



The Audit Findings for First Wave Housing Limited

Year Ended 31st March 2019

September 2019

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Dear Sirs

Audit Findings for First Wave Housing Limited for the year ended 31 March 2019

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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

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

Joanne Love

Director
For Grant Thornton UK LLP

Chartered Accountants

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Contents

Section	Page
1. Status of the audit and Audit opinion	4
2. Audit Findings - Significant Risks	5
3. Audit Findings - Other Risks	7
4. Going Concern	9
5. Other communication requirements	10
6. Internal controls – issues identified in the current year	11
7. Adjusted misstatements	12
8. Unadjusted misstatements	14
9. Independence and ethics	15
10. Fees and non-audit services	16
11. Communication of audit matters with those charged with governance	17

1. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Outstanding information:

- 
 - Final review of updated financial statements.
 - Completion of fieldwork procedures – none of which is expected to impact on our opinion.
 - Receipt of signed management representation letter
 - Update of going concern and post balance sheet events procedures to the point of signing the financial statements

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

Audit opinion

Our anticipated audit report opinion will be unmodified

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2. Audit Findings - Significant Risks

Significant risks are defined by ISAs (UK) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<p>Auditor commentary</p> <ul style="list-style-type: none"> We have undertaken the following audit procedures in relation to revenue recognition: <ul style="list-style-type: none"> Reviewed and tested revenue recognition policies. Performed a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports revenue transactions. Performed substantive analytical review: <ul style="list-style-type: none"> Performed a predictive estimate of social housing rental income using prior year revenue and reflecting changes in property numbers and annual rent decreases. Estimated annual rental income using weekly rent debits. For a sample of new tenancies, agreed rental income to supporting rent agreements. Reviewed rental income from market rented properties and tested a sample to rental agreements. <p>We have not identified any significant issues from the testing we have undertaken.</p>
<p>2 Management override of controls</p> <ul style="list-style-type: none"> Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities 	<p>Auditor commentary</p> <ul style="list-style-type: none"> We have undertaken the following audit procedures in this area: <ul style="list-style-type: none"> Reviewed accounting estimates, judgements and decisions made by management. Tested a sample of journals entries. Reviewed unusual significant transactions. <p>We have not identified any significant issues from the testing we have undertaken.</p>

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2. Audit Findings - Significant Risks

Risks identified in our Audit Plan

Commentary

3

Valuation of housing and Investment properties.

Significant judgement is required in the estimation of property valuations and there is a significant risk that these revaluation measurements are not in accordance with accounting standards.

Auditor Commentary

We have undertaken the following work in relation to this risk :

- reviewed the valuations prepared by your property expert, Jones Lang LaSalle Ltd (JLL). The table below summarises the closing valuations and the basis on which the assessment is made. The valuation was reviewed by our own property valuation experts and no issues were identified from their review. Our testing did not identify any material misstatement
- Reviewed adjustments posted to the financial statements. An adjustment has been identified and posted by management in relation to the depreciation charge for the year. This also impacts the revaluation gain for the year. Refer to page 7 for further commentary on this.

No other matters have been noted from the work performed.

Type of Property	Valuation Basis	Value as at 31 March 2019	Commentary
Investment Properties	Market Value	£12,070,000	Investment properties are held to earn rental and for capital appreciation or both and it is required to be revalued to its fair value at each reporting date. We consider a market value basis to be the appropriate valuation basis.
Social Housing	Existing Use Value Social Housing "EUV-SH"	£48,610,000	A property which is held for social benefit is not classified as investment property, however an accounting policy to account for these properties at valuation has been adopted by the company. The basis of valuation used throughout the sector is "EUV-SH" which measures future cashflows rather than an open market value reflecting their intended use.

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3. Audit Findings – Other Risks

Other risks are, in the auditor's judgment, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risks identified in our Audit Plan	Commentary
<p>1 Housing properties</p> <ul style="list-style-type: none"> Housing property activity is not valid Housing property depreciation is misstated 	<p>Auditor Commentary</p> <p>We have performed the following in respect of housing properties:</p> <ul style="list-style-type: none"> Verified the existence and confirmed the ownership of a sample of properties to land registry documentation. The Statement of Recommended Practice (SORP) which is applied by the company requires the application of component accounting. That is a property should not be considered as a single asset but split between its material components. i.e. land, structure, roof, kitchen, bathroom, etc. Management undertook an exercise sometime ago and determined that the impact of not applying such a policy was not material to the financial statements. We have audited management's assessment for the current year and whilst we concur that the impact is not material in the current year, we have raised a control recommendation on page 11 to update the assessment with a view to fully applying component accounting from 2019/20 year onwards. Overtime, the cumulative impact will become material. Tested a sample of additions and verified amounts capitalised in the year to supporting documentation on a sample basis. We have also ensure that the sampled expenditure meets the requirements of the Statement of Recommended Practice ('SORP'), accounting standards and the entity's stated accounting policies and the Financial Reporting Standard ("FRS 102"). The depreciation charge for the year had not been accounted for correctly as the revaluation gain was used to offset it. The effect of this was that the surplus for the year was reduced by £537K after putting the current year depreciation charge through the statement of comprehensive income. This also resulted in a prior year adjustment. The prior year surplus reduced by £527k. The adjustments for both the current and prior year have been shown on page 13. <p>Our testing of the above procedures did not identify any material misstatement apart from that identified with the accounting for depreciation.</p>

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3. Audit Findings – Other Risks

Risks identified in our Audit Plan

Commentary

2

Expenditure , creditors and accruals

- Expenditure, creditors and accruals have been understated or have not been recorded in the correct period

Auditor Commentary

We have undertaken the following audit procedures in relation to expenditure and creditors

- Performed a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports expenditure.
- Performed unrecorded liabilities testing through a review of post year-end invoices and payments.
- Performed a substantive analytical review of key expenditure items within the financial statement and completed detailed testing of a sample of expenditure items not tested elsewhere.
- We have obtained confirmation of the year end creditor balance with council and we have tested a sample of external creditors.

There were no significant findings identified from our testing of expenditure, creditors and accruals

3

Debt

Compliance with covenants

Auditor Commentary

First Wave Housing Limited has loans with the Council for the acquisition of properties.

- We have confirmed the balance of the loans the company has with the council.
- We have reviewed the loan agreements for any covenants and checked that there has not been a breach of any covenants in this financial year. The loan facilities are payable in 30 annual fixed instalments.
- We have checked the payments made in the year are in line with the loan agreement and checked the relevant calculations prepared by management to support the payments.

We have not identified any significant issues from the testing we have undertaken.

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4. Going concern

Description	Work commentary
Accounts are to be prepared on a going concern basis	<p>The assessment of First Wave Housing Limited's ability to continue as a going concern is a vital part of the accounts approval process. For this reason, both the board and ourselves need to consider a period of at least 12 months from the date of approval of the financial statements.</p> <ul style="list-style-type: none"> • We have obtained assessment's assessment of going concern; • Considered the adequacy of disclosures within the financial statements; and . • Reviewed the letter of support which the Council has provided to the company. <p><i>[We are finalising our procedures in in this area]</i></p>

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570)

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5. Other communication requirements

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit processes.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance.
4	Written representations	<ul style="list-style-type: none"> A letter of representation will be requested from management.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We have received all confirmations from third parties.
6	Disclosures	<p>Our review found that some disclosures which are required by the Statement of Recommended Practice and Accounts Direction had been omitted in the draft financial statements. The disclosures omitted were:</p> <ul style="list-style-type: none"> Value for Money disclosure Statement of compliance with the governance and viability standard. <p>Both the strategic report and the directors' reports in the draft financial statement had to be improved ; The risk section of the strategic report did not include specific risks and there was no narrative of key Performance indicators and the Director's report did not include all the required disclosures.</p> <p>The financial statements have been updated to include the above disclosures following our review and recommendation.</p>
7	Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
8	Other matters	<ul style="list-style-type: none"> No other matters identified.

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6. Internal controls – issues identified in current year

Assessment	Issue and risk	Recommendations
1 ●	<p>Monthly reconciliations of Cash in transit account</p> <p>During our testing of Cash and Cash Equivalents , we noted that the cash in transit account is used as a control account however it is not being cleared down periodically and as such the balance on this account continually increased until October 2018 when Brent Housing Partnership was wound down.</p> <p>At the level of the financial statements, this has had nil impact, as both these subjective codes are summarized as “Cash and cash equivalents however the cash in transit balance has remained static since 2018.</p>	<ul style="list-style-type: none"> We recommend that this account is cleared down regularly to show the actual cash in transit balance instead of the large balance it currently show, <p>Management response</p>
2 ●	<p>Application of Component Accounting</p> <p>As noted above, the company has not been applying component accounting in respect of its housing properties, as required by the SORP.</p>	<ul style="list-style-type: none"> We recommend that management undertake a full review to identify individual components and to depreciate these over their useful economic lives. Management response

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

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7. Adjusted misstatements

The following table sets out the details of adjusted misstatements in the current year relating to the accounting for depreciation

Description	Statement of Comprehensive income		Balance sheet		Surplus Effect £000
	Debit	Credit	Debit	Credit	
	£000	£000	£000	£000	
Dr Depreciation (P&L)	537				(537)
Cr Revaluation reserve		537			
Being the depreciation in year					

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7. Adjusted misstatements

The following table shows the prior year adjustment relating to the accounting for depreciation.

Description	Statement of Comprehensive		Balance sheet		
	Debit	Credit	Debit	Credit	Surplus Effect
	£000	£000	£000	£000	£000
Dr Depreciation charge	527				(527)
Cr Revaluation reserve		527			
Being the prior year adjustment to reflect the prior year depreciation charge					

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8. Unadjusted Misstatements

There were no unadjusted misstatements

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8. Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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9. Fees and non-audit services

The table below sets out the total fees for audit and charged from the beginning of the financial year for the 2019 year end engagements as well as the threats to our independence and safeguards have been applied to mitigate these threats. There were no non audit related services provided to the client.

	Fees £	Threat identified	Safeguards
Audit of First Wave Housing Limited	25,000	None – assurance service	n/a
Total	25,000		

- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to First Wave Housing Limited. We did not identify any non-audit services .
- The fees reconcile to the financial statements.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

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10. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

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

