



# The Audit Findings for i4B Holdings Limited

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**Year ended 31 March 2021**

***15 September 2021***

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Private and Confidential

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15/09/2021

To the Board of Directors

**Audit Findings for i4B Holdings Limited for the year ended 31 March 2021**

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/](http://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

Partner  
For Grant Thornton UK LLP

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**Chartered Accountants**

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# Status of the audit and 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.**



- Minor sample items or queries from fieldwork.
- Final tax specialist review of deferred and current taxation balances and charge.
- Final review of updated financial statements.
- Final review of the equity capital contribution relating to loan finance.
- Completion of final internal quality control reviews.
- Receipt of legal confirmation from internal legal team.

**All conclusions in this report are subject to final internal quality control reviews, which may result in additional queries or requests.**

#### 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

**Our anticipated audit report opinion will be unmodified**

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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 material profit impact, blank descriptions, or infrequent postings.

We found no misstatements or control points relating to journals testing.

## 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 valuation of investment properties, there is therefore a risk of material misstatement in the financial statements.

During planning, it has also been brought to our attention that the finance team identified the prior year valuations made adjustments to the market value of the properties, resulting in the carrying values in the accounts not being equal to the fair value required under FRS 102. As a result of this, procedures will be performed on the opening balances of investment properties as well as the current year valuations.

#### Valuation of property portfolio:

Our work consisted of:

- Obtaining copies of the valuations prepared by management's expert (Wilks Head Eve) 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;
- Testing a sample of additions to Land Registry documentation, or to the sale and purchase agreements where final documents are not yet filed at the Land Registry; and
- Discussing with the valuers their key assumptions and documenting the challenge and corroborating evidence.

A prior period error was identified by management during planning and this has been adjusted in the financial statements. We have not identified any additional misstatements in relation to investment property valuation.

#### Prior period error:

It was noted from discussions with management during planning that the valuations prepared by Wilks Head Eve historically and used within the financial statements included adjustments which are not appropriate under FRS 102. The valuations are done on a comparable basis to identify the market value assuming vacant possession at year-end, based on the sales price of similar properties in close proximity to i4B's assets. This is an appropriate basis and in line with the expectations of our internal, RICS qualified, real estate experts. However, an adjustment has historically been made to add certain transaction costs such as stamp duty on top of this value. This is inappropriate. In the year of acquisition, these costs may be capitalised, but when the property is revalued to its fair value, there should not be an adjustment to add these additional costs to the determined fair value.

Management have adjusted for this error, resulting in a £9.2m reduction in the value of properties in the balance sheet at 31 March 2020. Of this adjustment, £6.3m relates to the opening position at 1 April 2019, and £2.9m has been adjusted through the statement of profit and loss to increase the loss on revaluation of investment properties.

We have not identified any additional misstatements in relation to investment property valuation.

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## Observations in respect of significant risks (continued)

### Risks identified in our Audit Plan

### Commentary

3

#### Valuation of investment properties

#### Quintain Block:

The Quintain block is a block of 153 flats which will be let at below market rate to key workers within the London Borough of Brent. The rents charged on this block are capped at 65% of market rent. As a result, they have been valued on an Existing Use basis, including the capped rents as Wilks Head Eve (management's experts) consider this to be reflective of current market value. The block is valued at £54.9m at 31 March 2021.

Under FRS 102, property held primarily for the provision of social benefits, e.g. social housing held by a public benefit entity, shall not be classified as investment property and shall be accounted for as property, plant and equipment (PPE).

i4B Holdings is a Public Benefit Entity, and therefore there is a significant judgement as to whether this block should be held as PPE or as investment property. This will result in an annual depreciation charge, as well as the revaluation gains being recorded through other comprehensive income as opposed to the profit and loss account.

Management have prepared an accounting paper and determined that the Quintain Block should be accounted for as PPE. The gain on the revaluation of the asset is therefore through other comprehensive income, and depreciation will be charged going forward (note the asset only became operational in March 2021 and therefore there is no charge in the current year).

We concur with management's assessment and consider in respect of the classification of the Quintain Block.

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# Observations in respect of other risks

## Risks identified in our Audit Plan

## Commentary

<b>1</b>	<b>Investment property existence</b> There is a potential risk that investment properties do not exist or are not owned by the entity at year-end.	<p>Our work consisted of:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• Agreeing a sample of capitalised amounts to supporting documentation; and</li><li>• Agreeing that the amounts capitalised were in line with relevant accounting standards.</li></ul> <p>We did not identify any issues in relation to the existence of properties.</p>
<b>2</b>	<b>Administrative expenses and corresponding liabilities</b> There is a potential risk that expenditure is incorrectly recognised.	<p>Our work consisted of:</p> <ul style="list-style-type: none"><li>• Gaining an understanding of the processes and controls applicable to the recognition of expenditure;</li><li>• Agreeing a sample of items to supporting documentation, including quarterly invoices from the London Borough of Brent, and the underlying SLA; and</li><li>• Obtaining a confirmation of the closing balance</li></ul> <p>We did not identify any issues in relation to this risk.</p>
<b>3</b>	<b>Debt</b> There is the potential risk that debt and interest balances are not complete at year-end.	<p>Our work consisted of:</p> <ul style="list-style-type: none"><li>• Confirming the closing loan position with the London Borough of Brent; and</li><li>• Recalculating the expected interest expense based on the underlying loan agreement.</li></ul> <p><i>[We are finalising our review of the accounting treatment for the capital contribution element of the loan financing. We have confirmed the balance with the London Borough of Brent, but there is an obligation to repay this amount and therefore the classification as equity is being examined.]</i></p>

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## Observations in respect of other risks (continued)

### Going concern commentary

#### Management's assessment process

Management have produced a detailed business plan and budget, which included a 5 year financial forecast.

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 resulted in increasing uncertainty in the economy and management are monitoring any impact on the rents received each month.

#### 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 current year and any impact on the forecast 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, which we have obtained and reviewed.

*[Our work in this area will not be concluded until the letter of support is provided.]*

# Other communication requirements

	<b>Issue</b>	<b>Commentary</b>
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"><li>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.</li></ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"><li>We are not aware of any related parties or related party transactions which have not been disclosed.</li></ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"><li>We are not aware of any significant incidences of non-compliance with laws and regulations.</li></ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"><li>We will request a letter of representation from the Board to be signed on the date of signing. Specific representations will include:<ul style="list-style-type: none"><li>The prior period adjustment is based on the facts and information available at 31 March 2020 and represents management's most accurate reflection of property values at that date.</li><li>The classification of the Quintain Block is in line with management's most accurate assessment of the nature of the block and purpose it is held for.</li><li>Management have reviewed the basis on which Wilks Head Eve have valued the property portfolio and consider the approach, the comparable properties used by Wilks Head Eve, and the signed report provided are an appropriate estimate of fair value of the property portfolio.</li></ul></li></ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"><li><i>We are awaiting confirmation of bank balances from RBS.</i></li><li><i>We will require a copy of the letter of support provided by the London Borough of Brent to the Directors of the Company.</i></li></ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"><li>We have provided feedback on the draft financial statements and are awaiting updated accounts.</li></ul>

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# Internal controls

**Assessment**

**Issue and risk**

**Recommendations**

1



**Accounting policies and judgements**

There are certain judgements within the financial statements which have a material financial impact on the results of the Company. Within i4B, the valuation of investment properties is one of the most material assumptions in the financial statements. We note the prior period restatement is due to adjustments to the market value historically agreed with Wilks Head Eve, but which are not compliant with FRS 102. Similarly, the Quintain Block is valued on an existing use for social housing basis due to the below market rent which the units must be let at. This leads to a significant judgement as to whether the block is investment property or property, plant, and equipment. These material estimates, judgements, and assumptions should be formerly documented by management in an accounting paper and reviewed internally by senior finance staff,

Similarly, it was noted in the prior year that there were multiple iterations of the financial statements due to errors or inconsistencies. There is a risk that financial statements will have material errors including omissions if internal review processes are not completed.

We recommend that all material judgements, estimates, and accounting policies are discussed internally, formally documented, and reviewed by senior finance staff before being implemented.

We also recommend that financial statements go through internal review by senior finance staff before being provided to the Board and audit team, to ensure the process is as efficient as possible.

**Management response**

Key judgements are subject to internal review prior to accounts being submitted for audit. An internal review highlighted that fixed asset accounting had not been implemented in line with the accounting policy of i4B and this was communicated to GT at the planning stage of the audit. It is anticipated that where new or unusual transactions take place there is a greater risk of error in accounting judgements and that is where management seek to engage with their auditors early in the accounts process to test approaches and arrive at the correct accounting approach.

Financial statements - Accounts have been reviewed in the 20-21 accounts process prior to submission to GT. The review focusses on material items and it is not practical or efficient to review all cross casting or presentational matters until the preparation of the final version of the accounts

"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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# Internal controls – review of issues raised in prior year

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>① X</p>	<p><b>Unbalance journal entries</b></p> <p>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.</p>	<p>This issue has not yet been addressed and we maintain our recommendation that i4B should have its own entity level general ledger to avoid the potential risk of error or manipulation through unbalanced entries and their corrections.</p>

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

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## Adjusted misstatements – prior period adjustment

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect (2020 Profit)
		Debit	Credit	Debit	Credit	
PPA 1	Retained earnings at 1 April 2019			6,276,000		
	Gain or loss on revaluation of investment properties	2,941,000				(2,941,000)
	Investment properties				9,217,000	
	<i>Being reduction in value of investment properties to remove inappropriate inclusion of costs on top of the market value.</i>					

# 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 for audit services for the current financial year. There are no non-audit services provided to the Company.

<u>Company</u>	<u>£</u>
Audit of i4B Holdings Limited	31,500

The fees disclosed in the financial statements should be updated to the current year audit fees (net of VAT). Currently they are stated as £38k.

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 i4B Holdings Limited. The table summarises all non-audit services which were identified. In addition, we have identified services performed in respect of group entities including the London Borough of Brent and First Wave Housing Limited. The fees to these entities are communicated within the Audit Findings Reports of the relevant entity.

This covers all services provided by us and our network to the 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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# 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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