised you of changes to the reporting standard FRS102 that are due to come into force in future accounting periods and how they will impact upon your reporting requirements.

- We have advised you of planned future changes to corporation tax that are likely to affect the company, providing an indication of their likely impact on the company's future tax liabilities and the timing of their payment. These changes are detailed at Section 5 of this report.

- We have reviewed the company's systems of accounting and internal control systems and made recommendations where these can be improved. These are detailed at Section 7 of this report.

- We have considered the company’s governance and compliance with elements of company law, suggesting improvements that could be made. These are detailed at Section 8 of this report.

Should you have any questions regarding any of the issues raised in this report please contact Graham Hunt as the partner responsible for the audit of your company, or any other member of the audit team, who will be happy to provide further explanations as required.

Kreston Reeves LLP

Statutory Auditor
Chartered Accountants

July 2023

2. Audit report

We can confirm that our audit has not revealed any matters which will require modifications to our audit report. Thus at this stage we expect that an unqualified audit opinion will be issued.

3. Key audit matters

8 Key audit matters are those matters that, in our professional judgement, were of greatest significance in our audit of the financial statements. These include the significant risks of potential material misstatement that we identified during our planning of the audit and had the greatest impact on our overall audit strategy, which we advised you of in the Audit Plan issued to you prior to the commencement of our work.

We can now report to you how our audit addressed these areas of significant risk and the conclusions we formed.

- **Revenue recognition due to fraud**

  ISA 240 requires us to assess the risk of fraud in revenue recognition.

  For data hosting and contingency sales we have proven the income streams in total, comparing contracted revenue to what has been posted within the accounting system. For all other income streams we have tested a sample of sales into the system to confirm completeness. We have also carried out testing of invoices either side of the year end to confirm that income is being correctly recognised within the correct financial year.

  No issues were identified from our testing.

- **Management override of controls**

  International Standards on Auditing require us to treat the management override of controls in place as a significant risk on all assignments.

  We have made use of data analytics to review your general ledger as a whole. Further details on this have been included within Section 4 of this report.

  No issues were identified from our testing.

4. Data analytics

As previously communicated, we have used data analytics software to support our audit. Data analytics complements our traditional audit methodology with a comprehensive, risk-based approach which through the power of computer assisted techniques examines 100% of the data population.

This risk-based approach is driven by a number of control points and it is the weighting of these control points that determines the assessed risk of a transaction. As detailed in our Audit Plan, this is an area where management can have valuable input to identify potentially 8
high-risk transactions. We have used our knowledge of the company and the data analytics software to tailor the control points which has produced the following risk-based analysis.

Overview

The company's dataset has been analysed into the following risk categories:

High Risk	Medium Risk	Low Risk
£340.00k	£1.30M	£6.85M
1 transactions (0.1%) of the ledger	54 transactions (4.5%) of the ledger	1,135 transactions (95.4%) of the ledger

As expected, the vast majority of transactions are deemed low risk. One high risk transaction has been identified. This relates to the dividend payment of £340k in the year. This has been flagged due to its size, being a one off transaction, and because it was posted to retained earnings brought forward rather than a separate dividends nominal.

Medium risk transactions largely includes month end journals for the likes of prepayments, accruals and accrued income as well as the reversal of these in the following month. These are all deemed standard journals and we have tested each of these at the year end. Other medium risk transactions include the payroll posting due to the size and because it includes the names of related parties (directors).

Transaction review

Following this analysis, a number of transactions were selected for further scrutiny. This included all transactions considered high or medium risk transactions, all transactions we deemed to be material in value and a review of any transactions including suspicious keywords.

A review of these transactions did not highlight any inappropriate transactions, and all were found to be within the normal and expected course of business based on our knowledge of the company's operations, systems and the sector in which it operates.

1) Material value

- This control point sets the value for which transactions will be flagged which contain a value above the company's assessed materiality value.

- 96 transactions were identified as being material. The majority of these related to the monthly posting of sales invoices, the posting of accrued income and recognising the receipts in relation to the data hosting contract and the HAL contingency fee. Other material items include the purchase of the IP and training materials from Salvus Consulting, monthly creditor payments and payroll journals, VAT postings and payments, paying last year's corporation tax liability, and the payment of the dividend in the year. These are all considered standard transactions that we would expect to see.

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2) Reversals

- This control point identifies any transactions that are reversals.
- 190 transactions were identified and the majority of these appear to relate to the monthly reversal of accruals and prepayments raised in the previous month. Other than this, a couple of these relate to the posting of credit notes.

3) Suspicious key words

- This control point identifies any transactions that include in the description words from a pre-set listing of words considered suspicious, e.g. fraud, incentive, adjust, cancel, fix, estimate, request. It also includes the names of related parties.
- 258 such transactions were identified. The majority of these are the posting of recharges or accruals as these are picked up as suspicious words within the system. Given the way the business operates, we are satisfied these are appropriate transactions.

4) Empty text fields

- This control point identifies any transactions posted without a description.
- 364 empty text fields were identified. These largely relate to the posting of receipts into and payments out of the bank accounts with the other side of the transaction being posted to debtors or creditors as appropriate. Due to the way the information is exported for data analytics, we do not have the ability to trace these, but QuickBooks would allow further analysis within the system to identify exactly what these relate to. As such, we are satisfied these do not create any issue.

Hendeca Group Limited

Key Audit Findings
For the year ended March 2023

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The above graph provides a visualisation of where the riskier areas were identified. The one high risk area is the retained earnings brought forward. This is due to the dividend posting being made in the year as described above. We have agreed this to the minutes and are therefore satisfied this is correctly treated. An adjusting journal has been raised to correct the allocation of this within reserves.

Summary

Overall, the findings from the data analytics software indicate that transactions in the data set appear to be genuine transactions made in the normal course of business, in line with our expectations and knowledge of your company.

5. Taxation

We are not engaged to prepare the corporation tax return for the Company. Based upon the computations provided, a provision has been made within the accounts for corporation tax of £32,690.

8 Provision for deferred tax has also been made within the financial statements at the amount of £6,838. This provision reflects the estimated future tax consequences of transactions and events recognised in the financial statements of the current and previous accounting periods, and has been calculated in accordance with the requirements of FRS102.

Future tax changes

The Spring budget in March 2023 announced several changes to business taxation. These changes, along with other previously announced changes, may impact your future tax position.

Since 1 April 2017 there has been a single rate of corporation tax of 19%. From 1 April 2023, the main rate of corporation tax is now 25% for companies with profits over £250,000. For companies with profits of £50,000 or less, corporation tax will be paid at the small profits rate of 19%. Where a company's profits fall between £50,000 and £250,000, they will pay corporation tax at the main rate reduced by marginal relief. Please note, the upper and lower limits will be proportionally reduced for short accounting periods and where there are associated companies.

The ability for companies to take advantage of trading losses that have been incurred became more flexible from April 2017. Since that date, losses incurred can be used against profits from other income streams or the profits of other companies within a group, not just against future profits arising from the same trade. There are restrictions though, in that companies may only utilise losses carried forward against up to 50% of their profits above £5m. For groups the £5m allowance applies to the entire group.

Further changes to the treatment of losses have been introduced which took effect from 1 April 2020. From this date the proportion of annual capital gains that can be relieved by brought-forward capital losses will be limited to 50%. The £5m allowance relates to both capital and income losses.

Changes to capital allowances that have been announced include:

- The Chancellor has set the Annual Investment Allowance ('AIA') at £1m permanently, for all qualifying investments in plant and machinery, which will result in businesses continuing to be able to deduct 100% of the costs of qualifying plant and machinery up to £1m each year. The £1m AIA is shared between group companies.

- From 1 April 2023, the previous super deduction scheme has been replaced with 'full expensing of capital expenditure', which allows companies to fully deduct the cost of certain plant and machinery (or 50% if the expenditure falls into the "special rate" category of plant and machinery). This is in addition to the AIA and is expected to last for an initial period of 3 years until March 2026. Similar to the super deduction scheme, exclusions apply, assets must be new and not used, and some assets are excluded entirely such as cars.

The pension annual allowance has increased from £40,000 to £60,000. As employer pension contributions are tax deductible for corporation tax purposes, it could allow companies to review their remuneration planning to reduce their taxable profits and therefore the impact of the rising Corporation tax rate. This is especially relevant for those companies with profits that will be taxed at the effective 26.5% marginal rate.

Making Tax Digital

HMRC have an ambition to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for taxpayers to comply with.

A major step towards this ambition has been made with the introduction of Making Tax Digital (MTD) for VAT. From 1 April 2019, most VAT-registered entities with a taxable turnover above the VAT threshold of £85,000 have been required to use the MTD service to keep records digitally and use compatible software to submit their VAT Returns. From 1 April 2022, MTD for VAT will be extended to all VAT registered companies.

Plans to extend MTD to other areas of taxation, including corporation tax reporting, are awaited from HMRC, although it has now been confirmed that usage of MTD for Corporation Tax will not be mandated for businesses before 2026. We will keep you informed as further developments arise.

6. Misstatements encountered during the audit

We are required to inform you of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The following significant misstatements have been identified:

- A journal has been put through to correct the year end corporation tax and deferred tax liability in line with the computations provided

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- On review of the intellectual property and training materials purchased, we have recognised this as an intangible fixed asset instead of a tangible fixed asset in line with FRS102 Section 1A.
- The non-distributable reserve brought forward has been reversed to the profit and loss account in line with the accounting policy of holding the reserve for 3 years has now passed. A new designated reserve has been created as a contingency fund for future periods.
- We have raised a journal to split out the amounts owed to/by the parent undertaking within the notes of the financial statements as required under FRS102. As this was not split out last year, we have also corrected the prior year split.
- A prior year adjustment has been raised to split out the deferred tax balance, that was previously included within other creditors, to show this separately on the face of the Balance Sheet.

A full summary of adjustments made to the company's results during the course of the audit, including a reconciliation between your management information and the financial statements, can be found within Appendix II.

You should review these adjustments in order to satisfy yourselves that they have been properly made. Confirmation that you have done so should be communicated to us within the letter of representation.

In addition, a number of unadjusted misstatements were discovered during the course of our audit. A full summary of the significant unadjusted misstatements discovered during the course of our audit and their potential impact on the financial statements can be found within Appendix III. This does not include any misstatements discovered during the course of the audit which we consider to be trivial in nature.

7. The accounting and internal control systems

We can confirm that we have found the company's accounting and internal control systems to be appropriate to the company's needs based upon the nature and complexity of your activities and the need for any systems to be cost effective. No matters have come to our attention during our audit to suggest that any serious error has arisen with these systems during the accounting period under review. Thus we believe that the systems can be relied upon to produce financial statements that show a true and fair view.

There are however a number of suggestions that we have made regarding the accounting and internal control systems, and these are set out in Appendix IV. 8

Please note that the purpose of the audit was to enable us to express an opinion on the financial statements. Our audit did include consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in such circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. The matters being reported to you are limited to those deficiencies that we have identified during our audit, which was conducted on a test basis, and that we have concluded are of sufficient importance to merit being reported to you, but this does not represent a comprehensive statement of all weaknesses which may exist in the accounting and internal control systems or of all improvements which may be made. We can only address those matters which have come to our attention as a result of the audit procedures which we have performed.

8. Qualitative aspects of the company's accounting practices and financial reporting

As part of our audit, we have considered and reviewed the company's accounting policies with UK Generally Accepted Accounting Practice and we have not encountered any material departures. In our opinion the accounting policies selected are appropriate to the circumstances of the company.

Future accounting changes

8 The company's accounts are prepared in accordance with FRS102. This standard is due to be updated and revised every four to five years in order to ensure that it reflects any legal changes and developments in accounting practice that have taken place.

The Standard at this stage has not been updated for recent changes to International Financial Reporting Standards (IFRS), and in particular the following major new standards that have recently been implemented:

- IFRS9 *Financial instruments*
- IFRS15 *Revenue from contracts with customers*
- IFRS16 *Leases*

Although the long-term aim is to keep FRS 102 as closely aligned to IFRS as possible, the FRC has stated that further consideration is required of the changes that may be required, and that this work will not begin until these standards have been fully implemented by IFRS reporters and insight can be gained from their implementation experience. It is therefore unlikely that any changes will be made to FRS 102 in respect of these issues that will impact on your reporting for the foreseeable future.

For more information on these future changes please do not hesitate to contact your usual Kreston Reeves adviser.

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9. Review of prior year issues

Whilst we did not carry out the prior year audit, from our review of the previous auditor's file we have noted the following issues were identified.

Lack of data hosting contract

Issue: No contract was provided to support the data hosting services for the period

2023 findings: We have proven data hosting income in total from the contracts provided therefore **issue resolved**.

Depreciation rates

Issue: When new fixed assets are purchased, an assessment as to the depreciation rate to be applied should be carried out.

2023 findings: No issues around depreciation rates identified therefore **issue resolved**.

Appendix I – Other matters required by International Standards on Auditing to be communicated to you

Audit report – further information

Our audit report contains details of the scope of the audit of the financial statements
conducted in accordance with legislative requirements and International Standards on
Auditing. Further information on the scope of the audit is set out on the website of the
8 Financial Reporting Council and can be found using the following link:

> https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx

The original audit report will be signed by Graham Hunt, being the Senior Statutory Auditor for this assignment, for and on behalf of Kreston Reeves LLP. The financial statements incorporating the original audit report should be retained with the company's other permanent documents. Copies of the financial statements that require a signed audit report, including for filing with Companies House, will be signed as Kreston Reeves LLP as the statutory auditor.

Our audit report has been drafted in accordance with International Standards on Auditing and the latest guidance from the Financial Reporting Council and our Institute. This involves the inclusion of a paragraph which clarifies what our responsibilities as auditors are. It does not affect our responsibilities to the company or yourselves, nor does it mean we would be unwilling to accept responsibility to any third parties, providing that our specific agreement to do so is obtained beforehand.

Independence

We can confirm that we have re-evaluated our firm's independence in connection with the audit and can confirm that we are not aware of any factors affecting our independence or objectivity and thus our ability to continue to act as auditor of the company.

Letter of representation

Before we can complete our audit, we require from you a letter of representation on your headed notepaper. A draft version of such a letter accompanies this Memorandum. The letter will provide us with additional evidence in areas where we have relied upon representations from staff members during the audit. We suggest that this letter is signed by a representative member of the Board of Directors and that you make your own enquiries of staff to verify that you support the representations that have been made.

Liability

This report has been drafted solely to report to you as directors matters in relation to our audit. It has not been drafted with any third parties in mind and thus must not be disclosed to a third party, or quoted or referred to, without our written consent. We do not accept responsibility to any third party in respect of our audit or this report.

Appendix II - Summary of adjusted misstatements

	Debit £	Credit £	Impact on profit £
Retained profit as per accounts presented for audit			**133,048**
Sales: Resilient Fire Service (P&L)		**19,369**	**19,369**
Other debtors (BS)	**19,369**		
Late adjustment put through by Hendeca for sales invoice relating to the 2023 year end			
Retained earnings brought forward (BS)		**119,283**	
Non-distributable reserve (BS)		**220,717**	
Dividends (BS)	**340,000**		
To correct reserves brought forward for statutory accounts purposes			
Corporation tax charge (P&L)	**3,988**		**(3,988)**
Corporation tax liability (BS)		**3,988**	
Deferred tax charge (P&L)	**1,767**		**(1,767)**
Deferred tax liability (BS)		**1,767**	
To provide for corporation tax and recognise the deferred tax value			
Tangible fixed asset additions (BS)		**40,000**	
Tangible fixed asset depreciation charge (BS)	**5,388**		
Intangible fixed asset additions (BS)	**40,000**		
Intangible fixed asset amortisation charge (BS)		**5,388**	
To reallocate the purchase of Intellectual Property and associated training materials to intangibles.			
Amounts due from parent undertaking (BS)	**6,514**		
Trade debtors (BS)		**6,514**	
Amounts due to parent undertaking (BS)		**61,318**	
Trade creditors (BS)	**61,318**		
To split out the amounts due from the parent, Surrey County Council, as at the year end			

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Transfer into profit and loss account (BS)		**220,717**	
Transfer out of non-distributable reserve (BS)	**220,717**		
Transfer out of profit and loss account (BS)	**214,400**		
Transfer into designated reserve (BS) *To reverse the non-distributable reserve and introduce a new designated reserve*		**214,400**	
Retained profit as per revised financial statements			**146,662**

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Appendix III - Summary of unadjusted misstatements

	Debit £	Credit £	Potential Impact on profit £
Contingency & resilience training (P&L)	**2,486**		**(2,486)**
Accruals (BS)		**2,486**	
To accrue in a proportion of the FSC Ltd Fire Service training invoice which covered part of this financial year			
Motor vehicle cost (BS)		**8,892**	
Motor vehicle depreciation b/fwd (BS)	**206**		
Motor vehicle depreciation charge (BS)	**4,446**		
Lease liability (BS)	**1,941**		
Vehicle depreciation charge (P&L)		**4,446**	**4,446**
Retained earnings b/fwd (BS)	**4,279**		
Motor costs – operating lease (P&L)	**2,466**		**(2,466)**
To treat previously recognised right to use asset as an operating lease rather than a finance lease.			
Insurance costs (P&L)	**1,132**		**(1,132)**
VAT Control account (BS)		**1,132**	
To correct treatment of VAT which was entered onto QuickBooks as including VAT, but was not showing any VAT per the invoice raised.			
Amortisation charge (P&L)		**2,122**	**2,122**
Amortisation charge (BS)	**2,122**		
Impact upon the amortisation charge if a useful life of 5 years is applied in place of 3 years			
Total unadjusting impact upon retained profit			**484**

We would request that you review these misstatements and consider amending the financial statements accordingly. If you decide not to amend the financial statements then your reasons for doing so should be communicated to us within the letter of representation.

Appendix IV – Summary of recommendations regarding the accounting and internal control system

In order to assist management in using this report, we categorise our recommendations according to their level of importance:

Importance 1	Major issues for the attention of senior management/potential significant implications for the company
Importance 2	Other recommendations to be dealt with
Importance 3	Minor points representing best practice

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Bank mandate

Nature of problem

On review of the latest bank mandate, we note that Stephen Ruddy and Roger Childs are shown as signatories, but they have since both resigned as Directors.

Potential consequences

The bank mandate is out of date and there is a risk that payments could be made by directors no longer involved in the Company

Recommendation for corrective action

We recommend updating the bank mandate.

Management response

****** Detail ******

Purchase invoices

Nature of problem

When carrying out our purchase testing, we were made aware that for the two purchases selected for testing below, it was not possible to provide us with a copy of the appropriate purchase invoices:

- Hero Distribution UK – 8112022 for £400 dated 10/11/2022
- BT – M032 for £516 (gross) dated 18/05/2022

Potential consequences

There is a risk that these are not legitimate purchases. Also, supporting documentation may be needed for VAT purposes.

Recommendation for corrective action

We recommend that all invoices are scanned in and uploaded onto QuickBooks or into a secure folder.

Management response

****** Detail ******

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Fixed asset additions

Nature of problem

Per the accounting policy, only assets over £500 are capitalised. From our review of additions in the year, some assets below this amount have been capitalised.

Potential consequences

The policy is not being followed.

Recommendation for corrective action

We recommend either following the policy, or revisiting whether having a £500 limit is appropriate.

Management response

*** Detail ***

Two-factor authentication

Nature of problem

We note that you do not insist upon two-factor authentication to access certain software.

Potential consequences

There is potentially a greater risk of systems being incorrectly accessed.

Recommendation for corrective action

We recommend making use of two-factor authentication wherever possible.

Management response

*** Detail ***

VAT on purchase invoice

Nature of problem

When carrying out our purchase testing, we noted that one invoice was posted into QuickBooks including VAT, but when tracing it to the invoice, no VAT was chargeable.

The invoice was from Surrey County Council 9500323434 for £6,792 on 15/03/2023.

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Potential consequences

The company has overclaimed VAT on this purchase.

Recommendation for corrective action

We recommend that this is corrected on the next VAT return.

Management response

****** Detail ******

Payroll

Nature of problem

As part of our wages testing we have selected one employee and tested the deductions made against their pay. In doing so, it was noted that an error was made which resulted in an incorrect tax being calculated. This was subsequently corrected in a subsequent month.

Potential consequences

If this is a frequent issue, then there is a risk that employees may be temporarily out of pocket if deductions are incorrectly calculated and not corrected until subsequent months.

Alternatively, if too little tax is calculated and the employee leaves, then it may not be possible to correct the error in a subsequent month, leaving the company to pay the difference.

Recommendation for corrective action

We recommend a review of the payroll system to reduce the risk of errors.

Management response

****** Detail ******

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