



Futures Housing Group Limited

Audit Completion: Year ending 31 March 2024

Report to the Audit and Risk Committee

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Group Entity	Abbreviation
Futures Housing Group	FHG
Futures Homescape Limited	FHL
Futures Homeway Limited	FHW
Futures Treasury Plc	FTP
Futures Finance Limited	FFL
Five Doorways Homes Ltd	5D
Futures Living Limited	FLL



Welcome

Introduction

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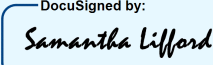
We have pleasure in presenting our Audit Completion Report to the Audit and Risk Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two-way communication throughout the audit process with those charged with governance.

[The report has been updated following Audit and Risk Management Committee on the 24 July 2024 and Board meeting on 31 July 2024 to reflect our discussion with you and update on the status of our work.](#)

It summarises the results of completing the planned audit approach for the year ended 31 March 2024, 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.

This report contains matters which should properly be considered by the Board as a whole. We expect that the Audit and Risk Committee will refer such matters to the Board, together with any recommendations, as it considers appropriate.

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:

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Partner

September 2024



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Overview

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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 2024.

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 Companies Act 2006, the Cooperative and Community Benefit Societies Act 2014 and the Accounting Direction, prepared in accordance with UK GAAP.

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.

We recognise that you may wish to publish your annual report and financial statements and our audit report on your website or distribute them by means such as e-mail. If you choose to do so, it is your responsibility to ensure that such publication properly presents the financial information and any auditors' report.

It is also your responsibility to advise us prior to publication of the annual report, financial statements and/or our audit report of any proposed changes and/or differences from the version approved and signed, no matter how minor, to determine whether they are acceptable or not and so we can ensure that the Firm is not misrepresented.

Further information regarding these responsibilities is provided in the engagement letter which was sent to management on 2 February 2024.

Overview

[Our audit work is complete and we have issued an unmodified audit opinion on the Group's and subsidiary financial statements for the year ended 31 March 2024 in line with the agreed timetable.](#)

Outstanding matters are listed on page 35.

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 have issued an unmodified audit opinion on the Group and subsidiary financial statements.](#)

Independence

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



Audit Scope and Materiality

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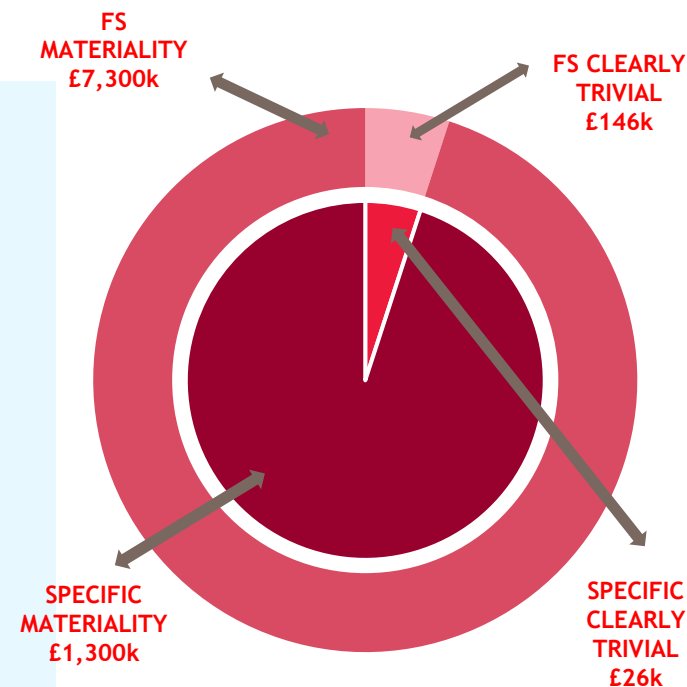
Final Materiality

Group materiality for the financial statements as a whole (FS materiality) is calculated based on 1.5% of total assets (2023: 6.75% of adjusted operating surplus). Group specific materiality is calculated based on 2% of turnover (2023: N/A). The use of specific materiality reflects that in certain financial statement areas misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

There were no changes to the basis of calculation of final materiality or clearly trivial levels from that reported in our planning report; the amounts were updated to reflect actual results.

Unadjusted audit differences

We have identified audit adjustments that have all been processed by Management and, therefore, there are no unadjusted audit differences to make you aware of. See page 26 to 29 for details.



Key matters

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Financial reporting

- ▶ We have not identified any non-compliance with the Association's/Group's 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.

Independence

As outlined in detail in our Audit Planning Report, 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.

Fees summary

	£
Audit fee	196,250
Non-audit services:	
Right to Buy/VAT certificates	2,900
Total fees	199,150



Summary

Our methodology

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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 statement of comprehensive income and the statement of financial position would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.

Financial statements category	2024	2023
Housing Properties	Substantive	Substantive
Other Fixed Assets	Substantive	Substantive
Investment Properties	Substantive	Substantive
Investments	Substantive	Substantive
Properties for sale	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 Receivable	Substantive	Substantive
Interest payable	Substantive	Substantive
Capital commitments	Substantive	Substantive

Overview of risks

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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 audit report in the financial statements.

#	Significant audit risk	Risk rating	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
G1	Management override	Significant	No	Yes	No	No	No	No	Yes
G2	The recoverable amount of property developed for sale	Significant	Yes	Yes	No	No	No	No	Yes
G3	Valuation of investment properties	Elevated	No	Yes	Yes	No	No	No	Yes
G4	Valuation of defined benefit liabilities	Elevated	No	Yes	Yes	No	No	No	Yes
G5	Valuation of level 3 defined benefit assets	Elevated	No	Yes	Yes	No	No	No	Yes
S6	Recoverability of intergroup debt (FTP & FFL risk only)	Significant	Yes	No	No	No	No	No	Yes

* On the following pages there are abbreviations of the assertions that our audit risks cover, this allows us to confirm the specific area our testing will cover within the financial statement area. The table to the right sets out what each of these mean.

Abbreviation	Assertion
C	Completeness
E	Existence
A	Accuracy
V	Valuation
P	Presentation



Risk G1

Management override of controls

Group entities impacted: All

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	C	E	A	V	P	2024	2023
Financial Statements preparation					✓	N/A	N/A

Risk Detail

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:

- ▶ Review and verification of unusual journal entries made in the year, agreeing the journals to supporting documentation;
- ▶ Evaluation of risks arising from automated journals;
- ▶ A critical review of the consolidation and, in particular, manual or late journals posted at consolidated level;
- ▶ Review of estimates and judgements applied by Management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- ▶ 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. For each of the sampled journal entries made in the year, we agreed the journals to supporting documentation. We did this using our data analytics tool, Advantage. Key findings from the use of our BDO Advantage application are included in page 20.
- ▶ We reviewed significant accounting estimates and judgements and ensured they were appropriate and no existence of systematic bias was identified. See the following page for further details.

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





Risk G1 (continued)

Management override of controls

Group entities impacted: All

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	C	E	A	V	P	2024	2023
Financial Statements preparation					✓	N/A	N/A

Results (continued)

Estimates and judgements	Report ref
The assumptions used in the assessment of the net realisable value of properties held for sale	Page 11
The assumptions used in the valuation of investment properties	Page 13
The underlying assumptions used in the calculation of defined benefit obligations	Page 14
Useful economic lives of assets	Page 23
The assumptions used to assess impairment	Page 23
Net pension surplus recognition	Page 23
Cost apportionment on developments	Page 24
Basis and consistency used in the capitalisation of property development costs	Page 24

Discussion and conclusion

Testing was completed satisfactorily.

Key Audit Matter

- Significant risk
- Elevated risk
- Moderate risk
- Fraud risk
- Related controls identified to mitigate risk
- Significant Management estimates & judgements
- Controls testing approach
- Data analytics testing approach
- Substantive testing approach





Risk G2

The recoverable amount of property developed for sale

Group entities impacted: Group, FHL, FHW

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	C	E	A	V	P	2024	2023
Property developed for sale				✓		£7,551,000	£6,945,000

Risk Detail

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 complete and sell).

As at 31 March 2024 the Group was carrying total WIP of £5.3m in relation to schemes under construction. Completed, unsold units comprised 28 units with a carrying value of £2.3m.

Due to the volume of properties developed for sale and the level of judgement involved 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.

Audit Approach

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.

For a sample of properties held 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 - we agreed proceeds to completion statement.

- ▶ Completed units not sold after date and work in progress - we obtained one or more of; evidence of sales reservations on the property; third party formal valuation of the property; sales prices achieved for similar units in the year or post year end; valuation of properties for marketing purposes. We enquired and assessed what management plans are for unsold properties. We considered the length of time the properties have remained unsold. We considered whether the work in progress has been marketed 'off plan' and whether this suggests any issues with demand.

2. For costs to complete (one of or a combination of the following):

- ▶ Obtained the latest build contractor's invoice and compared construction costs against total contract value taking into account latest contract variations.
- ▶ 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 costs compared to budget on schemes completed in the year.
- ▶ For the schemes selected reviewed invoices and valuation certificates booked after the year end in order to assess completeness of expenditure and reasonableness compared to spend forecast.

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





Risk G2 (continued)

The recoverable amount of property developed for sale

Group entities impacted: Group, FHL, FHW

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	C	E	A	V	P	2024	2023
Property developed for sale				✓		£7,551,000	£6,945,000

Audit Approach (continued)

- ▶ For development schemes in progress we discussed with the project manager whether there is any indication of any potential cost issues (verifying 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 - we reviewed computations of selling costs and compared against known selling costs that have been incurred in the year.

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

Results

We have reviewed the assessment of the recoverable amount of property developed for sale. For properties that were sold post year end we successfully agreed the sales to completion statement. For a sample of schemes where the properties were not sold post year end we reviewed the forecast sales values and development costs to complete to supporting documentation. This included performing detailed reviews of the contractor development contracts and completing questionnaires with the development team to understand the issues and progress of each scheme under development.

While a few properties showed a small loss (clearly trivial), all schemes reviewed demonstrated that the sales price was in excess of the costs. No issues were identified as a result of our work.

Discussion and conclusion

Testing was completed satisfactorily.

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



Risk G3

Accuracy and valuation of investment property

Group entities impacted: Group, FHL, FHW

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	C	E	A	V	P	2024	2023
Investment property			✓	✓		FHL - £32,326,000 FHW - £4,516,000	FHL - £39,841,000 FHW - £5,012,000

Risk Detail

Futures holds investment property.

A third party performs the valuations on behalf of management; the assumptions made in calculating the value have a significant impact and any small change in the assumptions can have a significant impact on the investment property valuation.

Changes in the economic environment also introduce inherent risk.

Audit Approach

- ▶ We involved our valuation expert to analyse the methodology used to set the assumptions by the third-party valuers appointed by Management, as well as to challenge the assumptions against appropriate benchmarks.
- ▶ We also performed validation testing on the information sent to the valuer in relation to the properties to ensure that the data on which the valuer values the schemes is complete and accurate.
- ▶ We performed an assessment of the disclosures made by management in line with FRS 102.

Results

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 identified as a result of our work.

Discussion and conclusion

Testing was completed satisfactorily.

Key Audit Matter

Significant risk

● Elevated risk

Moderate risk

Fraud risk

● Related controls identified to mitigate risk

● Significant Management estimates & judgements

Controls testing approach

Data analytics testing approach

● Substantive testing approach





Risk G4

Pension scheme liability assumptions are inappropriate resulting in a material misstatement

Group entities impacted: Group, FHL, FHW

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	C	E	A	V	P	2024	2023
Gross Pension scheme liabilities				✓		FHL - £35,613,000 FHW - £7,735,000	FHL - £35,658,000 FHW - £7,752,000

Risk Detail

Futures participates in 2 Local Government Pension Schemes (LGPS) which are Defined Benefit Pension Schemes. As at 31 March 2024 the distribution was:

- ▶ Derbyshire Pension Fund: Gross assets £49m, Gross Liabilities £35.6m resulting in a net surplus of £13.4m which has been restricted to £nil (Futures Homescape Limited).
- ▶ Northamptonshire Pension Fund: Gross assets £10.8m, Gross Liabilities £7.7m resulting in a net surplus of £3.1m which has been restricted to £nil (Futures Homeway Limited).

The nature of the pension liability assumptions means that a relatively small change to key assumptions can have a significant impact on the liability reported.

Audit approach

- ▶ We obtained the actuarial report for the LGPS pension provisions, as prepared by the Futures actuaries and used our independent auditor expert to review the assumptions for 2024 therein to determine whether they provide a reasonable basis to calculate the year end gross liabilities.
- ▶ We have tested the accuracy of the other inputs into the gross liabilities valuation, such as cashflow and membership data.
- ▶ We obtained confirmation of the scheme membership data within the actuarial reports from the pension schemes.

Results

Our independent auditor expert has reviewed the assumptions and confirmed that they provide a reasonable basis for the gross liability calculations. We are comfortable that these are not materially misstated assumptions from what might be appropriate for your organisation.

The assumptions fall within the expected range.

On the following page is a summary of findings following the independent review of the assumptions relating to the calculation of the defined benefit pension gross liabilities. It should also be noted that the box and whisker charts are created at the time of the third party actuary's review, based on data from across the range of schemes that they have reviewed, and so these can evolve as more data is gathered. As such, they are not a "black and white" guide to appropriate assumptions, but provide a median assumption at that point in time and therefore it is acceptable to be outside of the "normal" range. We note that the same assumptions have been applied to both pension schemes.

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





Risk G4 (Continued)

Pension scheme liability assumptions are inappropriate resulting in a material misstatement

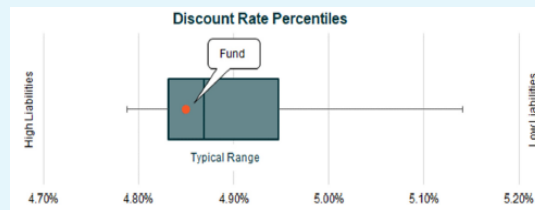
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Results (Continued)

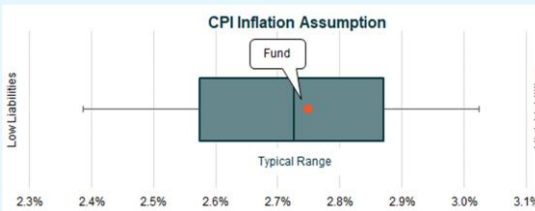
Discount rate

A discount rate of 4.85% p.a. has been proposed. The discount rate is in line with the rates we are seeing used by other actuaries for schemes of similar duration.



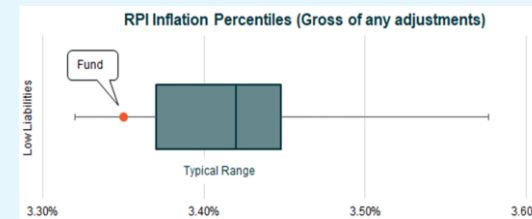
Consumer Price Index (CPI) Inflation rate

A CPI inflation rate of 2.75% p.a. has been proposed. The CPI assumption is broadly in line with that used by other actuaries on schemes of similar duration.

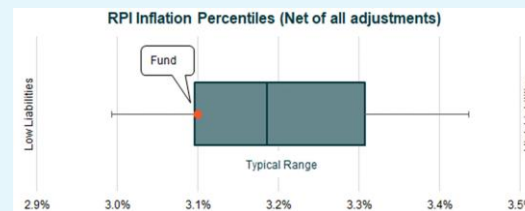


Retail Price Index (RPI) Inflation rate

An RPI inflation rate of 3.10% p.a. We initially compare the actuary's assumption with that of other actuaries on schemes of similar duration, prior to any adjustment for Inflation Risk Premium ("IRP"). This gross RPI assumption is at the bottom of the range when compared with those being used by other actuaries.



We ultimately compared the final RPI assumption adopted with that used by other actuaries on schemes of similar duration. You will see this assumption moves towards the range we are typically seeing from other actuaries.



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





Risk G4 (Continued)

Pension scheme liability assumptions are inappropriate resulting in a material misstatement

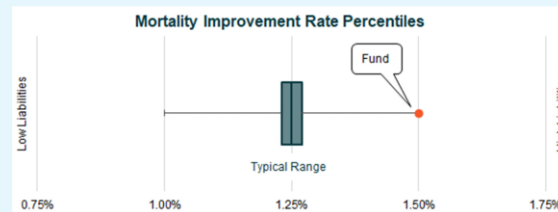
Group entities impacted: Group, FHL, FHW

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Results (Continued)

Mortality

The long-term mortality improvement rate is consistent with that being used by other actuaries. We are generally comfortable with a rate between 1.0% p.a. and 1.5% p.a.



Discussion and conclusion

Our work is complete with no issues noted.

Key Audit Matter

Significant risk

● Elevated risk

Moderate risk

Fraud risk

● Related controls identified to mitigate risk

● Significant Management estimates & judgements

Controls testing approach

Data analytics testing approach

● Substantive testing approach



Risk G5

Valuation of level 3 defined benefit assets

Group entities impacted: Group, FHL

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	C	E	A	V	P	2024	2023
Pension scheme assets		✓	✓	✓		FHL - £49,053,000	FHL - £44,702,000

Risk Detail

As of 31 March 2024, the gross pension assets of Derbyshire Pension Fund (Futures Homescape Limited) stood at £49 million.

Derbyshire Pension Fund had classified certain assets as harder to value, encompassing property, other unquoted pooled investments, UK freehold, and UK leasehold investments. Collectively, these assets accounted for approximately 22% of the total assets held by the fund. Given the material nature of Futures Homescape Limited's share of these assets, there is an elevated risk that these assets may not be correctly valued at the end of the year.

In contrast, the Northamptonshire Pension Fund has identified its harder to value assets as private equity, infrastructure, and pooled property investments, constituting around 20% of the fund's total assets. The share of these harder to value assets belonging to Futures Homeway Limited is not material and therefore a moderate risk was concluded.

We also considered the valuation approach, technique or method required by the accounting framework and the availability of the information to determine the appropriate value.

Our risk assessment included consideration of the role of relevant parties including the roles of administrators, custodians and fund managers as appropriate.

Audit approach

- ▶ We assessed the service organisations used in holding and valuing pension scheme assets including consideration of the suitability for the roles they are performing.
- ▶ We obtained and reviewed the internal control reports to confirm the controls over custody and valuation arrangements for the assets in each scheme.
- ▶ We obtained direct confirmation from the scheme administrator of the value of assets held at the year end for the total scheme to confirm the apportionment of total scheme assets.
- ▶ We benchmarked asset values and allocations compared to appropriate market data.

Results

We obtained all required controls reports for each service organisation and reviewed the controls over custody and valuation confirming that suitable controls were in place for each investment manager and custodian. We also obtained a direct confirmation from the scheme administrator of the value of the assets and reconciled this back to actuarial reports.

Discussion and conclusion

Our work is complete with no issues noted.

Key Audit Matter
Significant risk
● Elevated risk
Moderate risk
Fraud risk
● Related controls identified to mitigate risk
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Controls testing approach
Data analytics testing approach
● Substantive testing approach



Risk S6

Recoverability of intergroup debt

Group entities impacted: FTP, FFL

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	C	E	A	V	P	2024	2023
Intergroup Receivables				✓		FTP - £295,785,000	FTP - £296,725,000
						FFL - £31,963,000	FFL - £48,111,000

Risk Detail

FTP is the Group’s 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 Group’s vehicle for unlisted debt and has total loans of £31,949,000.

As FTP and FFL on-lend to Group, the principle risk facing the entity is that Futures 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 parent Association 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.

The assessment of the recoverability of the related party debt involves a number of judgements.

This is where we exerted significant audit effort in assessing the appropriateness of the assumptions involved in auditing FTP and FFL, and as such we consider this to be a Key Audit Matter.

Audit approach

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 March 2026.
- ▶ 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 reviewed the reverse stress test calculations.

Results

We obtained Management’s review of going concern and the 40 year plan and challenged the key assumptions and stress testing scenarios. No issues were noted.

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
- Elevated risk
- Moderate risk
- Fraud risk
- Related controls identified to mitigate risk
- Significant Management estimates & judgements
- Controls testing approach
- Data analytics testing approach
- Substantive testing approach



IT Audit Approach

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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 and sample extraction of data when performing audits of journals.
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 and sample extraction of data during payroll audit procedures.

IT Audit Approach

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Key findings - Advantage Financial Analyser

Data Completeness:

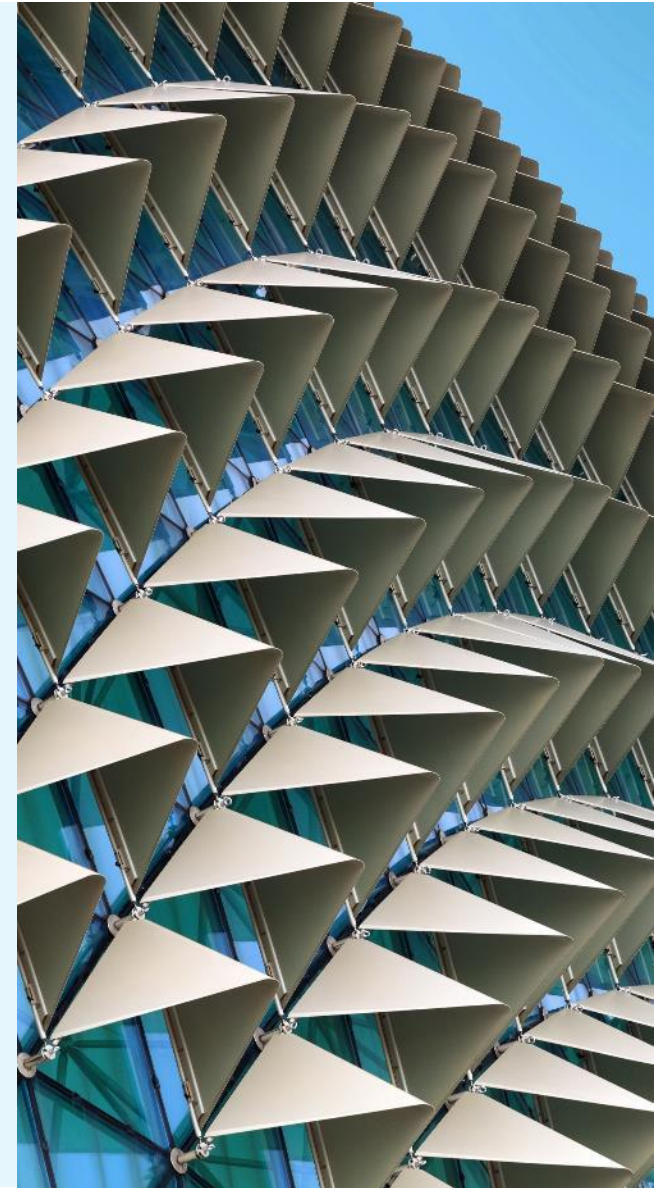
The reconciliation of Journal transactions to Trial Balances (TBs) shows a moderate level of non-reconciling accounts for the period under audit. These accounts have been investigated and reconciliations resolved therefore we have assurance that the data provided for analysis is complete & not missing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

Data Quality:

From our data quality tests we report there were no issues with the quality of the data that was obtained from the Futures systems. The key areas that are checked by our system are whether any unbalanced journals exist, whether any data fields are missing, anomalous or blank data fields and whether the entries are posted into the correct periods with reference to entry dates.

Other Notable Observations:

- ▶ No other notable observations to make.



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Key findings - Advantage Payroll Analyser (APA)

Data completeness

BDO witnessed the extraction of the data that was published within the payroll analyser on 11/04/2024.

We further obtained a payroll reconciliation between the payroll reports and the payroll costs in the financial statements. The inputs to the payroll reconciliation have been tested for completeness by agreeing directly to the payroll analyser, ensuring that all payroll costs have been included within the payroll reconciliation.

Data quality

To confirm data quality, BDO sought explanations for the following data quality issues flagged by the payroll analyser:

- ▶ 32 missing records
- ▶ 18 invalid records (all over pension age, no issues noted)
- ▶ 34 duplicate records
- ▶ 69 before starter and post-leaving payments

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

Other notable observations

- ▶ No other observations noted after completion of audit execution stage for payroll.



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



Key Judgements and Estimates

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The following are what we consider to be the significant accounting estimates associated with the financial statements that have not already been discussed in the Risks section of our report.

Valuation method

Discussion

Estimate: Useful lives of tangible fixed assets

Depreciation is charged on a straight-line basis over the expected economic useful lives of those assets at set annual rates. There were no changes in the accounting policy from the prior year.

We have reviewed the rates used by Management in comparison to other housing associations. We have not identified any changes to the depreciation rates used from the prior year. We have also re performed depreciation calculations to ensure calculated in line with the accounting policy. No issues were noted.

Estimate: The assumptions used in the consideration of the impairment of housing properties

Management has performed a review of indicators of impairment which includes, significant changes that have occurred, or are planned imminently, to the way the asset is used and evidence indicating that the economic performance of an asset is significantly worse than expected.

We have reviewed managements assessment of the indicators of impairments and we considered each of the potential indicators and agreed them to evidence to confirm that they were not a trigger for a full impairment assessment of any of the housing properties. We did not identify any issues with their assessment and confirmed that no trigger has been identified. No issues were noted.

Judgement: Treatment of pension surplus

A management expert 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). Management have restricted the pension surplus for both schemes to £Nil.

We have carried out a review of each schemes funding strategy and noted that on cessation it is at the discretion of the administering authority the amount that would be refunded to the employer. Therefore, no unconditional right exists. In addition, reduced contributions for the entity are at the discretion of the administering authority for both schemes and therefore we are in agreement that the net pension surpluses have been appropriately capped at £Nil.



Key Judgements and Estimates (continued)

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Valuation method

Judgement: 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.

Judgement: Cost apportionment on developments

The apportioned cost of individual properties across all tenures is calculated on a square meter basis using the Group method.

Discussion

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.

We assessed the allocation of costs to tenure types, as well as the apportionment between first tranche and retained equity elements, on development schemes that are subsequently taken to cost of sales. We also checked for consistency between cost allocation, initial development plans and actual property sales activity.

Our testing provided us with assurance that the costs incurred in developments was supported by the invoices received, correctly capitalised and included in the correct financial statement period.



Matters requiring additional consideration

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Fraud

Whilst the Board 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 have been made aware of two instances of fraud during the audit process:

- The first fraud was in relation to Direct debit fraud whereby an individual external to the group has set up a direct debit to LV insurance using the FHL bank details for a total value of £86. These were identified and cancelled and there was no loss to the entity as they were covered by the direct debit guarantee.
- The second instance was a fraud by false representation whereby a customer tried to re-direct funds from a direct rent payment to their own bank account. No action was initiated by the entity and therefore no loss was incurred.

Other than the instances above we obtained confirmation that there are no further known, suspected or alleged frauds in the year.

Laws and regulations

The most significant considerations for your business are the Cooperative and Community Benefit Societies Act 2014, Companies Act 2006, the Accounting Direction for Private Registered Providers of Social Housing 2022, the Housing and Regeneration Act 2008, Statement of Recommended Practice: Accounting for Registered Social Housing Providers 2018, 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.

Internal audit

We reviewed the audit work of the Group's internal audit function to assist our risk scoping at the planning stage.

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 any significant matters in connection with related parties.

Unadjusted audit differences: Detail

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

There are no unadjusted audit differences identified by our audit work which we are required to bring to your attention.



Unadjusted disclosure omissions and improvements

Disclosure omissions and improvements

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

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



Adjusted audit differences: Detail

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There were 3 audit differences identified by our audit work that were adjusted by Management. Two of these were reclassification journals as detailed below and the remaining journal was a presentation adjustment to recognise the hive up of FLL correctly in the statement of Income and expenditure.

Adjusted audit differences	Income and expenditure			Balance sheet	
	£'000	£'000	£'000	£'000	£'000
Adjustment 1: Group & FHL - Amendment of the first tranche % that is taken to properties held for sale					
DR Completed housing properties				511	
DR Housing properties under construction				2,918	
CR Completed properties developed for sale					(511)
CR Properties for sale under construction					(2,918)
Adjustment 2: Group & FHW - Amendment of the first tranche % that is taken to properties held for sale					
DR Completed housing properties				106	
DR Housing properties under construction				481	
CR Completed properties developed for sale					(106)
CR Properties for sale under construction					(481)
Adjustment 3: 5D - correcting the presentation of the transfer of assets from FLL on hive up to 5D (eliminates on consolidation in the Group financial statements)					
Dr Reserves				205	
Cr Other income (gift aid income)			(205)		
Total Adjusted audit differences			(205)	4,221	(4,016)

Adjusted disclosure omissions and improvements

Disclosure omissions and improvements

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

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

- ▶ FHG Note 11 - Incorrect presentation of the banding disclosure.
- ▶ FLL Prior Period Adjustment on Note 10 financial commitments - Management have made us aware of a prior period adjustment required within the financial statements to remove £181k approved and contracted for commitments in the prior year as these costs were actually accrued for in the prior year.
- ▶ FHL/FHG Prior Period Adjustment on financial commitments note - During the course of our audit work we identified 1 scheme in which the contract had been cancelled with the contractor in September 2022 and therefore a reclassification between 'approved and contracted for' and 'approved and not contracted for'.
- ▶ FHL Note 26 - There is a financial guarantee to West Northamptonshire council and water company that needs to be disclosed as a contingent commitment.
- ▶ FHG Note 10 - reclassification of deferred tax liability of £100,000 to provisions from creditors





Control environment: Deficiencies

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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.

Observation & implication	Recommendation	Management response
<p>Significant deficiency</p> <p>Privileged access to Open Accounts accounting system</p> <p>BDO identified 8 out of 9 active privileged accounts are Finance users which hold IT privileged access on OpenAccounts. The following 8 business users have permissions which allows business users to add/modify/delete users in Open Accounts.</p> <ul style="list-style-type: none"> Dawn Northage - Transaction Processing Lead Helen Henshaw - Head of Financial Accounting Katie Hudson - Finance Assistant (Payments & Payroll) Laura Boswell - Senior Finance Reporting Manager Matt Goodwin - Management Accountant Tim Burdon - Senior Finance Business Partner Jenny Upton (left) - Head of Investment & Financial Planning Lisa Dunne (left) - Senior Finance Reporting Manager 	<p>Management should consider assigning the system/user administrator role to an independent individual with no business/transaction processing role.</p>	<p>Futures will start Utilising Halo new starter/leaver/amendment forms. ICT to elevate permissions for systems admin to do the amends and them remove access from October 24.</p> <p>Responsible: Helen Henshaw</p> <p>Timeline: October 2024</p>
<p>Significant deficiency</p> <p>Joiner/Mover: There is no formalised process around user access provisioning and modification, no ticketing tools being utilised in the Open Accounts accounting system.</p>	<p>Management should consider utilising Halo ticketing tool in place to retain sufficient and formal documentation on user access provision and modification.</p>	<p>Quarterly review to be implemented from October 24</p> <p>Responsible: Helen Henshaw</p> <p>Timeline: October 2024</p>



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Observation & implication	Recommendation	Management response
<p>Significant deficiency</p> <p>Application changes (Cascade) - Pre-configured changes or Workflow changes do not require formal change request and approval process and are directly deployed on Production Environment.</p>	<p>Management should consider utilising Halo ticketing tool in place to retain sufficient and formal documentation over change management. Management should also consider utilising a separate change environment for user acceptance testing prior to the change being deployed into Live Environment, and have segregation of duties over change requestor, approvers, and change implementors.</p>	<p>Futures will start Utilising Halo new starter/leaver/amendment forms. ICT to elevate permissions for systems admin to do the amends from October 2024.</p> <p>Responsible: Sallyann Gretton</p> <p>Timeline: October 2024</p>
<p>Other deficiency</p> <p>User Access Review (Open Accounts, Orchard and Cascade): There is no formal documentation on the review of the appropriateness of the user access within the application. There is a periodic review on identifying active leavers within the application against HR reports, however, no documentation and proper sign-offs in place, and no IPE screenshots maintained to confirm the completeness and accuracy of the listing reviewed.</p>	<p>Management should consider performing user access reviews periodically i.e. quarterly by an appropriate and independent individual giving due consideration to the following:</p> <ul style="list-style-type: none"> • Lists reviewed should be complete and accurate, evidence of this should be captured and stored at the time the review is completed. • Review should cover all user and generic IDs along with all roles/permissions. • Review should highlight inappropriate permissions/roles and leavers. • Review should retain evidence for management assessing the Completeness & Accuracy of the report used for the review. • Remedial activities identified should be done timely and appropriately with any mitigating actions performed (where accounts have been misused). 	<p>Futures will review the reporting functionality with regards to user access and put in place quarterly reviews from October 2024</p> <p>Responsible: Neil Gretton, Sallyann Gretton & Helen Henshaw</p> <p>Timeline: October 2024</p>
<p>Other deficiency</p> <p>Privileged activity monitoring (Orchard and Cascade) - There is no review on privileged user activity performed during the audit period.</p>	<p>Management should consider initiating a periodic review process on the privileged user activity reviews on the audit logs/trails in place on the application as part of their review and control process.</p>	<p>Quarterly review to be implemented from October 2024</p> <p>Responsible - Neil Burbanks & Sallyann Gretton</p> <p>Timeline: October 2024</p>

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Opinion on financial statements

We have issued an unmodified opinion on the Group and subsidiary 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 has:

- ▶ stated our conclusion that Management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate and that we have nothing material to add or draw attention to in relation to the Board’s statement in the financial statements;
- ▶ stated 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 contains an explanation of the extent to which 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 Board report 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.

Additional matters we are required to report

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	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	Fraud identified - see page 25.
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

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Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Board 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.

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We have completed our audit work in respect of the financial statements for the year ended 31 March 2024.





Letter of Representation

Draft letter for review

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Financial Statements of Futures Housing Group for the year ended 31 March 2024

We confirm that the following representations given to you in connection with your audit of the consolidated and parent association's financial statements (together the "financial statements") for the year ended 31 March 2024 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other directors and officials of the association and other group entities as appropriate.

We have fulfilled our responsibilities as directors for the preparation and presentation of the consolidated group and parent association financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the group and the parent association as at 31 March 2024 and of the results of the group's and the association's operations and cash flows for the year then ended in accordance with applicable financial reporting framework and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the association have been made available to you for the purpose of your audit and all the transactions undertaken by the group and association have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all meetings of management and non-executives have been made available to you.

Going concern

We have made an assessment of the group's and the association's ability to continue as a going concern for a period ended 31 March 2026 (being at least twelve months from the date on which the financial statements were approved for release). The board reviewed and approved the associated forecasts and financial statements disclosures at its meeting.

As a result of our assessment we consider that the group and the association are able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have evaluated the suitability and feasibility of our future plans as disclosed in the financial statements Note 2, and we confirm that nothing has come to our attention which may hinder the suitability or feasibility of our future plans.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the group's and the association's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which our business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

We confirm that we have informed you of any actual or potential non-compliance with the laws and regulations prescribed by the Financial Services and Markets Act 2000 and Financial Services Act 2012 and any known breaches of the Financial Conduct Authority rules.

Any complaints received in respect of regulated business and any events, which involve possible non-compliance with the Financial Conduct Authority rules have been disclosed to you and appropriately provided for and disclosed in the financial statements, where applicable.

All communication with the Financial Conduct Authority including correspondence, minutes of meetings and notes of inspection visits have been made available to you.

We acknowledge our responsibility for ensuring that the accounting records and systems of control have been established and maintained in accordance with the Financial Conduct Authority rules. We confirm that the entity did not hold or administer client money or custody assets at any time during the year. We confirm that the association has kept proper accounting records for the year.



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Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

We have disclosed to you all instances of fraud or suspected fraud that we have knowledge of, involving:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

You have not advised us of any unadjusted misstatements in the financial statements or other information in the annual report.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable accounting framework.

To the best of our knowledge there are no undisclosed side agreements in any of the related party transactions of the entity.

There were no loans, transactions or arrangements between any group entity and the association's directors and their connected persons at any time in the year which were required to be disclosed.

In the opinion of the directors the association has no controlling party.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated and parent financial statements.

Accounting estimates

We confirm that the methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework. We have reported the following significant accounting estimates:

- the assumptions used in the assessment of the net realisable value of properties held for sale;
- the assumptions used in the valuation of investment properties;
- the underlying assumptions used in the calculation of defined benefit obligations;
- useful economic lives of assets; and
- the assumptions used to assess impairment.



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In relation to the above specific accounting estimates we confirm:

- that the significant judgments made in making the accounting estimates have taken into account all relevant information of which we are aware.
- that we have considered the consistency and appropriateness in the selection or application of the methods while preparing estimates.
- we have used the appropriate assumptions and data, to the best of our knowledge in making the accounting estimates.
- that the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, when relevant to the accounting estimates and disclosures.
- that disclosures related to accounting estimates, including disclosures describing estimation uncertainty, are complete and are reasonable in the context of the applicable financial reporting framework.
- that appropriate specialised skills or expertise has been applied in making the accounting estimates.
- that no subsequent event requires adjustment to the accounting estimates and related disclosures included in the financial statements.

None of the association's current asset properties for sale or work in progress balances are stated in the balance sheet at 31 March 2024 at an amount exceeding their recoverable amount.

We confirm that the balance sheet amount of **£7.6m** carried within current asset properties developed for sale, representing the cost apportioned to first tranche shared ownership properties, properly represents the proportion of the total cost we believe will be marketed and sold after the balance sheet date based on our knowledge of these developments and market conditions.

We confirm that none of the group or association's assets are stated in the balance sheet at 31 March 2024 at an amount exceeding their recoverable amount as defined in FRS102 Section 27 - Impairment of assets.

The Association has satisfactory title to all assets, and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

We confirm that cash flow forecasts used in our assessment of going concern are based on our best estimate of committed development costs, loan drawings and related interest charges and overheads adjusted for inflation.

We confirm that the valuation of the pension liability is calculated with reference to market levels and the most relevant demographic and financial assumptions at 31 March 2024.

We confirm the defined benefit pension scheme assets are recorded at fair value as at 31 March 2024. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect all relevant information.

Where the defined benefit pension schemes have a net asset position as at 31 March 2024, we have considered the recoverability of that asset through refund and/or reduced future contributions and provided against the irrecoverable portion as required.

We agree with the results of the specialists and service organisations engaged to value the defined benefit scheme obligations and defined benefit scheme assets. We did not give or cause any instructions to be given to the specialists and service organisations with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on their independence or objectivity.

We have disclosed all known actual or possible cross guarantees between entities in the group and association with third parties and in particular any such guarantees between regulated and non-regulated entities.



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Litigation and claims

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We have disclosed to you all known contingencies and guarantees whose effect should be considered when preparing the financial statements and these have been disclosed and accounted for and disclosed in accordance with the requirements of accounting standards.

Other Information

We have informed you of all of the documents that we expect to issue that may comprise other information. The financial statements and any other information obtained by you prior to the date of the auditor's report are consistent with one another, and the other information does not contain any material misstatements.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

(Signed on behalf of the board of directors)

Date:

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FRC Ethical Standard

Issued in December 2019

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It is now around four years since the FRC's Revised Ethical Standard 2019 ('ES') came into force. It aimed to further strengthen auditor independence and enhance confidence in the profession and was, in many ways, a precursor to the Corporate Governance and Audit Reform debate

that is still ongoing. Although the ES is now well-established it is worth taking time to reconsider some of its most important changes and ensure your internal policies and procedures are effective.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles and the public interest.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the ES. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: <ul style="list-style-type: none"> - Have more than 2,000 employees; and / or - Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p>

FRC Practice Aid for Audit Committees

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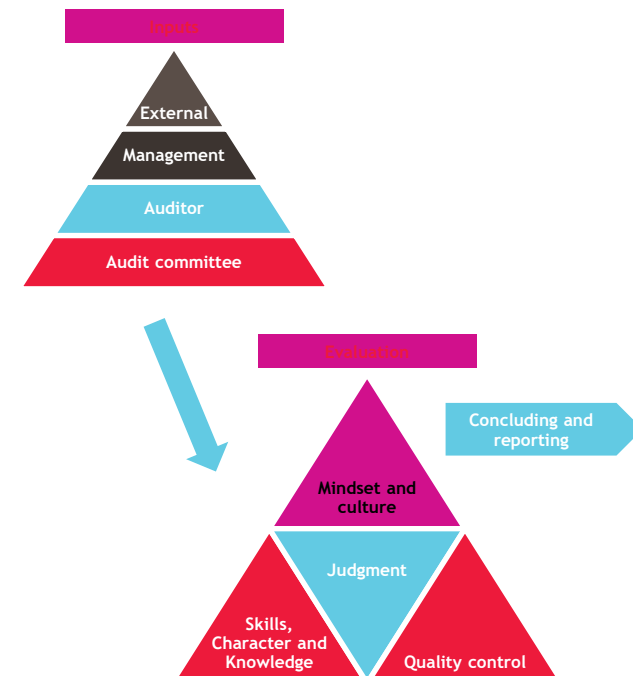
The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non-audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- ▶ Audit tenders and the tender process including audit fee negotiations and auditor independence
- ▶ A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding
- ▶ Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- ▶ Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and they sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website.



Audit quality

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk



Our system of quality management

ISQM (UK) 1 - Communication with you

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Over the last two years we have invested, and continue to invest, significantly in our people, training and systems to improve the consistency of the quality of our audits. BDO has a significant number of processes and procedures across the firm which manage audit quality. We set out a summary of the processes and procedures that support audit quality in our 2023 Transparency Report, which was published in October 2023 and is available on our website. Following a rigorous internal assessment we have concluded that, as designed, we have been unable to perform sufficient internal testing at this stage, in accordance with the requirements of ISQM (UK) 1, to conclude whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved or not.

We are currently in the process of enhancing our risk assessment to ensure completeness of risk identification, and enhancing our corresponding processes and procedures to ensure they are designed, implemented and operating effectively to mitigate the risks. In addition, we are embedding controls in our processes and procedures to enable sufficient internal testing to be undertaken in accordance with the requirements of ISQM (UK) 1 which will allow us to conclude whether our system of quality management is operating effectively. While we continue to make progress in establishing a framework which meets the requirements of ISQM (UK) 1, we continue to rely on the significant processes and procedures that are set out in our 2023 Transparency Report. We expect to publish our conclusion on whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved in our 2024 Transparency Report.

ISA (UK) 600 (Revised) September 2022: Special considerations - Audits of group financial statements (including the work of component auditors)

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Introduction

The revised standard introduces significant changes to planning and performing group audits including the work of component auditors. The aim of the revised standard is to drive a more risk focused group audit approach. There will be a number of implications for the way we carry out group audits:

- ▶ Our risk assessment procedures may require greater involvement from component auditors at an early stage of the audit to provide an appropriate basis to identify and assess risks of material misstatement. Approaching risk assessment procedures in this way will facilitate targeted test design, focusing on the areas that really matter.
- ▶ New definitions result in a revised scope of the standard bringing in shared service centres, branches and divisions, and non-controlled entities.
- ▶ Greater two-way communication between group auditor and component auditor to facilitate this risk based approach.

Two of the key benefits to these changes are:

- ▶ An ability to scale and flex our group audit approach to the specific risks of the group
- ▶ Clearer link between the risks and the resulting work performed to ensure we target audit effort where it is needed.

Effective Date

- ▶ ISA (UK) 600 Revised is effective for audits of financial statements for periods beginning on or after 15 December 2023.

How does this impact your audit?

- ▶ We expect to spend more time at the planning stage understanding components, including shared service centres, branches, divisions, group wide controls and the consolidation process to identify and assess potential risk of material misstatement.
- ▶ Due to the change in definitions, the scope of our group audit may change across various parts of the group.
- ▶ The combination of additional focus at planning and potential changes to audit approach may result in new or additional information requests and/or different phasing of audit procedures.
- ▶ Audit fees will reflect our increased investment in complying with these new requirements.
- ▶ As a product of this additional focus, we expect to deliver greater insight into your group wide control environment and have a better understanding of the risks in your group financial reporting processes.



Our Culture of Challenge

High Performing Teams

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“The Right people, supported to do the Right Work, in the Right place at the Right time. In short doing the Right thing. Always.”

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. While the ICAEW Code of Ethics provides guidance on how a professional accountant fulfils their duty, the focus of our firm, and auditors individually is to discharge our obligation to serve the public interest by consistently performing quality audit engagements.

Our work as auditors is fundamental to the success of the business world, enabling decisions based on transparent financial reporting that is trusted. The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information which they have responsibility to report, including the financial statements.

Quality is represented in our strategic framework in two important and distinct ways:

- The first is that we are committed to serving the public interest by consistently performing quality engagements - this is particularly important for two reasons: firstly, that it is the right thing to do and secondly, that it's required of by the international standards on quality management.
- The second commitment is to high quality, independence and ethics, which is broader than just our performance on individual audit and non-audit engagements and recognises the importance of high quality in everything we do.

Our Audit Specific Behaviours provide guidance and set consistent expectations for our auditor teams to ensure our day-to-day interactions and decision making come together to create High Performing Teams, that do the right thing. Always.

Read our latest Transparency Report on the BDO website.



For more information:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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