FUTURES HOUSING GROUP LIMITED

Audit Completion: Year ended 31 March 2023

Report to the Audit & Risk Committee

Contents

Welcome

Introduction

We have pleasure in presenting our Audit Completion Report to the Audit and Risk Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

The report has been updated following Audit and Risk Committee on the 17 July 2023 to reflect our discussion with you and the subsequent completion of our work.

It summarises the results of completing the planned audit approach for the year ended 31 March 2023, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Committee on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We would also like to take this opportunity to thank the Management and staff of the Group for the co-operation and assistance provided during the audit.

DocuSigned by:
Kyla Bellingall
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Kyla Bellingall

Partner

2 August 2023

This report has been prepared solely for the use of the Audit and Risk Committee and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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Overview

Executive summary

This summary provides an overview of the audit matters that we believe are important to the audit of the financial statements for the Group for the Year ended 31 March 2023.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Board responsibilities

The Board are responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Co-operative and Community Benefit Societies Act 2014, prepared in accordance with FRS 102, the SORP for Registered Social Housing Providers 2018 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter which was issued on 23 January 2023.

Overview

Our audit work is complete and we will be issuing an unmodified audit opinion on the Group's financial statements for the year ended 31 March 2023 in line with the agreed timetable.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We will be issuing an unmodified audit opinion on the financial statements.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Association and Group in accordance with the FRC's Ethical Standard.

The numbers

Executive summary

Final Materiality

Group materiality was calculated based on 6.75% (2022: 6.75%) of adjusted operating surplus based on your tightest interest cover loan covenant. Adjusted operating surplus was normalised by applying a three year average. Operating surplus was also adjusted for depreciation, grant amortisation, gift aid received, capital fire compartmentalisation works, decarbonisation costs and capitalised major repairs

Clearly trivial was calculated as 2% of materiality (2022: 2%)

There were no changes to the basis of calculation of final materiality or clearly trivial levels from that reported in our planning report. Figures were updated for actuals.

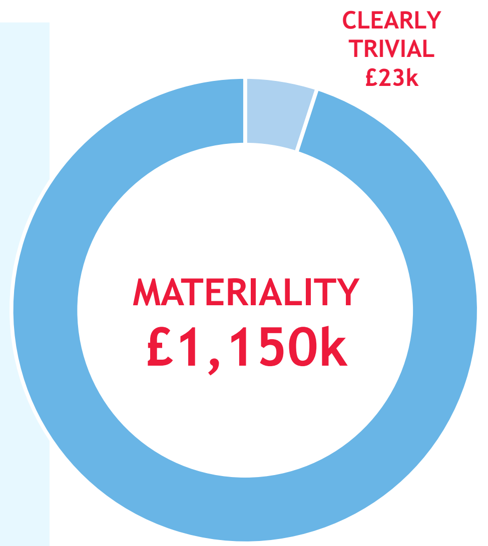
Unadjusted audit differences

There was 3 unadjusted audit difference identified by our audit work with a value of £68k.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.

A summary of the audit coverage by BDO UK is shown to the right.



Key matters

Executive summary

Financial reporting

- We have not identified any non-compliance with group accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Summary

Our methodology

We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls relevant to the preparation of the financial statements. As a result, we determined that substantive testing to directly verify items in the income statement and balance sheet would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.

Balance sheet category	2023	2022
Housing Properties	Substantive	Substantive
Other Fixed Assets	Substantive	Substantive
Investment Properties	Substantive	Substantive
Investments	Substantive	Substantive
Properties for sale	Substantive	Substantive
Properties for Sale - NRV	Substantive	Substantive
Trade / Other Debtors	Substantive	Substantive
Cash and Cash Equivalents	Substantive	Substantive
Trade & Other Creditors	Substantive	Substantive
Borrowings	Substantive	Substantive
Deferred Capital Grant	Substantive	Substantive
Pensions / Provisions	Substantive	Substantive
Share Capital & Reserves	Substantive	Substantive
Turnover	Substantive	Substantive
Operating costs	Substantive	Substantive
Staff costs	Substantive	Substantive
Interest payable	Substantive	Substantive
Capital commitments	Substantive	Substantive

Overview of risks

As identified in our audit planning report we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Matters that we have identified as being Key Audit Matters (KAMs) will be referred to in our report on the financial statements.

Significant Audit Risk	Key Audit Matter	Significant Management Judgement	Use of Experts Required	Unadjusted error reported	Adjusted error reported	Significant control findings reported	Specific Letter of Representation Point	Work complete
Group and entity risks								
Management override	No	Yes	No	No	Yes	No	No	Yes
NRV of property developed for sale	Yes	Yes	No	No	No	No	Yes	Yes
Fraud in revenue recognition	No	Yes	No	No	No	No	No	Yes
Cost apportionment on developments	No	No	No	No	No	No	No	Yes
Entity risks (FTP & FFL)								
Recoverability of intergroup debt	Yes	No	No	No	No	No	Yes	Yes

Management override of controls

Risk 1 | Group entities impacted: All

	C	E	A	V	P
Financial Statements preparation					✓

Risk description (at planning)

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Our understanding is that the most susceptible areas of the accounting records, where management override could take place, are the posting of journals and the judgements involved in accounting estimates within the financial statements.

Audit approach

Our audit procedures included the following:

- A review and verification of large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals.
- Evaluation of risks arising from automated journals
- A critical review of the consolidation and, in particular, manual or late journals posted at consolidated level
- A review of estimates and judgements applied by Management in the financial statements to assess their appropriateness and the existence of any systematic bias
- A review of unadjusted audit differences for indications of bias or deliberate misstatement.

Results

We obtained a complete list of journals and, using information gathered during the audit and our understanding of the entity we target tested those journals and adjustments that we considered may be inappropriate or unusual. We did this using our data analytics tool, Advantage.

We also reviewed material journals and transactions outside what is considered the normal course of business.

We reviewed significant accounting estimates and judgements to ensure they were appropriate; significant areas are set out in the table on the following page.

	Key Audit Matter
●	Significant risk
	Normal risk
●	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
●	Controls testing approach
●	Data analytics testing approach
●	Substantive testing approach

Management override of controls

Risk 1 | Group entities impacted: All

Estimates and judgements	Report ref
The assumptions used in the assessment of the net realisable value of properties held for sale	Page 11
Cost apportionment on mixed tenure developments	Page 14
The assumptions used in the calculation of, and the disclosures in relation to the defined benefit obligation	Page 16
The assumptions used in the consideration of the impairment of housing properties	Page 16
The assumptions used in the valuation of investment properties	Page 17
Useful economic lives of assets	Page 17
Basis and consistency used in the capitalisation of property development costs	Page 17

As a result of our audit work we identified 2 adjusted misstatements which detail is included on pages 25 & 26. No other issues were identified as a result of our work.

Discussion and conclusion

Testing was completed satisfactorily.

Summary outputs from use of our BDO Advantage application are included in the appendices at page 18 which with discussed with Audit Committee on 17 July 2023.

This area did not meet the definition of a KAM because it did not require significant audit attention.

	Key Audit Matter
●	Significant risk
	Normal risk
●	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
●	Controls testing approach
●	Data analytics testing approach
●	Substantive testing approach

The recoverable amount of property developed for sale is materially misstated

Risk 2 | Group entities impacted: Group, FHW, FHL

	C	E	A	V	P	2023	2022
Property for sale				✓		£6,945,000	£4,871,000

Risk description (at planning)

- Property developed for sale, including shared ownership first tranches and properties developed for outright sale, must be held at the lower of cost and net realisable value (sales proceeds less costs to sell and costs to complete).
- As at November 2022 the Group was carrying properties for sale of £5.7m compared to a YTD budget of £2.9m.
- Per the November 2022 management accounts sales for the year to date were £1.9m compared to a budgeted figure of £4.4m. The negative variance of £2.5m is primarily attributed to a lower number of units being sold. A total of 14 units have been sold against a budget of 51.
- As a result of these movements the full year sales forecast has been revised downwards from £6.5m to £3.0m.
- Due to the volume of properties developed for sale and the level of judgement there is inherent estimation uncertainty for both sales proceeds and costs to complete. We consider there is a significant risk that the carrying amount of properties developed for sale is misstated. We therefore consider this to be a key audit matter.
- The current economic conditions with high inflation and increasing interest rates are also impacting in this area with the mortgage market becoming less predictable.
- On the cost side the sector has seen several instances of contractor failure and also price increases applied to supposedly fixed price development contracts.

Results

Management carried out an assessment of the recoverable amount of properties developed for sale as part of the year end procedures. This included expected sales proceeds and expected costs to complete the properties. Expected proceeds were based on either known amounts from exchanges and reservations for units or from valuation estimates, depending on the status of the development.

For the properties developed for sale (both shared ownership and outright sale and both completed and work in progress) we:

1. For forecast sales price:

- Completed units sold after the year end - agreed to completion statement

●	Key Audit Matter
●	Significant risk
	Normal risk
	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
	Controls testing approach
	Data analytics testing approach
●	Substantive testing approach

The recoverable amount of property developed for sale is materially misstated (continued)

Risk 2 | Group entities impacted: Group, FHW, FHL

Results (continued)

- Completed units not sold after year end and work in progress – obtained third party formal valuation of the property; sales prices achieved for similar units in the year. Enquired and considered what management plans are for unsold properties.

2. For costs to complete:

- For all schemes that are under development we obtained the total fixed contract value are reviewed the contracts for the ability for the developing agent to introduce contract variations.
- For one scheme that does not have an appointed developing agent we reviewed a 3rd party cost estimate report which was commissioned in order to assess the costs to make good on the development as per the planning consent.
- Obtained details of the expected costs to complete from the scheme budget and agreed the budgeted contract costs of the development to the latest contract documentation and considered the appropriateness of any estimates used.
- Assessed the accuracy of cost forecasting by looking at the outturn of Completed units not sold after year end and work in progress - obtained third party formal valuation of the property; sales prices achieved for similar units in the year. Enquired and considered what management plans are for unsold properties.
- We also reviewed invoices and valuation certificates booked after the year end in order to assess completeness of expenditure and reasonableness compared to spend forecast.
- For development schemes in progress we discussed with the project manager whether there is any indication of any potential cost issues (corroborating as required) in relation to:
  - Price inflation
  - Contractor solvency
  - Variations, including contractor request to increase the price of a fixed price contract

3. For costs to sell - considered computations of selling costs and compared against known selling costs that have been incurred in the year.

4. Obtained an understanding of the reason for an item that has an NRV less than cost and considered the need for a provision on any such items.

Discussion and conclusion

For the reasons outlined in our Risk description section and due to the level of audit attention required in this area, we considered this to be a Key Audit Matter and have included additional information in our group audit report in respect of our work and conclusions in this area.

Testing was completed satisfactorily

Our testing provided us with assurance that property developed for sales is being held at the lower of costs and net realisable value.

●	Key Audit Matter
●	Significant risk
	Normal risk `
	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
	Controls testing approach
	Data analytics testing approach
●	Substantive testing approach

Fraud in revenue recognition (Property sales and Market rents)

Risk 3 | Group entities impacted: Group, FHW, FHL

	C	E	A	V	P	2023	2022
Turnover - Property sales		✓	✓			£4,565,000	£7,117,000
Turnover - Market Rent		✓	✓			£1,923,000	£1,921,000

Risk description (at planning)

- ISA (UK) 240 notes that there is a presumed significant risk resulting from the intentional misstatement of revenue.
- The amounts reported in relation to revenue represent information of significant interest to many users of the financial statements. This puts revenue at a greater risk of manipulation, bias and misstatement.
- Having regard to the potential for fraud in relation to revenue recognition, we identified the following as areas of significant risk of material misstatement:
  - For proceeds on sale of properties including first tranche shared ownership properties and outright sales, a risk exists relating to the recognition of revenue in the correct period. A slowdown in property completions may result in sales being recognised when anticipated rather than when legally completed. This represents a significant risk over the existence and accuracy of revenue in relation to property sale income.
  - Market rents are potentially subject to more regular reviews and changes to rent levels than social housing rents, and as such we consider these a higher risk than those rentals relating to social housing lettings. This represents a significant risk Results.

Results

Our audit procedures included the following:

Property sales

We have tested for a sample the income from property sales is recorded accurately and completely. For example, a sample of first tranche sales in the year have been agreed back to completion statements and bank receipts. Cut off testing has been performed to confirm that sales were recognised in the correct accounting period.

Market rents

We have tested a sample of market rent transactions back to rental agreements and evidence of the receipt of income to ensure market rent income is recorded accurately.

Discussion and conclusion

This area did not meet the definition of a KAM because it did not require significant audit attention.

Testing was completed satisfactorily.

	Key Audit Matter
●	Significant risk
	Normal risk
●	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
	Controls testing approach
●	Substantive testing approach

Cost apportionment on developments is inaccurate or inappropriate leading to material misstatement

Risk 4 | Group entities impacted: Group, FHW, FHL

	C	E	A	V	P	2023	2022
Housing properties		✓	✓			£320,010,000	£291,352,000
Properties for sale	✓		✓			£6,945,000	£4,871,000
Cost of sales	✓		✓			£3,289,000	£5,453,000

Risk description (at planning)

- Costs incurred in developing schemes with multiple units and multiple tenure types need to be apportioned on an appropriate and consistent basis. Where there are shared ownership units those costs must be further apportioned between the first tranche and retained equity elements.
- Due to the volume of developments and the level of judgement in determining costs apportionments, there is an inherent risk of estimation uncertainty, complexity and management bias and therefore of material misstatement.
- There is a risk around profit recognition via cost apportionment between first tranche and the retained equity on shared ownership plots sold, and between units within a development scheme, ensuring that costs are apportioned on an appropriate and consistent basis.

Results

Our audit procedures included the following:

- We assessed the allocation of costs to tenure types and individual plots, this was based on square metre of the individual properties and schemes.
- We assessed the apportionment between first tranche and retained equity elements, on development schemes that are subsequently taken to cost of sales. This was 50% at year end and was based on the best estimate by management. We have reviewed this against the latest sales of first tranche properties achieved and amount forecast per the development plans.
- We checked for consistency between cost allocation and initial development plans, development team minutes and actual property sales activity.

Discussion and conclusion

This area did not meet the definition of a KAM because it did not require significant audit attention.

Testing was completed satisfactorily.

Our testing provided us with assurance that the costs apportionment on development has been allocated on an accurate and consistent basis.

	Key Audit Matter
●	Significant risk
	Normal risk
	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
	Controls testing approach
●	Substantive testing approach

Recoverability of intergroup debt

Risk 5 | Group entities impacted: FTP, FFL

	C	E	A	V	P	2023	2022
Recoverability of intergroup debt		✓	✓			FTP - £296,725,000 FFL - £48,111,000	FTP - £297,718,000 FFL - £66,195,000

Risk description

- FTP is the Groups vehicle for raising funds on the capital markets and is a public interest entity with £270m of bonds issued on the London Stock Exchange.
- FFL is the Groups vehicle for unlisted debt and has total loans of £47,825,000.
- As FTP and FFL on-lends to Group, the principle risk facing the entity is that group will be unable to make their interest or principal payments when they fall due and this impacts on the entity's ability to service its debt.
- Recoverability of these balances is intrinsically linked to the future viability of the group and needs to be reviewed at each balance sheet date.
- Management have stated to us that they believe there are no material factors or events that may cast doubt on the ability to recover related party debt.
- While our work to date does not indicate an elevated risk level in this area, the assessment of the recoverability of the related party debt involves a number of judgements.
- We anticipate this will be where we will exert a significant audit effort in assessing the appropriateness of the assumptions involved in auditing FTP and FFL, and as such we anticipate this will be a Key Audit Matter.

Results

Our audit procedures included the following:

- Assessed management's review of the recoverability of related party debt including their review of the group's assessment of its going concern status.
- Considered the forecasts prepared by the group and challenged the key assumptions based on our knowledge of that business, including availability of financing facilities and covenant compliance calculations through to September 2024.
- Challenged the scenarios modelled by the group including a reverse stress testing to analyse the current estimates of rent collection, property sales and maintenance and development spend that could be sustained without breaching banking covenants.
- Challenged the assumptions used and mitigating actions included within this scenario and review the reverse stress test calculations.

Discussion and conclusion

For the reasons outlined in our Risk description section and due to the level of audit attention required in this area, we considered this to be a Key Audit Matter and have included additional information in our FTP audit report in respect of our work and conclusions in this area.

Testing was completed satisfactorily.

●	Key Audit Matter
●	Significant risk
	Normal risk
	Fraud risk
●	Related controls identified to mitigate risk
●	Significant Management estimates & judgements
	Controls testing approach
●	Substantive testing approach

Estimates and judgements

Risk	Response	Discussion and conclusion	Key Audit Matter
The assumptions used in the calculation of, and the disclosures in relation to the defined benefit obligation	Futures participates in the Derbyshire County Council and Northamptonshire County Council Defined Benefit Pension Schemes with Assets at 31 March 2023 of £54.4m and liabilities of £43.4m which results to a net surplus of £11m. We have engaged our audit actuarial experts to review the assumptions made by the actuary, our expert provides an indication of minimum, maximum and most common key actuarial assumptions that we have seen from a sample of valuations chosen from a cross-section of entities (preparing accounts at 31 March 2023) and the position of Futures Housing within the ranges. We note that the Discount rate, RPI, CPI, inflation risk premium and Mortality improvement rates are all within expected range. This would therefore indicate that the assumption remains within the overall range acceptable to us. We have tested the accuracy of the other inputs into the liabilities valuation, such as cashflow and membership data. We are comfortable that these are not materially misstated assumptions from what might be appropriate for your organisation. **Treatment of pension surplus** Management prepared an accounting paper to consider the treatment of the pension surplus. In line with the accounting policy and FRS102 a pension surplus can be recognised only to the extent that it is recoverable (requirement sets out the need for an unconditional right). There are two ways that the pension surplus would become recoverable either on a cessation event or through reduced contributions. We have carried a review of each schemes funding strategy and noted that on cessation it is at the discretion of the administering authority the amount would be refunded to the employer. Therefore, no unconditional right exists. In addition, reduced surplus for the entity are at the discretion of the administering authority for both schemes and therefore the net pension surplus was capped at Nil, see adjustment presented on page 25.	We accept this is a judgmental area and have requested this is included in the representation letter. Other than the adjustment identified and corrected by management no other issues have been identified from the work performed.	No

Estimates and judgements (continued)

Risk	Response	Discussion and conclusion	Key Audit Matter
The assumptions used in the consideration of the impairment of housing properties	Management have performed an impairment trigger review which identified potential issue with 4 schemes. As a result, an impairment assessment was undertaken which concluded that a write down was required on one schemes for £300k. We audited management's assessment and concluded that the assessment did not follow the SORP guidance. This was due to a DRC approach being applied across the full scheme rather than a mix tenure approach being used which would look at recoverable amounts based on the tenure type. Once this was corrected, the calculation showed that no impairment was required and this error is therefore included on page 26.	As described in the response an adjustment has been raised in relation to the estimate, no other issues were noted.	No
The assumptions used in the valuation of investment properties	Investment properties are held at market value within the financial statements. The valuation of these assets is performed by an external valuer who uses recent market data for similar assets to determine the valuation for the accounts. There is a risk that the assumptions used (including the comparators) were incorrect/inappropriate. We have reviewed the investment property valuation and assessed the assumptions made by the valuer. We confirmed that Rupert David & Co were competent to carry out the valuation. We reviewed a sample of properties and confirmed that the comparator properties used were appropriate and supported the valuation assigned by the valuer. No issues were noted during the course of our audit of investment properties.	We accept this is a judgmental area and have requested this is included in the representation letter. No issues have been noted.	No
Useful economic lives of assets	We have reviewed the UEL of the components applied by Futures Housing Group to depreciate assets in the current year. These UELs are consistent with those applied in the prior year and are comparable to other social housing providers in the sector.	No issues have been noted.	No
Basis and consistency used in the capitalisation of property development costs	The Group capitalises development expenditure when a scheme is likely to proceed and has demonstrated an appropriate level of NPV. We reviewed a sample of development additions and assessed if they were capitalised correctly. We have also performed a review of repairs and maintenance codes to ensure that the capitalisation policy has been applied correctly.	No issues have been noted.	No

IT Audit Approach

BDO Advantage Guided Data Analytics

Overview

BDO Advantage is our in house developed Data analytics software.

Our Advantage Data Analytics specialists transform your transactional, bank and payroll data into our BDO Advantage solutions to enable performance of data analytics tests (DATs) and Risk Assessment Data Analytics (RADAs) which have been scoped based on the risk areas identified in our planning report

The BDO Advantage Data Analytics Solution we have used are:

Analyser	Used For	Narrative
Advantage Financial Analyser (AFA)	Audit of Journals	The AFA enables identification of fraud and other areas where risks of material misstatement is present as well as deeper analysis & sample extraction of data when performing audits of journals. We used it to: • review journals data and facilitate targeted testing of journal entries (Page 19) • assess the pattern and variability of depreciation journals posted to the nominal ledger by component • assess the pattern and variability of monthly rental income postings between Orchard and Open accounts
Advantage Payroll Analyser (APA)	Audit of Payroll	The APA enables identification of fraud and other risks of material misstatement in payroll, as well as deeper analysis & sample extraction of data during payroll audit procedures. We used it to: • reconcile the entire population of payroll records to the general ledger • review payroll data and facilitate targeted testing of payroll entries • recalculate payroll deductions over 100% of the population • assess the payroll data for indicators of fraud or error.

IT Audit Approach

BDO Advantage Guided Data Analytics

Key findings - Advantage Financial Analyser

Data Completeness:

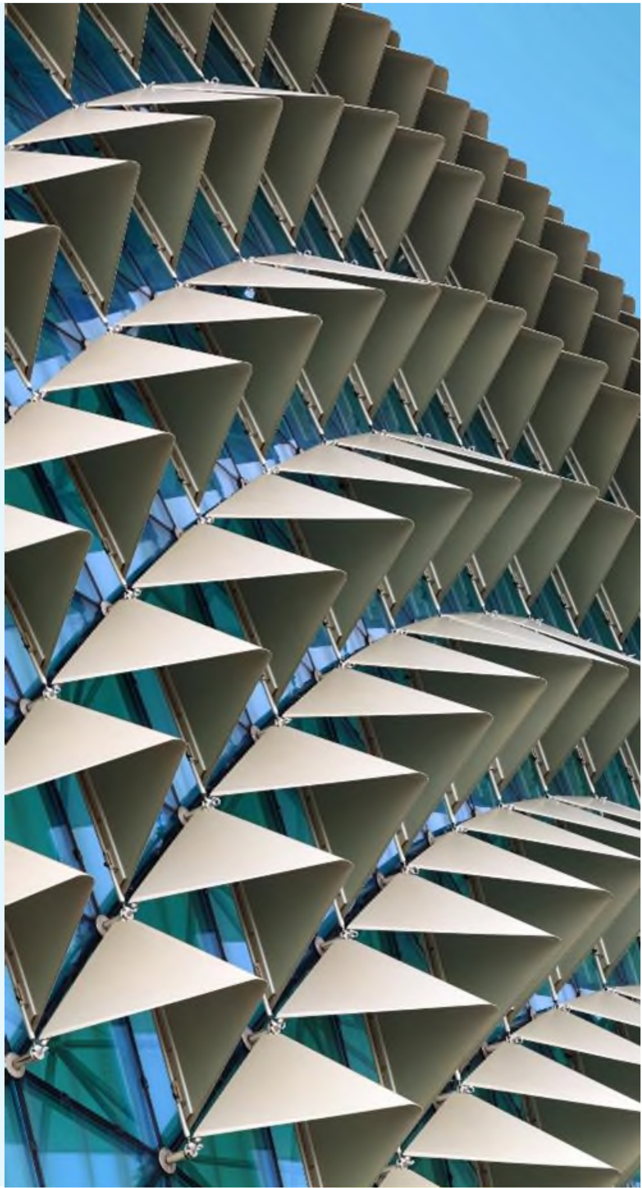
The reconciliation of Journal transactions to Trial Balances (TBs) shows a moderate level of non-reconciling accounts for the period under audit. These accounts have been investigated and reconciliations resolved therefore we have assurance that the data provided for analysis is complete & not missing any additional data and hence analysis based on this data set is valid.

Data Quality:

Data Quality Tests have yielded several findings of note:

- There are no unbalanced journals noted.
- There are no journal lines noted with no journal type and therefore will not appear in journal type testing
- There is 1 journal line with no journal description. This journal has been tested specifically due to being considered higher risk, no issues noted.
- There are no journal lines with no entry dates.
- There are no Journal Lines with no Creator ID.
- No Authoriser ID field identified. Testing with this field will not be possible.

The findings above provide assurance that the data that was extracted is of good quality and is suitable for us to perform our detailed journals testing on as described on page 11.



IT Audit Approach

BDO Advantage Guided Data Analytics

Key findings - Advantage payroll analyser (APA)

Data completeness

The completeness of the payroll data extracted for our payroll analyser work has been corresponding bank payments, and individual testing performed across starters and leavers, pension and NI contributions and FTE numbers per accounts disclosure.

Data quality

- BDO witnessed the data extraction of the data that was published within the payroll analyser on 18/04/23.
- The extraction was performed in line with Cascade (payroll system) data extraction guidance published.
- Following the initial publishing of the data, a number (4) of items were identified as having variance to supporting payslips, with gross variance total of £655 (net variance £2,859.46). The review was a 100% check and therefore the only exceptions noted. We have reviewed these items and understood the reason for the difference, no issues noted.
- As part of our audit execution testing of payroll, the audit team identified all duplicate, missing and invalid records, as well as any payroll related payments made outside of expected dates. Explanations were sought for all of these, with no issues noted after investigation.

Data test results:

- As no issues identified after the above investigations, data quality assurance has been obtained over the payroll data extracted.

Data test results:

- To confirm data quality, BDO sought explanations for the following data quality issues flagged by the payroll analyser:
  - 25 missing records
  - 15 invalid records
  - 25 duplicate records
  - 74 post leaving payments

  For all issues identified above, explanations and supporting evidence was sought, with no issues noted.

  BDO have then performed further testing across starters and leavers, pension and post-employment benefits costs, directors and KMT remuneration and FTE disclosures as part of our payroll testing. Other than FTE variances due to recharges between companies which have been raised to management, no issues noted.

Other notable observations

- No other observations noted after completion of audit execution stage testing of payroll

Significant matters

There are no additional significant matters arising during the audit which we want to bring to your attention.

Matters requiring additional consideration

Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We received confirmation from you on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 4 April 2023 and were not made aware of any items.

Laws and regulations

The most significant considerations for your business are the Co-operative and Community Benefit Societies Act 2014, Companies Act 2006, Corporate and VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We made enquiries of management and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties

Unadjusted audit differences

We are required to bring to your attention unadjusted differences, and we request that you correct them.

There was 3 unadjusted audit difference identified by our audit work with a value of £68k. You consider this difference to be immaterial in the context of the financial statements as a whole.

Unadjusted audit differences: Detail

Details for the current Year

We are required to bring to your attention unadjusted differences and we request that you correct them.

There is 1 unadjusted audit difference identified by our audit work which would decrease the draft surplus before tax of 6,716 by £31k and would decrease draft net assets of £96,467k by £31k. You consider this difference to be immaterial in the context of the financial statements as a whole.

		Income and expenditure		Balance sheet	
Unadjusted audit differences	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Profit/(loss) for the year before adjustments	6,716				
Adjustment 1: Extrapolated error on Housing Property component additions sample					
DR Expenses		31			
CR Housing properties					(31)
Adjustment 2: Over accrual of Bennet street development					
DR Accruals				82	
CR Housing properties					(32)
CR Shared Ownership					(17)
CR Investment properties					(33)
Adjustment 3: Under accrual of electricity amounts					
DR Operating Expenses		37			
CR Accruals					(37)
Total unadjusted audit differences	(68)	68		82	(150)
Profit/(loss) for the year if adjustments accounted for	6,648				

Unadjusted disclosure omissions and improvements

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Board is required to consider.

There are no unadjusted disclosure omissions or improvements identified by our audit work which we are required to bring to you attention.

Adjusted audit differences: Detail

Details for the current Year

There were 11 audit differences identified by our audit work that were adjusted by Management. This decreased the total comprehensive income for the year of £26,395k by £10,992k and decreased draft net assets of £96,467k by 10,992k.

		Income and expenditure		Balance sheet	
Adjusted audit differences	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**
Total comprehensive income for the year before adjustments	26,395				
Adjustment 1: FHL - Derecognition of Pension actuarial surplus to zero cap					
DR Actuarial gain/loss	(9,044)	9,044			
CR Pension liability					9,044
Adjustment 2: FHW - Derecognition of Pension actuarial surplus to zero cap					
DR Actuarial gain/loss	(1,948)	1,948			
CR Pension liability					1,948
Adjustment 3: FHL - Stanwick House, rental income on FHW property groups to be corrected to FHL					
DR Intercompany FHL				139	
CR Rental income FHL	139		139		
Adjustment 4: FHW - Stanwick House, rental income on FHW property groups to be corrected to FHL					
DR Rental income FHW	(139)	139			
CR Intercompany FHW					139
Adjustment 5: FHG - Reclassification of debit balances on the creditors ledger					
DR Debtors				91	
CR Creditors					91
Sub - total (A) Adjusted audit differences	(10,992)	11,131	(139)	230	(11,222)

Adjusted audit differences: Detail

Details for the current Year

		Income and expenditure		Balance sheet	
Adjusted audit differences	£'000	£'000	£'000	£'000	£'000
Adjustment 6: Travis Perkins rebate - adjust 22/23 income accrual					
DR Other creditors				65	
CR Accruals					65
Adjustment 7: Travis Perkins rebate - adjust income					
DR Other creditors				68	
CR Intercompany					68
Adjustment 8: FHL -Housing related support income incorrectly classified as non-social housing support services income.					
DR Service charge income	(67)		67		
CR Other income	67	67			
Adjustment 9: FHL -Irrecoverable Debts - Old balances in Orchard netted off with FHW					
DR Rental debtors				27	
CR Intercompany creditors					27
Adjustment 10: FHW - Invoice accrued in error, and related retention					
DR Fixed assets				193	
CR Accruals					193
Adjustment 11: reversal of impairment charge					
Dr Housing properties				300	
Cr Impairment Expenses	300		300		
Sub-total (B) Adjusted audit differences		67	(367)	653	(353)
Total adjusted audit differences (A+B)	(10,692)	11,198	(506)	883	(11,575)
Adjusted Total comprehensive income for the year	15,703				

Adjusted audit differences: Detail

Details for the current Year

		Income and expenditure		Balance sheet	
Adjusted audit differences	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Adjustment 12: FHL derecognition of depreciation charges on transferred properties					
DR Fixed assets and grant				33	
CR Depreciation and amortisation	(33)		(33)		
Adjustment 13: FHW recognition of depreciation charges on transferred properties					
DR Depreciation and amortisation	25	25			
CR Fixed assets and grant					(25)
Adjustment 14: 5D recognition of depreciation charges on transferred properties					
DR Depreciation and amortisation	8	8			
CR Fixed assets and grant					(8)
Sub-total (B) Adjusted audit differences		33	(33)	33	(33)
Total adjusted audit differences (A+B)	(10,692)	11,231	(539)	916	(11,608)
Adjusted Total comprehensive income for the year	15,703				

Adjusted disclosure omissions and improvements

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit & Risk Committee is required to consider.

The following are the most significant adjusted disclosure matters that were noted:

- FHG, FHL and FHW Note 19 and FHG Note 20 reclassification of Pensions and Union payments in creditors disclosure to other creditors. Currently disclosed under the line 'Other Taxation and social security.
- Incorrect disclosure of property sales numbers in Note 7 of the draft accounts.
- No fire compliance depreciation policy in Five Doorways Limited financial statements.

Control environment: Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Committee.

As the purpose of the audit is for us to express an opinion on the Group's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any new significant deficiencies within the internal control environment.

Control environment: Follow up of prior year deficiencies

Area	Observation & implication	Recommendation	Management response
Housing property recorded in the wrong entity	A number of properties were identified as being legally recorded in the incorrect entity within the group. This led to a prior period adjustment in order to correct the errors impacting FHL, FHW and 5D	Ensure that processes and controls are put in place to monitor and confirm that the properties that are purchased and developed are recorded in the correct entity.	Processes have been reviewed and checks performed to ensure properties are registered correctly with the Land Registry.

Audit report overview

Opinion on financial statements

We will be issuing an unmodified opinion on the financial statements.

There are no matters disclosed in the financial statements that we wish to draw attention to by way of ‘emphasis of matter’.

Going concern

Our report will:

- state our conclusion that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate that we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements;
- state that we have not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue;

Irregularities, including fraud

Our report will contain an explanation to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Comments on the strategic report and the report of the board and statutory other information

We have identified no material misstatements in the statutory other information accompanying the financial statements.

Other information

We have reviewed the other information accompanying the financial statements in the Group’s annual report. We have not identified any material misstatements that would need to be referred to in our report.

Independence

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence and discuss with you any independence issues including threats to our independence and the safeguards applied to mitigate them.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2023.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report were provided in our planning report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Group's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our planning report.

Details of other threats and safeguards applied are given in the appendices.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Association and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

	Fees (£'000)	Independence safeguards	Impact on independence
	2023		
Statutory audit fee	180	N/A	N/A
Right to Buy/ VAT certificates	3	None required	Service are permitted under Ethical standard and no threats to independence have been identified (ES5:40)

Additional matters we are required to report

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.
	Group matters	
6	Limitations on the audit where information was restricted.	No exceptions to note.
7	Any fraud or suspected fraud at group or component level.	No exceptions to note.

Communication with you

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Board of Directors as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Committee.

In communicating with TCWG of the parent and the group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Outstanding matters

We have completed our audit work in respect of the financial statements for the year ended 31 March 2023.

Entities within the scope of our audit

The entities audited by the same team as the Group are set out in the table below together with their significant audit risks. Matters that we wish to draw to your attention are discussed within Group risks or other matters within our report; there are no further points to note.

RISK IDENTIFIED	Group	FHW	FHL	FTP	FFL	5D	FLL
Management override	✓	✓	✓	✓	✓	✓	✓
Fraud in revenue recognition	✓	✓	✓	x	x	✓	✓
The recoverable amount of property developed for sale is materially misstated	✓	✓	✓	x	x	x	x
Cost apportionment on developments is inaccurate or inappropriate leading to material misstatement	✓	✓	✓	x	x	x	x
Recoverability of intergroup debt	x	x	x	✓	✓	x	x

For more information:

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