ITEM 6

Report to the Board

18 July 2019

Title: KPMG Management Report – Year Ended 31 March 2019

Report of: Interim Managing Director

Purpose of Report

1. To note the external auditor's management report on the financial statements for the year ended 31 March 2019 and agree that the Chair and the Company Secretary sign the management representation letter on behalf of the Board.

Background

2. The company's external auditors KPMG carried out an audit of the report and financial statements for 2018/19 during June 2019.

3. A management report presenting their findings was approved by Audit Committee on 3 July 2019, subject to an additional column being added to the control observations showing management's response to the observations. This additional column has been added to the management report which is attached as an appendix to this report.

4. A report with the financial statements as agreed with the auditors, KPMG, is elsewhere on this agenda.

Management Report

5. KPMG produced a management report following the audit they have carried out.

6. There were no significant issues raised in the report and 4 low level audit recommendations were identified, which will be followed up by the Company.

Management Representation Letter

7. As part of the audit, KPMG require the letter to be signed by the Chair and the Company Secretary on behalf of the Board. The letter is Appendix 2 of the management report that is attached at the Appendix to this report.

Link to values

8. This report is in line with the following values of the company: -

- Fair
- Customer Focused
- Open and Honest
- Accountable

Impact on tenants

9. Appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants.

Risk Management Implications

10. The external audit carried out by KPMG is one element of the controls in place to ensure that the strategic risk within the business plan (failure to manage the company's finances) is effectively controlled.

Financial Implications

11. The financial implications are contained within the report and appendices.

Equality and Diversity Implications

12. There are no equality or diversity implications arising from this report.

Value for Money implications

13. There are no value for money implications arising from this report.

Health Implications

14. There are no direct health implications arising from this report.

Environmental Implications

15. There are no direct environmental implications arising from this report.

Consultation carried out

16. None directly for this report.

Recommendation

17. It is recommended that the committee: -

(i) approve the management report for the year ended 31 March 2019;
(ii) authorise the Chair and the Company Secretary to sign the management representation letter on behalf of the Board

Contact: Mark Banks, Finance Manager   Tel No: (0191) 433 5368

The Gateshead Housing Company

Report to the Audit Committee

Financial statements for the year ended 31 March 2019

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For presentation: 3 July 2019

Provided for distribution: 26 June 2019

Contents

Introduction

To the Audit Committee of The Gateshead Housing Company

We are pleased to have the opportunity to meet with you on 3 July 2019 to discuss the results of our audit of the financial statements of The Gateshead Housing Company Limited (the “Company”), as at and for the year ended 31 March 2019.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 24 April 2019. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

Subject to the Board’s approval, we expect to be in a position to sign our audit opinion on the Company’s financial statements following the Board meeting, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor’s Report.

We draw your attention to the important notice on page 4 of this report, which explains:

– the purpose of this report; and
– limitations on work performed;
– restrictions on distribution of this report.

Yours sincerely,

Tara Stonehouse

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. Some of the ways in which we drive audit quality are demonstrated throughout our report and include:

Important notice

This report is presented under the terms of our audit engagement letter.

- Circulation of this report is restricted.
- The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of The Gateshead Housing Company Limited (the "Company"), prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, as at and for the year ended 31 March 2019.

This Report has been prepared for the Company's Audit Committee, in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarizes the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Company's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Company's members in accordance with the Companies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit Committee of the Company; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Executive summary

Outstanding matters

At the time of producing this report, the following matters are outstanding:

- Receipt of actuarial calculation of impact of pensions judgements (p9);
- Receipt of documentation in respect of Going Concern (p12); and
- Receipt of management representations and final review of financial statements.

We will provide a verbal update in the Audit Committee meeting.

Audit misstatements

Page 15

There are two adjusted audit differences with an overall impact of £nil to the deficit for the year.

There are no uncorrected audit differences.

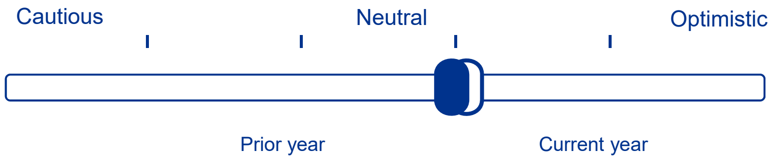
Control observations

Page 16

We have not identified any significant control deficiencies.
We have made 5 control recommendations – whilst these are not significant, if addressed, they will improve internal control.

Accounting judgements related to estimates

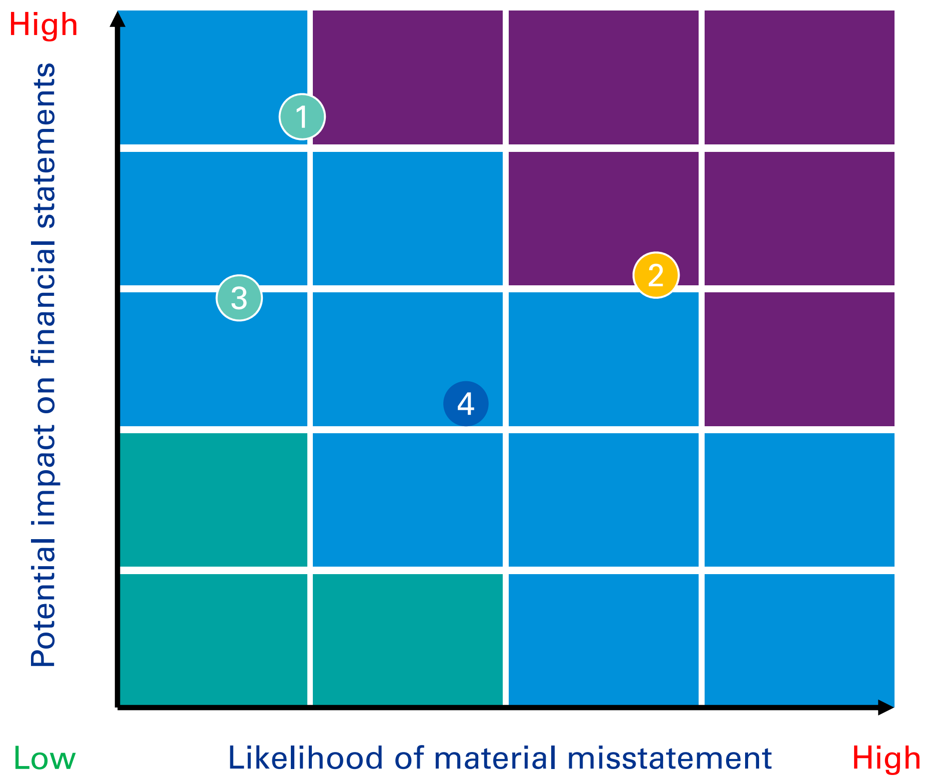
Page 9



Overall we are satisfied with the key accounting judgments taken. We consider the main judgement in the financial statements to be the valuation of pension scheme liabilities, which has been produced using reasonable assumptions, albeit slightly optimistic CPI and discount rate assumptions have been adopted.

Identified significant risks and other areas of audit focus

Our risk assessment



The key risks for our audit

1. Management override of controls
2. Valuation of pension liabilities
3. Revenue recognition, including fraud risk
4. Development programme

Key

- Significant audit risk
- Audit risk that the ISAs require us to raise in all cases
- Other area of audit focus

Significant risks

1 Management override of controls

The risk

Professional standards require us to consider the fraud risk from management override of controls to be a significant risk in all cases.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

In line with our methodology, we performed the following procedures:

- Performed substantive testing of journal entries and post closing adjustments;
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates; and
- Assessed the appropriateness of the accounting for significant transactions that are outside the normal course of business, or are otherwise unusual.

Our findings

- We screened the listing of journal entries for transactions arising outside the normal course of business and have not identified any instances of management override of control.
- We have reviewed management's judgement over significant estimates and have not identified instances of management override of control. See page 9 for further comments in relation to the valuation of the defined benefit pension obligation.
- We did not identify any significant unusual transactions.

Significant risks

2 Valuation of pension liabilities

The risk

The Company is a member of Tyne and Wear Local Government Pension Scheme. The valuation of Local Government Pension Schemes relies on a number of assumptions, most notably around the actuarial assumptions. The Company's liability increased substantially following the TUPE transfers during 2017/18 and an additional past service cost has been recognised in 2018/19.

It is important that the assumptions used reflect the profile of the Company's employees. It is also important that assumptions are derived on a consistent basis year to year, or updated to reflect the Company's current position. There are also generic financial assumptions and demographic assumptions used in the calculation of the liability.

In addition, due to the nuances of the Local Government Pension Scheme, the allocation of assets is an actuarial procedure, as opposed to a direct allocation of investments. This is based on a methodology applied by the Scheme actuary.

Our response

We have performed the following procedures:

- Evaluated the competency and objectivity of the Company's actuaries;
- Assessed the completeness and accuracy of the information provided to the Pension Schemes Actuaries by the Company which input into the calculation of the scheme valuation;
- Involved our actuarial specialists to assess the reasonableness of the key assumptions used and methodology;
- Reviewed the methodology for valuation of the Company's share of scheme assets, including consideration as to the return on assets achieved during the year; and
- Examined the actuarial valuation report produced by the Scheme's Actuary and confirm the information is accurately disclosed in the financial statements.

Significant risks

2 Valuation of pension liabilities (continued)

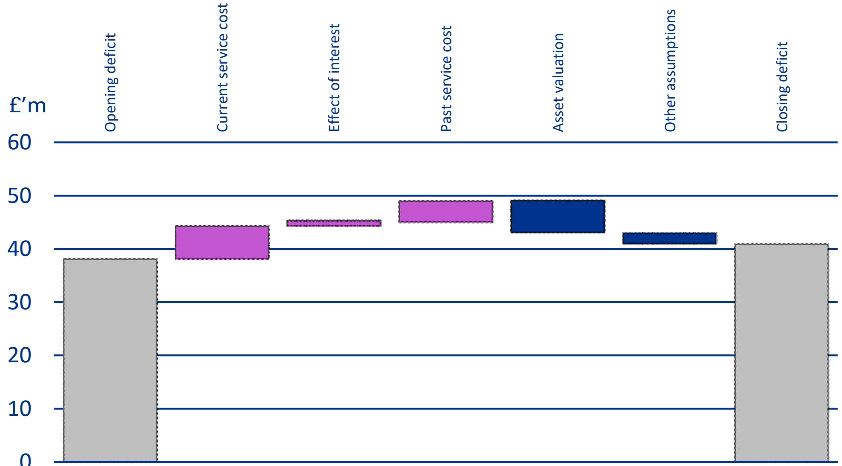
Methodology and assumptions

The pension scheme liability has been valued on a consistent basis with the prior year – Aon Hewitt have provided a FRS 102 actuarial valuation.

Overall, we consider the key assumptions for the calculation of the gross liability to be reasonable, although we note that the discount rate and CPI assumption are slightly optimistic when compared to our benchmarked rates. This is consistent with our assessment of the 2018 assumptions. The discount rate at 2.5% is slightly higher than our benchmarked rate of 2.4% and CPI at 2.1% is lower than our benchmarked rate of 2.5%. Given the judgemental nature of these assumptions we have not proposed any audit difference. We have however noted a minor control recommendation in relation to management review of assumptions (see page 16).

As part of our testing in relation to the Company's share of pension scheme assets we identified that the asset return used for the FRS 102 valuation was based on data to January 2019 rather than to March 2019. The return to January was 8.1% compared to an actual figure for the year of 7.1%. The impact of this on the valuation of the scheme assets is that they were valued at £1.0m higher than had the actual return been used. We have therefore proposed an audit adjustment to reflect the year end return, resulting in a £1.0m debit to Other Comprehensive Income. This has been corrected (see page 15).

As shown in the chart (right), a past service cost of £3.6m has been recognised in the year – we understand that this relates to a further transfer of employees into the Company's share of liabilities of the scheme. We have assessed this treatment and consider it to be reasonable.



Reconciliation of opening to closing net pension liability

GMP and McCloud/Sergeant

We have discussed the impact of two recent rulings, which affect the valuation of pension liabilities, with management. These are: the Guaranteed Minimum Pension (GMP) High Court ruling, which requires equalisation of benefits between male and female pension scheme participants; and the McCloud and Sergeant judgements regarding age discrimination arising from public sector pension scheme transition arrangements.

No allowance was originally made for the potential increases in pension liabilities as a result of these judgements. We understand that the Council intend to make allowance in the pension accounting and we suggested that management liaise with the Council finance team in order to understand the requirements for the Group accounts. Our risk assessment, in discussion with our technical team, is that the impact of the McCloud judgement is likely to be material to be the financial statements whilst GMP may not be. We have requested that management obtain updated calculations from their actuary – and should adjust the liability if material.

Other areas of audit focus

3 Revenue recognition

The risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

Given the nature of the Housing Company's operations and the relationship with the council we rebut this presumption. However we nonetheless design our procedures to ensure that revenue is appropriately recorded and we remain alert to the risk of fraud throughout our audit.

The risk in relation to the income from the maintenance agreement is reduced given the nature of the agreement with the council.

Our response

Although we have rebutted the presumed risk of fraud in relation to revenue recognition, our audit team remain alert to indications of fraud during the course of the audit, and will respond accordingly.

We tested maintenance contract income through agreement to the contract with the council and scrutinised the Company's recognition of other income in the financial statements.

Our findings

We have reconciled management fee income to the agreement with the Council with no exceptions identified. Furthermore we have seen evidence of agreement of the year end receivable balance from the Council.

As part of our testing we identified that turnover had been recognised in respect of reimbursements received from the Council for expenditure in relation to housing refugees. On investigation, given that the Company does not bear the risks and rewards of the activity from an accounting perspective it is acting in capacity of agent and we have proposed an audit adjustment to net the turnover and expenditure (reduction to turnover £1,108k; no impact on the deficit for the year). See page 15 for the correcting entry.

We have vouched other income, which predominantly comprises recharges for the Housing Company's services, on a sample basis with no exceptions identified.

We have not identified any instances of fraud.

We discuss turnover from development activity overleaf.

Other areas of audit focus

4 Development programme

The risk

The accounting for development works contains a number of assumptions and judgements relating to revenue recognition, the recoverability of work in progress and capitalised costs.

Income earned from the council is dependent on surveyors valuations and billing and revenue recognition depend on those valuations. Valuations inherently involve a high degree of judgement which gives rise to a potential for error.

The Company is required to estimate the total outturn on each scheme in order to ensure that income and expense recognised in the period are appropriate. For example, if any schemes are forecast as loss-making then projected losses may need to be booked in the period. We understand that there are relatively few circumstances where the Company is exposed to significant contract risk.

Where work in progress is held on the balance sheet, the contract outturn is considered in making the assessment of recoverability.

Our response

Our procedures included:

- Testing whether an appropriate process has been put in place to monitor development progress and costs;
- Making an assessment of management's accounting treatment for recognition of costs and revenues on development schemes, and the associated balance sheet entries;
- Assessing the reasonableness of scheme forecasts and the profit recognised in the period;
- With reference to scheme forecasts making an assessment of the recoverability of any work in progress held on the balance sheet;
- Testing whether income has been recognised in line with the agreed scheme valuations;
- For a sample of valuations reviewing the methodology and benchmarking the assumptions used in their preparation.

Our findings

Based on our testing, appropriate processes appear to have been put in place around project monitoring. Each project is assigned a cost centre to which costs and revenues are allocated on an ongoing basis, with regular involvement from the relevant surveyors.

Revenue is recognised in line with agreed site valuations and reflecting the arrangements with the Council. We have vouched a statistical sample of revenue recognised in the year and tested the year end accounting adjustments.

Based on our review, the valuations used appear to have been appropriately prepared and evidenced. For all material projects at the year end, valuations have been obtained and there are therefore no material amounts included in work in progress.

We understand that there are no material loss making projects. We considered the overall outcome on material projects, including for example the Derwentside project, to assess whether the surplus recognised is appropriate with reference to the overall outcome of the project with no exceptions identified.

Other matters relevant to the audit

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements.

All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of intangible assets, the useful economic life of assets, the fair value of assets held at a valuation, asset impairment and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

We apply a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern assessment and disclosures

Management have prepared the accounts on the going concern basis as they do not intend to liquidate the Company or to cease operations, and as they have concluded that the Company's financial position means that this is realistic.

They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the accounts ("the going concern period").

The management agreement with Gateshead Council provides strong evidence in relation to solvency. The current management agreement runs to 31 March 2020 which is before the end of the going concern period. As Gateshead Council is the Company's primary customer, without there being a management agreement in place for the duration of the going concern period further evidence of the Council's intention to provide ongoing support may be required.

We understand that a new management agreement may be finalised prior to the finalisation of the financial statements. If this is available we will request this as audit evidence in relation to going concern. If this is not available we will request to see written evidence of the Council's intention to provide ongoing support to the Company (a "letter of support").

Appendices

Contents

Required communications with the Audit Committee

Type	Response
Our draft management representation letter	OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2019.
Adjusted audit differences	OK See page 15.
Unadjusted audit differences	OK There are no unadjusted audit differences. See page 15.
Related parties	OK There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK We set out our control observations arising from the 2019 audit on page 16.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	OK No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK None.
Disagreements with management or scope limitations	OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	OK Over the course of our audit, we have evaluated the appropriateness of the Company's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspond-dence with management	OK The significant matters arising from the audit were discussed, or subject to correspondence, with management.

Audit differences

Corrected audit differences		Debit (£000's)	Credit (£000's)	P&L Impact
To net down reimbursements received relating to refugees (page 10)				
1	Dr Turnover	1,018	-	1,018
1	Cr Operating costs	-	(1,018)	(1,018)
To update the return on pension assets to year end rate (page 9)				
2	Dr Other comprehensive income	1,000	-	-
2	Cr Net pension liability	-	(1,000)	-
		Total debit/(credit) to Income and expenditure		**-**

Note that adjustment 2 shown above has been agreed with management but has not yet been reflected in the draft financial statements pending resolution of the GMP and McCloud matters described on page 9.

There are no unadjusted audit differences.

Control observations

	Description	Risk	Summary	Management response
1	Segregation of duties in journal posting	Low	At present a number of employees can post journals without prior approval being obtained. This increases the risk that fraudulent or incorrect journals are posted. There are compensating controls in place due to the monthly management accounts being reviewed which may highlight significant errors. Management may wish to consider implementing segregation of duties within the journals process.	Segregation of duties will be introduced for all journals which will require certification and approval from two separate employees within the company. The names of these employees will be recorded on the journal and evidence will be retained of all journal transfer requests and approvals.
2	Bank reconciliations	Low	As a result of the nature of the Company's banking arrangements with the Council, a straightforward bank reconciliation cannot be performed. Whilst management have a process in place and carry out a number of checks to confirm the accuracy of the balance, these are not formalised into a control. There is a risk that the balance sheet could be misstated. We would recommend that a year end reconciliation is formalised to demonstrate the checks carried out and review.	The current checks that are carried out will be formalised into a control document that can be signed off at year end at a reconciliation between the allocated bank balance and the statutory accounts.
3	Review of pension assumptions	Low	Management do not document procedures around their investigation of the pension valuation assumptions provided by the actuary. We recommend that that the assumptions provided by Aon for the year end pension valuation are appropriately challenged by management and that documentation of this challenge is retained. If we are to assess this control as effective for our audit in future periods it will need to meet the demanding standards of definition and documentation as defined by the FRC for Management Review Controls.	The Finance Manager will review, document and retain the actuarial assumptions each year and challenge any assumptions that do not appear in line with expectations. The actuary's assumptions advice report which documents the methodology of the assumptions employed will also be reviewed as part of this process and shared with management within the company.

Control observations (continued)

	Description	Risk	Summary	Management response
4	Related party transactions	Low	Management do not maintain a list of related parties and there is no formalised control in place that ensures related party transactions are identified (these could include transactions with other subsidiaries of Gateshead Council). This could lead to omissions of required disclosures from the financial statements. We would recommend that management produce a list of related parties which is then periodically updated, and that related party transactions are separately identified on the relevant sub-ledgers.	We will liaise with Gateshead Council to ensure we have an up to date list of all Council subsidiaries and prepare details of all transactions that have occurred with each party.
5	Payment of leavers	Low	As part of our testing in relation to remuneration disclosures we identified that payments had continued to be made to a former director for periods after their leave date. Whilst the amounts paid are low value we would recommend that management review their process for removing leavers from the payroll.	The Finance Manager and Governance and Risk Lead will review the process for removing all leavers including directors to ensure adequate controls are put in place to prevent incorrect payments being made to leavers.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of The Gateshead Housing Company (the Company)

Professional ethical standards require us to provide to you with a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Company and its affiliates for professional services provided by us during the reporting period. £6,000 of non audit services have been provided by KPMG to the Company, being; XBRL tagging of the financial statements for corporate tax return purposes; and corporation tax compliance services comprising filing of computations. This is not considered to impair our independence as auditor as the fees are not significant to the firm or in relation to audit fee and the work is carried out by a separate team.

Confirmation of Independence

Summary of fees

We have considered the fees charged by us to the Company and its affiliates for professional services provided by us for the reporting period.

Total fees charged so far, or expected, for the period ending 31 March 2019 can be analysed as follows:

	2018/19	2017/18
	£'000	£'000
Audit Services	27	25
Tax compliance (iXBRL)	1	1
Tax compliance	~6	5
Tax advisory	-	-
Total non-audit services	~7	6
Total Fees	34	31

The ratio of non-audit fees to audit fees for the year is 0.21:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Reliance on the work of external experts

We confirm that we have not used work from external experts engaged by KPMG to assist us in our audit.

Threats and safeguards

Tax compliance:
- Management: informed management remain responsible for the tax computations;
- Self-review: a separate team carry out the tax compliance work and there are no material tax judgements for the financial statements.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the associate partner and audit staff is not impaired.

This report is intended solely for the information of the Board of Directors and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Management representation letter

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

July 2019

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The Gateshead Housing Company Limited ("the Company"), for the year ended 31 March 2019, for the purpose of expressing an opinion:

I. as to whether these financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of the Company's profit or loss for the financial year then ended;
II. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102"); and
III. whether the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

These financial statements comprise the Balance Sheet, the Profit and Loss Account, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the Company meets the definition of a qualifying entity and meets the criteria for applying the disclosure exemptions with FRS 102.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement, for the preparation of financial statements that:

    I. give a true and fair view of the state of the Company's affairs as at the end of its financial year and of its profit or loss for that financial year;
    II. have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102); and
    III. have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which section 32 of FRS 102 requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Board has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Board for the purpose of the audit; and
    - unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Management representation letter (continued)

7. The Board confirms the following:

   I. The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   II. The Board has disclosed to you all information in relation to:

      a) Fraud or suspected fraud that it is aware of and that affects the Company and involves:
         - management;
         - employees who have significant roles in internal control; or
         - others where the fraud could have a material effect on the financial statements; and
      b) allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with section 21 of FRS 102 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Board has disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with section 33 of FRS 102.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102.

11. The Board confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Company's ability to continue as a going concern as required to provide a true and fair view.
    b) No events or circumstances have been identified that may cast significant doubt on the ability of the Company to continue as a going concern.

12. On the basis of the process established by the Board and having made appropriate enquiries, the Board is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and in accordance with the requirements of section 28 of FRS 102.

The Board further confirms that:

   a) all significant retirement benefits, including any arrangements that are:
      - statutory, contractual or implicit in the employer's actions;
      - arise in the UK and the Republic of Ireland or overseas;
      - funded or unfunded; and
      - approved or unapproved,
      - have been identified and properly accounted for; and
   b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Board of Directors on July 2019.

Yours faithfully,