



Report to the Board

16 July 2020

Title: KPMG Management Report – Year Ended 31 March 2020

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 2020 and agree that the Chair of the Board 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 2019/20 during June 2020.
3. A management report (Appendix 1) presenting their findings was approved by Resources, Audit and Performance Committee on 8 July 2020. Several comments were responded to by KPMG and these are detailed in the minutes from the meeting.
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 3 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 of the Board and the Company Secretary on behalf of the Board. The letter is attached at Appendix 2 of the management report that is attached at the Appendix to this report.

Impact on tenants

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

Risk Management Implications

9. 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

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

Recommendation

11. It is recommended that the committee: -
 - (i) approve the management report for the year ended 31 March 2020;
 - (ii) authorise the Chair of the Board and the Company Secretary to sign the management representation letter on behalf of the Board



The Gateshead Housing Company

Report to the Audit Committee

Financial statements for the year ended 31 March 2020

—

For presentation: 8 July 2020

Provided for distribution: 1 July 2020



Contents

	Page
Introduction	3
Important notice	4
Executive summary	5
Identified audit risks	6
Significant risks	7
Other areas of audit focus	12
Appendices	14



Introduction

To the Audit Committee of The Gateshead Housing Company

We are pleased to have the opportunity to meet with you on 8 July 2020 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 2020.

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 8 May 2020. We will be pleased to elaborate on the matters covered in this report when we meet.

With the exception of conclusions over Going Concern, our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

Subject to the conclusion of our going concern consultation process, 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

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 2020.

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:

- Review of management's detailed forecast analysis and consideration of COVID-19 impact on the Going Concern period (received 30/6/20);
- Conclusion of technical consultation for Going Concern and review of updated basis of preparation disclosure in the financial statements;
- Manager and partner review of certain substantive testing;
- Receipt of management representations and final review of financial statements.

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

Audit misstatements Page 16

We identified three audit misstatements – none of which impact surplus for the year.

Two misstatements have been corrected in the financial statements the main impact of which is to reduce the Company's net pension deficit by £1,000k.

The uncorrected misstatement is a small reclassification between revenue and costs (£193k).

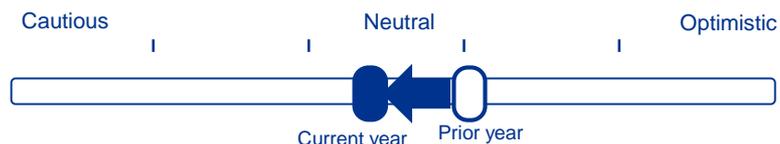
Control observations

Page 17

We have not identified any significant control deficiencies.

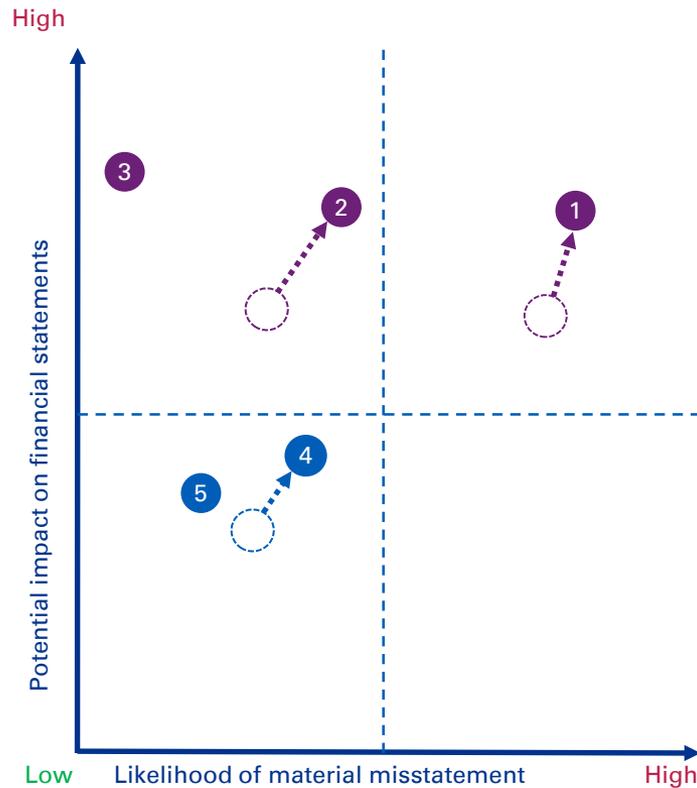
We have made 3 control recommendations – whilst these are not significant, if addressed, they will improve internal control.

Accounting judgements related to estimates Page 8



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 a slightly cautious approach to the CPI assumption has been adopted in the current year.

Identified significant risks and other areas of audit focus



Our risk assessment is based on our understanding of The Gateshead Housing Company, the industry and the current economic environment.

This assessment has been informed by discussions with management during the course of the audit including in relation to the impact of COVID-19.

This assessment is consistent with our presentation to the Audit Committee on 6 May 2020.

Significant risks

- ① Valuation of pension liabilities
- ② Going concern
- ③ Management override of controls

Other areas of audit focus

- ④ Development programme
- ⑤ Revenue recognition

Significant risks

1 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.

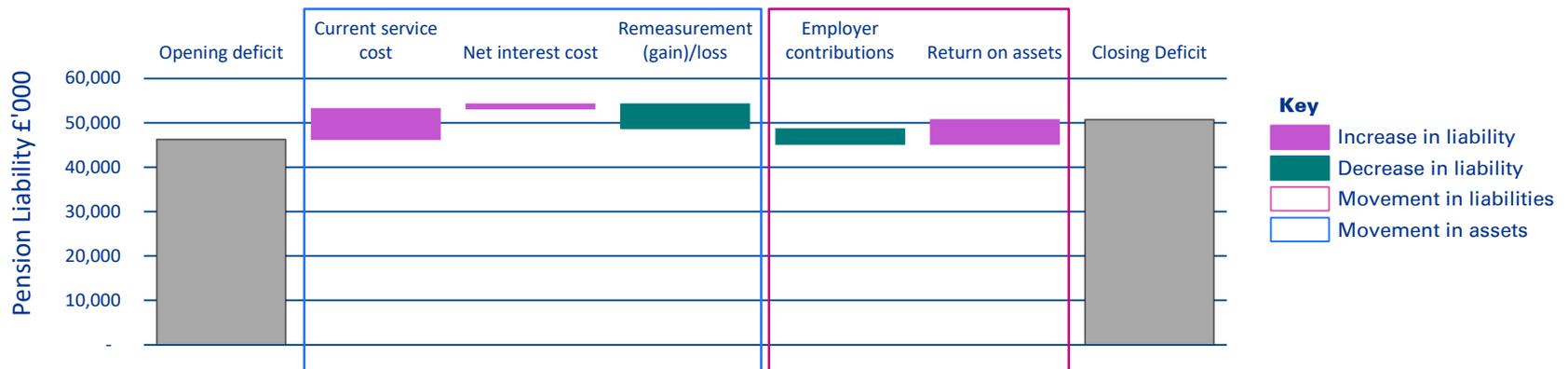
It is important that the assumptions used reflect the profile of the Company's employees. It is also important that assumptions are derived on a consistent basis year to year, or updated to reflect the Company's current position. There are also generic financial assumptions and demographic assumptions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

1 Valuation of pension liabilities (continued)

	Company	KPMG central	Assessment
Discount rate	2.30%	2.25%	Balanced
CPI inflation	1.90%	1.76%	Slightly cautious
Pension increases	1.90%	1.95%	Balanced

Pension entries

As part of our prior year audit we raised a corrected misstatement to reflect that Aon had prepared the asset valuations up to February 2019 rather than the year end (a method which is appropriate when market conditions are stable but not when there are large fluctuations in valuations). In the current year our testing identified that Aon's report had incorrectly calculated the pension assets accounting based on the values they had provided for 2019 rather than the values adopted for the financial statements. Management posted the in year entries provided by Aon. We have agreed a corrected £1.0m audit adjustment with management (a reduction in the net liability and a decrease in the charge to Income & Expenditure).

CPI Inflation assumption – change in methodology

It's often common to set long term RPI inflation based on long term gilt market-implied expectations (often less an inflation risk premium). In September 2019 the UK Chancellor and the UK Statistics Authority jointly published correspondence confirming that a public consultation to amend the flawed RPI index would start in 2020 which could ultimately result in align RPI to CPIH. This announcement made setting long-term inflation assumptions more difficult. As a result we anticipate more variability in how reporters of defined benefit pension liabilities now set their RPI and CPI assumptions.

The Company's pension obligation calculations assume that: RPI continues to be set in line with market less a risk premium of 0.2% (consistent with 2018/19); CPI is set based on a gap of 60 basis points to RPI (compared to 110 basis points in 2018/19). For the Local Government Pension Scheme all inflationary increases are linked to CPI. This means that the RPI assumption does not directly impact on the valuation of scheme liabilities, however it is used to derive the CPI assumption.

Given the significant uncertainty in relation to future developments in RPI inflation there are a number of possible approaches for determining RPI and CPI inflation assumptions. As part of our audit methodology, we have modelled a number of potential RPI and CPI reasonable scenarios following the September announcement.

Overall, we consider the Company's updated CPI assumption slightly cautious (2018/19: slightly optimistic) and the overall assumptions used in the valuation to be reasonable. The Company should include additional disclosure in the financial statements in respect of the change in the basis of the CPI assumption.

Significant risks

2 Going concern

Background

The assessment of, and the disclosures surrounding, Going Concern continue to be an area of focus for the accountancy profession and an area in which the FRC frequently challenges audit firms. In addition, a number of businesses are facing unprecedented shocks to their business models – and in some cases an existential threat – as a result of the COVID-19-pandemic.

The uncertainty relating to the future of the management agreement and whether services delivered by the Housing Company will be delivered by the Council in the future increase the complexity of the Going Concern assessment.

The Risk

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. That judgement is based on an evaluation of the inherent risks and uncertainties for the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risk for our audit is whether or not those risks are such that they amount to a material uncertainty and an extended basis of preparation for the financial statements (accompanied by an emphasis of matter in the auditor's report) is required. Once the appropriate basis of preparation of the financial statements is required we review and assess the reasonableness and completeness of the Company's disclosures in respect of Going Concern.

KPMG technical involvement

Prior to issuing any audit reports our current firm policy is that a technical consultation is required to challenge whether there is appropriate evidence in relation to the basis of preparation of the financial statements. This consultation is underway and we will provide a verbal update on status. We aim to conclude these consultations close to the timing of signing the financial statements in order to take into account the most up-to-date possible evidence. We will continue to review and discuss the disclosures in the financial statements relating to going concern with management. The commentary over the page represents our current understanding and view on the preparation of the financial statements however this remains subject to the completion of the technical consultation.

Significant risks

2 Going concern (continued)

Going concern and material uncertainty

Financial Statements are prepared on a Going Concern basis when the Directors believe that the Company will continue realising its assets and discharging its liabilities in the normal course of business. If a circumstance exists which casts significant doubt on whether this will be the case (but the Directors still expect that the Company will continue to operate) the Going Concern basis may still be applied but a material uncertainty is disclosed in the basis of preparation.

We understand that currently it appears likely that the Company's operations will be transferred to the Council but that the timing of this transfer is not yet known. Management expect that this transfer would take place at least a year from the date of finalising the 2019/20 financial statements. This means that the Going Concern basis of preparation remains appropriate (as the Directors expect the Company will continue its normal course of business for at least a year). However, the possibility that transfer of the Company's operations will take place within that period means that a material uncertainty disclosure in the financial statements is appropriate (even it is not considered probable that the transfer would be within 12 months of finalising the financial statements).

We have provided guidance to management on what the basis of preparation disclosure should include in respect of the material uncertainty and will review the draft disclosures and provide comments. This process will include involvement from our technical team. The auditor's report will include a corresponding "emphasis of matter" in order to draw attention of a reader to the material uncertainties in the Director's disclosure in the basis of preparation.

Significant risks

3 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 8 for further comments in relation to the valuation of the defined benefit pension obligation.
- We did not identify any significant unusual transactions.

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.

There continue to be a number of small loss-making schemes (including Derrwentside consistent with 2018/19) the losses for these have been recorded in the year in line with the accounting requirements. No projects are making material losses. Overall we consider the accounting treatment appropriate.

Other areas of audit focus

5 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.

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

As part of our testing we identified an error whereby a transfer of costs between the Voids/Compliance budget and the Repairs/Maintenance budget had been incorrectly posted as a credit to revenue rather than as a credit to expenditure. The impact of correcting this adjustment would be to reduce turnover by £193k (included on schedule of unadjusted audit differences at page 16).

We have not identified any instances of fraud.

We discuss turnover from development activity on the previous page.

Appendices

Contents

	Page
Required communications with the Audit Committee	15
Audit differences	16
Control observations	17
Confirmation of independence	18
Management representation letter	20

Required communications with the Audit Committee

Type	Response	Type	Response
Our draft management representation letter	 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 2020.	Significant difficulties	 No significant difficulties were encountered during the audit.
Adjusted audit differences	 See page 16.	Modifications to auditor's report	 None.
Unadjusted audit differences	 There is 1 unadjusted audit difference. There would be no impact on the deficit for the year if this was to be corrected, See page 16.	Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.	Other information	 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.
Other matters warranting attention by the Audit Committee	 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.	Breaches of independence	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Control deficiencies	 We set out our control observations arising from the 2020 audit on page 17.	Accounting practices	 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.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 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.	Significant matters discussed or subject to correspondence with management	 The significant matters arising from the audit were discussed, or subject to correspondence, with management.

Audit differences

Uncorrected audit differences	Debit (£000's)	Credit (£000's)	P&L Impact
Entry to correct classification of expenditure misposted to turnover			
DR Turnover	193	-	193
CR Operating costs	-	(193)	(193)
Total debit/(credit) to surplus/deficit			-

Corrected audit differences	Debit (£000's)	Credit (£000's)	P&L Impact
Appropriate disclosure of net down payroll costs			
Additional disclosure added in the Staff numbers and costs note in the financial statements to explain that certain payroll costs are eliminated in the Statement of Comprehensive Income as they relate to agency activities carried out by the Housing Company.			
Incorrect brought forward pension assets figure used to calculate current year accounting entries			
DR Net pension liability	1,000	-	-
CR Remeasurement of the net defined benefit liability (OCI)	-	(1,000)	-
Total debit/(credit) to surplus/deficit			-

Control observations

Description	Risk Assessment	Summary
1 Segregation of duties in journal posting	Low	<p>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.</p> <p>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.</p>
2 Review of pension assumptions	Low	<p>Management do not document procedures around their investigation of the pension valuation assumptions provided by the actuary. In relation to the assumptions provided by Aon for the year end pension valuation (including, for example the morbidity assumptions), we recommend that management appropriately challenge Aon in relation to those assumptions and that documentation of this challenge is retained.</p> <p>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.</p> <p>We understand that management intended to share the pension assumptions for the current year for board review in March-April but that the circumstances regarding COVID-19 prevented this. The assumptions may still be presented for board review and approval prior to finalisation of the financial statements.</p>
3 Related party transactions	Low	<p>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.</p> <p>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.</p>

Follow up of prior year observations

Two recommendations made during the prior year audit have been cleared:

- Additional formalisation of bank reconciliation controls has been put in place during the period;
- Exceptions to the leavers process (and individuals remaining on payroll) identified in the prior year have not reoccurred in the current year.

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.

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 ended 31 March 2020 can be analysed as follows:

	2019/20	2018/19
	£'000	£'000
Audit Services	35	32
Tax compliance (iXBRL)	1	1
Tax compliance	~7	6
Tax advisory	-	-
Total non-audit services	~8	7
Total Fees	42	38

The ratio of non-audit fees to audit fees for the year is 0.23:1. 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

2020

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 2020, 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 2020 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,
- 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 2020.

Yours faithfully,

(Letterhead of Client)

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

[Date]

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 2020, 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 2020 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 and 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.
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 *[date]*.

Yours faithfully,

[Chairman]

[Secretary]

Optional cc: Audit Committee

Appendix to the Board Representation Letter of The Gateshead Housing Company Limited: Definitions

Criteria for applying the disclosure exemptions within FRS 102

- The Company's shareholders have been notified in writing about, and do not object to, the use of the disclosure exemptions
- The Company discloses in the notes to its financial statements:
 - a) A brief narrative summary of the disclosure exemptions adopted; and
 - b) The name of the parent of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained

Financial Statements

A complete set of financial statements comprises:

- a Balance Sheet as at the end of the period;
- an income and expenditure account for the period;
- a statement of other comprehensive income for the period;
- a statement of changes in equity for the period;
- a cash flow statement for the period
- notes, comprising a summary of significant accounting policies and other explanatory information.

FRS 102 permits an entity either to present (i) separately an income and expenditure account and a Statement of Other Comprehensive Income or (ii) a combined income and expenditure account and Other Comprehensive Income.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

FRS 102 states that:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Qualifying Entity

A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in FRS 102 as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:

- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.