



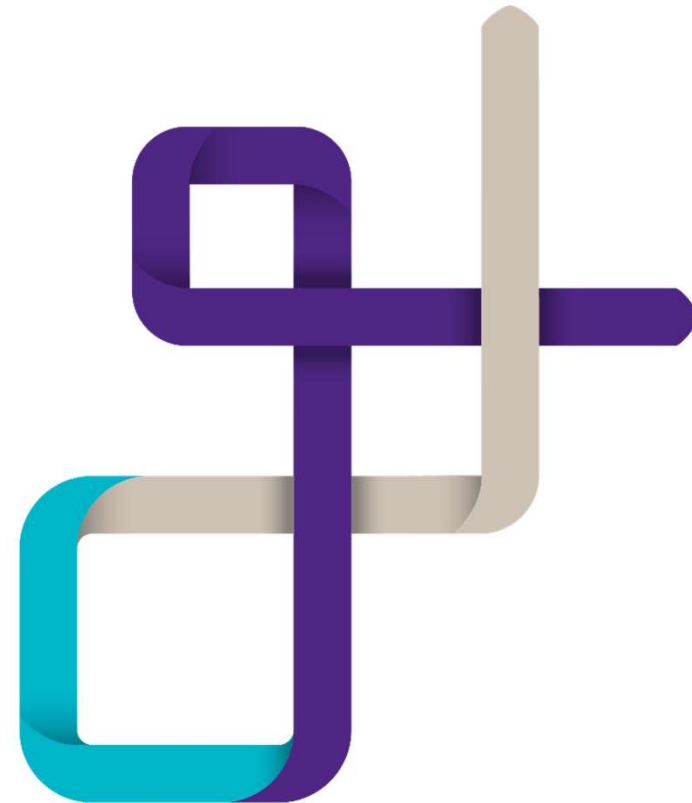
The Audit Findings for i4B Holdings Limited

31 March 2020

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Private and Confidential

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To the Board of Directors,

Audit Findings for I4B Holdings Limited for the 31 March 2020

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 have been discussed with management.

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 encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at www.grantthornton.co.uk/about-us/transparency-report/.

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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Status of the audit and anticipated opinion

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.

- Final internal quality control reviews, which may result in additional follow up queries to management.
- Financial statement review procedures, including consideration of the disclosures relating to the 'material valuation uncertainty' – see below
- Completion of going concern reviews, including considerations as to extent and adequacy around the letter of support from London Borough of Brent
- Receipt of signed management representation letter

Our anticipated audit report opinion will be unqualified and include an Emphasis of Matter paragraph

An emphasis of matter is not a modification to the audit opinion, but draws attention to a matter which is already appropriately disclosed in the financial statements which we consider to be relevant or fundamental to a user's understanding of the financial statements.

Uncertainties created by the Covid-19 outbreak have been reflected by the Company's valuers as at 31 March 2020 and given their nature and magnitude require reference within our audit opinion. The wording for this emphasis of matter paragraph is shown below and further consideration of property valuations is provided on pages 6-7. We note that the material uncertainty is not disclosed in the current draft of the accounts, but this will be included in the accounts review comments which the audit team are sending to management.

Emphasis of matter – property valuation

We draw attention to Note 10 to the financial statements, which describes the basis for valuing investment properties. Management engaged an expert to value the investment property portfolio. The expert's valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to management's valuation than would normally be the case. Our opinion is not modified in respect of this matter.

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Observations in respect of significant risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue

Our procedures included but were not limited to:

- Review and testing of revenue recognition policies;
- Performing a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports revenue transactions;
- Performing substantive analytical review based on prior year revenue and reflecting changes in property numbers and annual rent increases; and
- Agreeing a sample of the rental income to the supporting rent agreements.

We did not identify any misstatements and control deficiencies in relation to revenue recognition.

2

Management override of controls

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities

The work performed by the auditor consisted of:

- Reviewing accounting estimates, judgements and decisions made by management. We have tested the valuation of properties as a significant risk – see page 6; and
- Testing journal entries using audit data analytics to identify potentially unusual transactions. The data analytics performed a series of automated tests, looking for characteristics which may potentially indicate increased risk, for example unusually large credits to net fee income, forward posted transactions, or significant manual entries close to the acquisition date.

We identified a control point relating to unbalance entries (please see page 10), but did not identify any instances of management override of controls or material misstatements from this testing.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Observations in respect of significant risks (continued)

Risks identified in our Audit Plan

Commentary

3

Valuation of investment properties

Significant judgement is required in the estimation of investment property valuations and there is a risk that these revaluation measurements are materially misstated in the financial statements.

Our work consisted of:

- Obtaining copies of the valuations prepared by management's expert and agreeing to the financial statements;
- Using an internal expert employed by Grant Thornton to assess the assumptions, inputs, and methods used by management's expert;
- Considering the credentials and independence of the valuers; and
- Discussing with the valuers their key assumptions and documenting the challenge and corroborating evidence.

Despite the judgements and estimates being considered reasonable, due to Covid-19 and the impact on market activity in many sectors, property valuers are currently faced with an unprecedented set of circumstances on which to base a judgement. As such, at 31 March 2020, RICS have instructed all of its member firms to consider including a material valuation uncertainty caveat in valuation reports produced in March 2020.

The final valuation report provided to the Company includes such a material valuation uncertainty. Therefore, whilst our audit procedures have not identified any issues with regards to the appropriateness of the assumptions applied, the risk that the assumptions are not accurate is increased as a result of the significant uncertainty in the market.

We are completing our reviews of the financial statements, and will consider the adequacy of the disclosures provided in relation to this. In particular, this should be clearly highlighted in the front end narrative, basis of preparation and key judgements and estimates requirements.

We have one open question regarding whether additions to properties revalued at year-end have been appropriately accounted for to ensure the additions are deducted from the total revaluation gain.

Additionally, we will include an Emphasis of Matter paragraph in our audit opinion as set out on page 4.

Observations in respect of significant risks (continued)

| Type of Property | Valuation Basis | Value as at 31 March 2019 (£'000) | Additions (£'000) | Adjustment on revaluation (£'000) | Value as at 31 March 2020 (£'000) | Commentary |
|---------------------------|-----------------|-----------------------------------|-------------------|-----------------------------------|-----------------------------------|---|
| Investment Properties | Market Value | 77,298 | 22,912 | 595 | 101,805 | <p>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.</p> <p>We consider a market value basis to be the appropriate valuation basis.</p> |
| Assets under construction | Historic cost | - | 34,000 | - | 34,000 | <p>The Quintain block was purchased in February 2020 as a residential block under construction. It was expected to complete during the calendar year 2020 (this is now delayed due to Covid-19, with management including no income from the block in the forecasts for the year to 31 March 2021.)</p> <p>It is deemed appropriate to hold this at cost until construction is completed.</p> |

Observations in respect of other risks

Risks identified in our Audit Plan

Commentary

| | |
|--|---|
| <p>1 Investment property existence</p> <p>There is a potential risk that investment properties do not exist or are not owned by the entity at year-end.</p> | <p>Our work consisted of:</p> <ul style="list-style-type: none"> • Agreeing a sample of properties to land registry documentation to confirm the property was owned by the Company and for additions in the year that the purchase price recognised was accurate; • Agreeing a sample of capitalised amounts to supporting documentation; and • Agreeing that the amounts capitalised were in line with relevant accounting standards. <p>We did not identify any issues in relation to the existence of properties.</p> |
| <p>2 Administrative expenses and corresponding liabilities</p> <p>There is a potential risk that expenditure is incorrectly recognised.</p> | <p>Our work consisted of:</p> <ul style="list-style-type: none"> • Gaining an understanding of the processes and controls applicable to the recognition of expenditure; • Agreeing a sample of items to supporting documentation, including quarterly invoices from the London Borough of Brent, and the underlying SLA; and • Obtaining a confirmation of the closing balance <p>We did not identify any issues in relation to this risk.</p> |
| <p>3 Debt</p> <p>There is the potential risk that debt and interest balances are not complete at year-end.</p> | <p>Our work consisted of:</p> <ul style="list-style-type: none"> • Confirming the closing loan position with the London Borough of Brent; and • Recalculating the expected interest expense based on the underlying loan agreement. <p>We did not identify any issues in relation to this risk.</p> |
| <p>4 Valuation and classification of Quintain Block</p> <p>There is a potential risk that the Quintain Block purchase is inappropriately classified or valued within the financial statements.</p> | <p>Our work consisted of:</p> <ul style="list-style-type: none"> • Obtained the purchase documents, including confirmation statement, lease, and stamp duty submission; • Agree the capitalised amount to lease premium and stamp duty; and • Review management's accounting treatment to gain comfort that it is appropriate to be held as an asset under construction. <p>We concluded the accounting treatment was appropriate.</p> |

Observations in respect of other risks (continued)

Going concern commentary

Management's assessment process

Management have produced a detailed business plan and budget for 2020-21 along with a long-term financial forecast for the next 30 years.

They have used this to model their expected cashflows and profit for the going concern period (12 months from the expected date of signing).

Covid-19 has resulted in increasing uncertainty in the economy and management are monitoring any impact on the rents received each month. So far, there has not been a significant impact on I4B Holdings's monthly rental income.

Auditor commentary

Our work has consisted of:

- Reviewing management's forecasts and budgets and comparing to the audited results for the current year;
- Reviewing the impact of Covid-19 on the rental income collected during the lockdown period to date;
- Reviewing the sensitivities produced by management and considering their adequacy; and
- Testing the mathematical accuracy of the forecasts.

We have noted that the Company is reliant on the continued funding and support of the London Borough of Brent (for example the SLA and debt agreement). We have therefore requested that management obtain a letter of support from the London Borough of Brent and we will review this letter (to be obtained close to the date of signing). We will also discuss with the engagement team auditing the London Borough of Brent, to ensure the assumptions and support forecast within the Company's budgets are in line with the wider Group. Key assumptions relating to this support include the potential for deferral of interest payments and continued support despite the delay in completion and therefore delayed rental income from the Quintain block.

Our work on this area is ongoing.

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 other issues have been identified during the course of our audit procedures. |
| 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 actual or suspected non-compliance with laws and regulations and no issues have been identified during the course of our audit procedures. |
| 4 | Written representations | <ul style="list-style-type: none"> <i>We will request a written letter of representation from management at the point of signing.</i> |
| 5 | Confirmation requests from third parties | <ul style="list-style-type: none"> We obtained confirmations of the closing bank balances along with balances due to or from the London Borough of Brent. <i>We will require a copy of the letter of support obtained by the Directors from the London Borough of Brent in relation to their on going funding and support of the Company.</i> |
| 6 | Disclosures | <ul style="list-style-type: none"> <i>We are finalising our review of the financial statements and will communicate any significant disclosure omissions to management.</i> |

Misstatements

Adjusted and unadjusted misstatements

We have not identified any misstatements to date, although we expect to have an adjustment relating to additions on properties revalued at year end (see page 6).

Internal controls

Assessment

Issue and risk

Recommendations

1



Unbalance journal entries

We noted that I4B is held as a cost centre within the London Borough of Brent's finance system, rather than a separate entity. As a result, certain transactions are posted with one side in I4B's results, and the other within a different part of the wider Brent finance system. This results in unbalanced journal entries within the I4B ledger. Management prepared a summary of all such entries and the reversing entries, which we have audited to gain sufficient, appropriate audit evidence regarding the journal entry process. However, there is a risk that costs could be incorrectly allocated to I4B, or unbalanced entries could result in errors or allow the intentional manipulation of results.

We recommend that management have an entirely separate ledger for I4B (as is currently done for First Wave Housing). This would then avoid journals which do not relate to the I4B company to be posted into the ledger and require reversing. It would ensure that there is one complete list of all journal entries for the company with no additional or unbalanced entries included.

We understand from management that this is being implemented for the 2020-21 financial year.

"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)

Assessment

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

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Independence, ethics, and fees

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.

Fees

The table below sets out the total fees (exclusive of VAT) for audit charged for the current year. There were no non-audit services provided.

| Company | £ |
|----------------|---------------|
| Audit | 29,500 |
| Total | 29,500 |

The fees per the financial statements should be updated to reflect the final fees net of VAT as noted above.

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 and no non-audit services have been identified.

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.

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