Year end report 2020/21

East Midlands Housing Group

August 2021

Key contacts

Your key contacts in connection with this report are:

Sarah Brown
Partner
Tel: +44 7920 139012
Sarah.brown1@kpmg.co.uk

Richard Walton
Senior Manager
Tel: +44 7917 232307
Richard.Walton@kpmg.co.uk

Lauren Shepherd
Assistant Manager
Tel: +44 7825 106668
Lauren.shepherd@kpmg.co.uk

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Introduction

To the Audit Committee of East Midlands Housing Group

We are pleased to have the opportunity to meet with you on 10 August to discuss the results of our audit of the consolidated financial statements of East Midlands Housing (EMH) Group (the 'Association') and its subsidiaries (the 'Group'), as at and for the year ended 31 March 2021.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 2 February. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

Subject to the Board's approval, we expect to be in a position to sign our audit opinion on the Group's financial statements in September, provided that the outstanding matters noted on page five of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page four of this report, which explains:

- The purpose of this report; and
- Limitations on work performed;
- Restrictions on distribution of this report.

Yours sincerely,

[Personal signature]

Sarah Brown

10 August 2021

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Important notice

This report is presented under the terms of our audit engagement letter.

— Circulation of this report is restricted.

— The content of this report is based solely on the procedures necessary for our audit.

This report has been prepared for the Audit Committee, in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of EMH Group (the 'Association') (and its subsidiaries (the 'Group'), prepared in accordance with FRS 102 the *Financial Reporting Standard applicable in the UK and the Republic of Ireland*, as at and for the year ended 31 March 2021.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Group's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Association's members in accordance with the Co-operative and Community Benefit Societies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status at the Audit Committee meeting but would like to highlight the following work is still outstanding:

- Management representation letter;
- Front end review of accounts, disclosure checklists and casting;
- Going concern review;
- Consolidation;
- Finalisation of our non-significant account areas; and
- The front end review of accounts, disclosure checklists and casting.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit Committee of the Group; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks

Page 8 –11

Significant audit risks	Our findings
Revenue recognition – fraud risk related to revenue recognition	No issues from our testing have been found.
Valuation of post retirement benefit obligations	Control deficiency noted over management's review of the assumptions used. No significant issues were noted in our testing to date.
Recoverability of stock and work in progress	No misstatements or issues have been identified as a result of our testing to date, however we are still waiting to conclude on this work.
Management override of controls	We have not found any findings to bring to your attention in relation to these matters to date.

Key accounting estimates

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Defined benefit pension liability	Neutral	We involved KPMG actuarial specialists in reviewing the actuarial assumptions. Assumptions were found to be balanced.
Stock and WIP recoverability	Neutral	No misstatements or issues have been identified as a result of our testing to date, however we are still yet to conclude this area of our work.

Uncorrected audit misstatements

No audit misstatements have been identified to date

Number of Control deficiencies

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Significant control deficiencies	0
Other control deficiencies	1

Outstanding matters

Our audit is substantially complete except for the following deliverable(s)

- Management representation letter;
- Front end review of accounts, disclosure checklists and casting;
- Going concern review;
- Consolidation;
- Finalisation of our non-significant account areas; and
- The front end review of accounts, disclosure checklists and casting.

COVID-19: Audit implications

The table below identifies the specific areas of our audit that were expected to be affected by the COVID-19 pandemic, and how our audit differs from the prior year. We have engaged in more frequent communications with the Audit Committee and management due to the increased risks of material misstatement, the anticipated challenges in completing our audit and the rapidly developing events.

Materiality	– There were no changes to our planned materiality as a result of COVID-19.
Subsequent events disclosures	– We will continue to monitor this through to the date of the auditor's report.
Going concern **See page 12**	– The rapidly changing conditions, our enhanced procedures under the revised ISA (UK) 570 on your risk assessment process and fact that we need to perform procedures through to the date of the auditors' report, meant significantly more audit effort in this key area.
Accounting estimates **See pages 15**	– The risks of material misstatement relating to the recoverable amount of stock and work in progress, fair values of investment property, pension liabilities, increased due to the higher degree of estimation uncertainty resulting from current economic conditions. – To assess the risks, we gained an understanding of how management has understood the range of possible measurement outcomes, selected reasonable assumptions (including considering alternatives) and data sources and selected a point estimate and the related disclosures for the financial statements. – We evaluated the methods, assumptions and data used to derive the estimates to obtain evidence that they are appropriate in the context of the financial reporting framework and are, when appropriate, based on conditions and events at the measurement date. We considered whether management has appropriately addressed the increased estimation uncertainty when selecting the point estimate. – We evaluated whether related disclosures comprise required disclosures, including significant assumptions about the future and other major sources of estimation uncertainty, and whether they include the information necessary to achieve the fair presentation of the financial statements as a whole. – We have communicated our views about significant qualitative aspects of accounting estimates.

Significant risks and Other audit risks (cont'd)

Significant audit risks	
1	Revenue recognition – fraud risk related to revenue recognition
2	Valuation of post retirement benefit obligations
3	Recoverability of stock and work in progress
4	Management override of controls

Other audit risks	
5	Going concern
6	Regulatory compliance, litigation and claims

Audit risks

1	Revenue recognition	Fraud risk related to misstatement of revenues

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

—We do not consider there to be financial incentives that would give rise to incentives or pressures that would increase the risk of fraudulent revenue recognition.

—We have rebutted the fraud risk in respect of the below revenue streams based on the fixed income value of the streams with limited manual intervention or scope for manual intervention. Due to the predictability of this revenue stream there is deemed to be limited opportunity for the fraudulent revenue recognition. This applies to the following material revenue streams: Social housing rent receivable; Service charge income; and Amortisation of government grant.

Significant audit risk

The risk

The Group's most significant strategy is in respect of their development programme. Compared to other income this could create a pressure on management from the Board, third party lenders and other third parties over the delivery of the development plan.

For income from development sales and first tranche shared ownership sales revenue could be fraudulently recognised through misrepresentation of the timing of the sale. There is therefore a risk that recognised current asset sales do not exist at the period end.

Our response

We have performed the following procedure:

— Tested the design and implementation of revenue recognition controls the Group has in place for development sales and Care and Support income streams that prevent fraudulent revenue recognised.

— For material development and EMH Care and Support income streams we have performed an additional procedure to assess whether transactions either side of the balance sheet date at year end are recognised in the correct period.

Our findings

No issues from our testing have been found.

Audit risks

2 **Valuation of post retirement benefit obligations**

Risk of error in relation to the valuation of post retirement benefit obligations

Significant audit risk

The risk

— The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Group's pension liability could have a significant effect on the financial position of the Group.

— The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the range estimated by the Group.

— There is a risk in relation to the valuation of Pension Scheme liabilities in the situation that the actuarial assumptions used do not reflect the profile of the Group's employees or are not derived on a consistent basis, impacting on the valuation of the Group's share of liabilities.

Our response

We performed the following procedures:

— Evaluate the competency, objectivity of the Scheme actuaries to confirm their qualifications and the basis for their calculations;
— Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
— Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.
— Confirm that the accounting treatment and entries applied by the Group are in line with FRS102 and the SORP;
— Consider the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.
— Confirmed that the pension note included all required information as set out in FRS102.

Our findings

Our KPMG actuaries have assessed the revised assumptions. The discount rate is outside the KPMG expected range, but all other assumptions individually and as a whole are considered to be balanced.

We acknowledge that there is a review of key assumptions and evidence of challenge by management but we do not place reliance on this control due to the lack of precision and documentation. Whilst this Management Review Control may be achieving the control objective set by management (we have not confirmed this), it does not meet the control requirements as defined by the FRC in its auditing standards. We do not consider this to be a significant deficiency in the internal control environment.

No significant issues were noted in our testing to date, however our work is still being finalised and is subject to final review.

Audit risks

3 **Recoverability of stock and work in progress**

Risk of error in relation to the valuation of properties held in stock and work in progress

Significant audit risk

The risk

— Property held in stock and current assets work in progress comprises properties which are speculatively developed for shared ownership sale. FRS102 requires these properties to be recognised at the lower of cost or net realisable value.

— Stock should be held at the lower of cost or net realisable value (NRV). There is a risk of error in the valuation of stock and wip if NRV is estimated incorrectly causing margins on material schemes to fall below zero. This could be as a result of cost increases e.g. due to time delays or increases in construction costs, or reduced sales prices due to insufficient demand.

— The risk will be dependent upon the size and nature of the stock held on the balance sheet at the year end. We may therefore revise our assessment of this risk ahead of the final audit, and will report back to this Committee accordingly on any changes to the risk or procedures performed.

Our response

We will perform the following procedures:

— We have understood the processes the Group has in place to assess recoverability of stock and work in progress. We will review this process and identify and test the design and implementation of controls in place for assessing recoverability of stock and work in progress;

— Verify if completed stock has been sold following the year end date;

— Verify if reservations have been made for the stock during or after the financial year;

— Obtain management's forecast revenue and costs and challenge the judgements made as part of the forecasts. This will include the rationale for forecasted sales prices, comparison to equivalent unit sales and consideration of sales conditions within the geographical area. We will perform sensitivity analysis over the forecasted costs and the impact on the recoverability of the site to price increases from the original forecast.

Our findings

No misstatements or issues have been identified as a result of our testing to date, however we are still waiting to conclude on this work.

Audit risks

4 **Management override of controls**

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Our response

We performed the following procedures:

- In line with our methodology, we tested the operating effectiveness of controls over journal entries and post closing adjustments.
- Substantively tested identified high risk journals to supporting evidence. In addition we substantively tested all material post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual.

Our findings

- We have no findings to bring to your attention in relation to these matters.

Other areas of audit focus

5 **Going Concern**

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

The risk

— Management's assessment of the entity's ability to continue as a going concern involves judgment with respect to future scenarios and their impact on cashflows.

— COVID-19, coupled with the potential continuing impacts of Brexit as set out on may cast significant doubt on the entity's ability to continue as a going concern and may indicate the existence of a material uncertainty..

Our response

We have performed/plan to perform the following procedures:

— Evaluated how management's risk assessment process identifies business risks relating to events and conditions that may cast significant doubt on the ability to continue as a going concern.

— Evaluated the models management uses in its assessment, including use of the work of experts, and evaluate how the information system captures events and conditions that may cast significant doubt on ability to continue as a going concern.

— Evaluated whether management's assessment has failed to identify events or conditions that may cast significant doubt on going concern and whether the method used by management is appropriate.

— Assessed the reasonableness of management's budgets/forecasts and evaluate whether key assumptions are within a reasonable range, and assess the plausible but severe downside scenarios particularly whether those downside scenarios reflect plausible impacts of COVID-19 on the business

— Evaluated whether sufficient and appropriate audit evidence has been obtained to conclude whether a material uncertainty exists and the appropriateness of management's use (or otherwise) of the going concern basis of accounting.

— Evaluated whether there is adequate support for the assumptions underlying management's assessment, whether they are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.

— Challenged management's plans for future actions, and verify the reliability and relevance of data used. Determine whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible.

Our findings

Our work in this area is still underway and therefore we are unable to conclude on going concern at this stage. However, nothing has been brought to our attention to date to suggest that the Group is not a going concern.

Note: Expanded responses/ procedures from ISA (UK) 570 (revised) – see also pages 20

Other areas of audit focus

6 **Regulatory compliance, litigation and claims**

Compliance with reporting requirements in respect of regulatory compliance, litigation and claims.

Other areas of audit focus

The risk

The Group will again be required to confirm in their 2020/21 annual report that they comply with all aspects of the Regulator of Social Housing's Governance and Financial Viability Standard.

—

The Group will also need to be aware of any litigation or claims, which may then require disclosure or provision in the 2020/21 accounts.

Our response

Our consideration of the Group's regulatory compliance included the following procedures:

— We reviewed evidence as to how the Group gains assurance that it complies with all aspects of the Regulator of Social Housing's Governance and Financial Viability standard; and

— We made enquiries with key members of management, those charged with governance, and internal audit as appropriate

Our findings

No issues have been identified so far however our work is still in progress, specifically over our work on the Value for Money metrics and disclosures in the financial statements. We will provide a summary of our findings in the final version of our report.

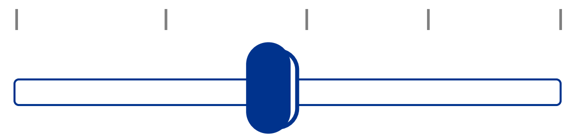
With regards to the recent in-depth assessment (IDA) from the regulator, we noted the judgements reached by the Regulator with the Group being graded G1 and V1 in respect to both governance and viability. We do not consider these findings to impact our reporting in this area.

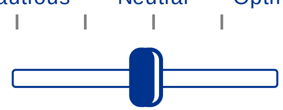
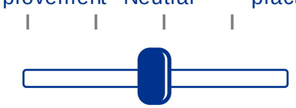
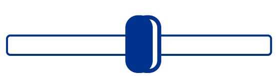
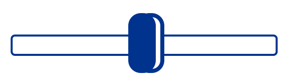
Key accounting estimates - Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious means a smaller asset or bigger liability; optimistic is the reverse



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Stock and WIP recoverability	Cautious Neutral Optimistic 	**14,902**	**13,573**	Needs improvement Neutral Best practice 	Management performed a year end recoverability review on stock & WIP. No concerns raised to date as to recoverability were noted as a result of this exercise but our testing is still on going.
LGPS and SHPS net liability		**(18,935)**	**(8.99)**		The pensions liability disclosed in the financial statements is calculated based on a range of estimates and assumptions. We deem the assumptions used overall for LGPS to be balanced. For SHPS, management has used the standard assumptions as suggested by the actuary, these have been reviewed by our specialists and deemed balanced in aggregate.

Group audits - involvement in significant components

Below we set out the entities in scope for the group opinion, and the significant risks which exist within each entity.

Our criteria for rebuttal of the fraud risk related to revenue recognition is the same across each entity.

Entity	1	2	3	4
EMH Group (Parent)		✓		✓
EMH Homes	✓	✓	✓	✓
EMH Care and Support	✓	✓	✓	✓
EMH Development Company				✓
EMH Sharpes				✓
Midlands Rural Housing Association		✓		✓
EMH Treasury Plc				✓

Significant risks	
1	Revenue recognition – fraud risk related to revenue recognition
2	Valuation of post retirement benefit obligations
3	Recoverability of stock and work in progress
4	Management override of controls

✓ *Risk in entity is relevant to group audit.*

✓ *Risk in entity is not material to the group audit, but is relevant to the statutory audit.*

Also please note we audit the consolidated group accounts.

EMH Treasury Plc

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Summary of audit findings

Materiality

During our audit planning we determined materiality for the EMH Treasury Plc based on gross assets as follows:

- Materiality for the financial statements as a whole - £1.5m
- Performance materiality (used to assess extent of audit procedures) - £1.13m
- Misstatements reported to the audit committee - £0.075m

There were no changes to our planned materiality

Outstanding matters

Our audit is substantially complete except for the following deliverables:

- Management representation letter;
- Front end review of accounts, disclosure checklists and casting;
- Going concern review; and
- Finalisation of our non-significant account areas.

Key audit matter

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Key audit matter	Risk change	Our findings
Recoverability of long term debtor	Stable	No issues have been found to date.

Audit risks

1 **Recoverability of long term debtor** — Risk of error in relation to the valuation of long term debtors

Significant audit risk

The risk

The Company's primary activity is to issue bonds, source investor financing and on-lend to the Parent. It therefore has long term liabilities which relate to the bonds issued and long term intercompany debtors which relate to the loans provided to the Parent.

The carrying amount of the long term intercompany debtor balance represents 99.9% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Company financial statements, this is considered to be the area that had the greatest effect on our overall Company audit.

Whilst there are small amounts of financial income and financial expense during the loan period, the risk mainly stems from the expectation of the ability of the Parent to repay the loan in 25 years.

Our response

We have performed the following procedures:

i. **Assessment of Recoverability:** Assessed 100% of intercompany long term debtors owed by the Parent (2019: 100%) to identify, with reference to the Parent's financial draft balance sheet, whether they have a positive net asset value and sufficient headroom to cover the debt owed, and that future cash flow plans include repayment of the debt.

ii. **Test of detail:** Assessed the creditor recognised by the Parent and comparing it to the debtor recognised by the company.

iii. **Test of detail:** Assessed the balance on-loaned to the group with reference to the bond issue funds and the onward loan document between the Company and the Parent.

iv. **Confirmation of value:** Obtained a confirmation letter from the counterparty to assess the gross, net and repayment date of the loan to the Parent

Our findings

No issues have been found to date.

Appendix

Contents

Revision to the Going Concern auditing standard

In September 2019 the FRC published a revised UK auditing standard for going concern, ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. We communicated the key changes at planning and have set out below the findings from our work.

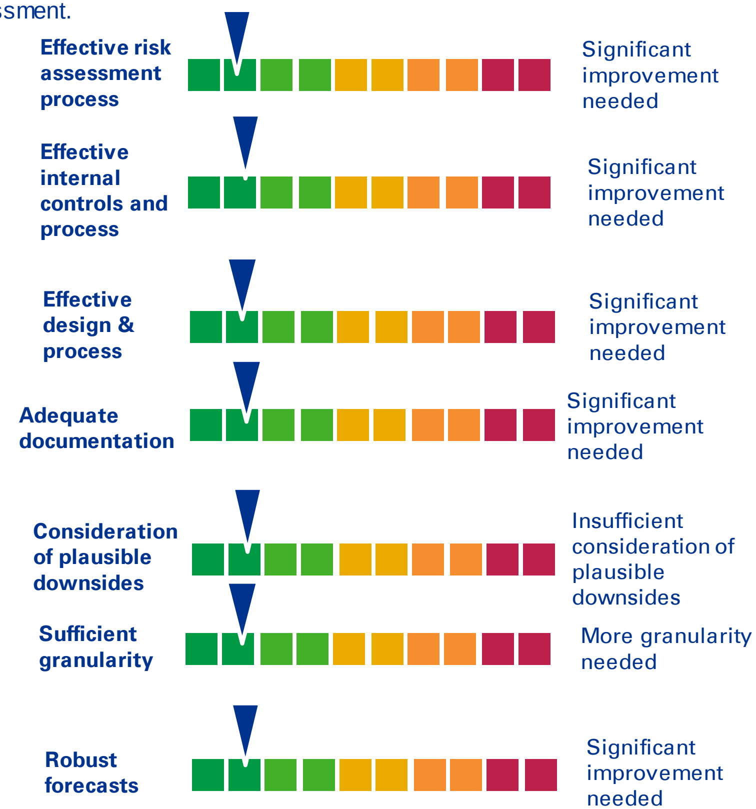
Our assessment on going concern is still on going, but the below is based on our initial assessment.

Risk assessment procedures and related activities
We have not identified any control deficiencies or weaknesses in the entity's internal control environment

Removal of the gateway to assess whether events or conditions exist
We noted that management's assessment of going concern is sufficiently granular and includes consideration of the impacts of plausible downside scenarios.

Increased challenge due to change in emphasis in the report
Our work on going concern included emphasised challenge of management's assessment of going concern. We have noted that management's going concern assessment is supported by robust supporting evidence.

Specified procedures on viability reports and potential impact on going concern periods
Management have prepared sufficiently detailed and robust cash flow forecasts. No significant issues were noted.



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Changes to our audit reports as a result of ISA (UK) changes - Applicable to EMH Treasury Plc

Going concern

As well as changes to the form of our going concern conclusion, we are required to describe ***how we have evaluated management's going concern assessment***.

This explanation of our work over going concern necessarily involves ***reference to the key risks*** to the level of resources or covenant metrics and discussion of the ***most relevant aspects of our work*** .

We are also required to disclose any ***"key observations" arising in respect of our evaluation of management's assessment***. This will include reference to situations in which we require management to change their going concern analysis, resulting in a significant change to the findings of that analysis or disclosure.

For example, if we were to identify risks or plausible sensitivities not originally considered by management, and the inclusion of which results in a significant change to the level of headroom (whether or not it changes the overall conclusion) then we would state in our report that one of our procedures was to request re-analysis.

Irregularities and fraud

In all audit reports, we are now required to **explain to what extent the audit was considered capable of detecting irregularities, including fraud.**

This is tailored to each audit.

This will include more detailed discussion than seen in previous years in PIE audit reports, including more discussion of identified fraud risks and our response to the risks of material misstatements due to fraud in the audit.

Significant judgements re KAMs

We are now required to disclose **significant judgements we make with respect to key audit matters**.

In our view, such judgements will include, where relevant:

- Accounting judgements;
- Judgements in relation to our audit response, for example explaining a decision to take a substantive rather than controls approach to the audit;
- Significant judgements as to the acceptability of accounting estimates at the edge of the acceptable range. This is not the same as graduated findings, where we report where in the range the estimate sits. In this case we disclose the judgement only when the estimate is at the edge of acceptability;
- Judgements about the acceptability of unadjusted audit differences directly related to the key audit matter.

Other changes

Disclosure of **performance materiality and judgements in setting materiality**.

Changes to the **wording** of our conclusions in respect of the corporate governance code.

Required communications with the Audit Committee

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2021.
Adjusted audit differences	OK	There were no adjusted audit differences. See slide 5.
Unadjusted audit differences	OK	The aggregated profit impact of unadjusted audit differences would be £nil. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

DRAFT

Required communications with the Audit Committee

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK	None.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspond-dence with management	OK	All significant matters arising from the audit were discussed, or subject to correspondence, with management.

Additional report relating to EU public interest entities

Type		Response
Our declaration of independence	OK	No matters to report. The engagement team [and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms] have complied with relevant ethical requirements regarding independence.
Key audit partner	OK	We have identified each key audit partner at page two in our Audit Plan and Strategy report dated 2 February 2021.
Independence of external experts engaged by KPMG and non-KPMG auditors	OK	We have not engaged external experts.
Communications with Audit Committee and management	OK	We have described the nature, frequency and extent of communication with the Audit Committee and management at page 16 in our Audit Plan and Strategy report dated 2 February 2021.
Scope and timing of the audit	OK	We have described the scope and timing of the audit at page 16 in our Audit Plan and Strategy report dated 2 February 2021.
Audit methodology	OK	Our audit methodology is described throughout this report.
Going concern assessment	OK	There are no significant matters that have been found to date affecting the entity's ability to continue as a going concern. Our work on this area is still ongoing.
Requested explanations and documents	OK	No matters to report. All requested explanations and documents were provided by management.

Additional report relating to EU public interest entities

Type	Response
Materiality	Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 18 in our Audit Plan and Strategy report dated 2 February 2021.
Non-compliance with laws and regulation or articles of association	No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	There are no significant deficiencies to report.
Significant difficulties	No significant difficulties were encountered during the audit. In our professional judgment, no matters arose from the audit that were significant to the oversight of the financial reporting process.
Management's approach to consolidation	We report on management's approach to consolidation. It is consistent with FRS 102. The consolidated financial statements include all material subsidiaries.

Recommendations raised and followed up

We have also follow up the recommendations from the previous years audit, in summary:

Priority rating for recommendations					
❶	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Total number of PY recommendations	Number of recommendations implemented	Number outstanding (repeated below):
2	2	0

#	Risk	Issue, Impact and Recommendation	Recommended	Current Status (July 2021)
Financial Statements				
1	❸	**New starters – signed contracts** Through our controls testing over payroll/ HR we identified that new starters to the group are not always returning signed contracts of employment before starting work.	We recommended that: •HR introduce a monitoring control to chase any outstanding return of contracts, ideally prior to the staff member starting their role in the group.	No issues found through the current year controls testing.
2	❸	**Reconciliation and journal reviews** During March reporting, due to the covid-19 pandemic, the finance team were working from home. As a result, the manual signing off of bank reconciliations and batch journal postings was not completed. The Group did not have in place an electronic sign off or confirmation to demonstrate management review over journals or the bank reconciliations.	We recommended that: •The Group introduce electronic 'sign off' to replace the manual review element for bank reconciliations and batch journal entries, and other relevant control account reconciliations.	No issues found through the current year controls testing.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Group Audit Committee members

Assessment of our objectivity and independence as auditor of the EMH Group.

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement [and that the safeguards we have applied are appropriate and adequate] is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following below:

- Service charge statements audit

Confirmation of Independence

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

	2020/21 (to date)	2019/20
	£	£
Audit of EMH Group and other subsidiaries	91,500	88,500
Audit of EMH Treasury Plc	6,000	6,000
Total audit	**97,500**	**94,500**
Other Assurance Service		
Strategic Partnership grant	10,000	12,000
Service charge statements	12,500	12,250
Total non-audit services	**22,500**	**24,250**
Total Fees	**120,000**	**118,750**

Fee ratio

The anticipated ratio of non-audit fees to audit fees for the year at the time of planning is 0.23: 1.

We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Compliance Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP