



# MALDON DISTRICT COUNCIL

## INTERNAL AUDIT REPORT - FINAL

KEY FINANCIAL SYSTEMS (ACCOUNTS PAYABLE, ACCOUNTS RECEIVABLE, EXPENSES)  
JANUARY 2020

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Limited

EXECUTIVE SUMMARY ..... 2  
DETAILED FINDINGS..... 4  
STAFF INTERVIEWED.....13  
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**DISTRIBUTION**

Annette Cardy	Resources Specialist Services Manager
Kamal Mehta	Interim Section 151 Officer

**REPORT STATUS LIST**

Auditor	Steve Willett
Dates work performed	11 - 22 November 2019
Draft report issued	December 2019
Final report issued	January 2020

**EXECUTIVE SUMMARY**

**LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)**

Design	Moderate	System of internal controls is weakened with system objectives at risk of not being achieved
Effectiveness	Limited	Evidence of non-compliance with some controls that may put some of the system objectives at risk

**SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)**

High	2
Medium	7
Low	0

**TOTAL NUMBER OF RECOMMENDATIONS: 9**

**BACKGROUND:**

The Council is required to maintain sufficient effective controls over its key financial systems to support effective management of resources.

Following discussion with management and a review of the areas that have been covered over recent years' audits, this review focused on accounts payable, accounts receivable and expenses.

As reported to September 2019 Finance and Services Committee, the revised 2018 / 19 estimates of the Net Cost of Services is £12,035,000. This shows an indicative underspend of £1,545,000. The indicative Net General Fund Position at 31 March 2019 is £4,728,000. The prior year's balance was £3,227,000 therefore the year end outturn was a £1,495,000 contribution to General Fund Reserves.

The purpose of this review was to provide assurance over the design and effectiveness of the controls in place around the Main Financial Systems, specifically, accounts payable, accounts receivable and expenses (including Members expenses).

**GOOD PRACTICE:**

- Good practice was evidenced in the following areas:
- Comprehensive and accessible policies, procedures or instructions are in place covering all the areas under review
  - Orders and invoices were appropriately approved
  - Staff expenses are operating as prescribed

## KEY FINDINGS:

We identified the following areas of improvement:

- No debt recovery action is being undertaken (**Finding 1 - High**)
- There is no monthly management reporting of aged debt, as prescribed by policy (**Finding 2 - Medium**)
- The aged debt reports produced by the accounting system are not aligned with the recovery action stages contained in the Sundry Debtors Policy & Procedure (**Finding 3 - Medium**)
- Only cursory, reasonableness checks are undertaken when notification of a change to supplier standing data is received (**Finding 4 - High**)
- Requests to produce invoices are not always raised within the 5 days standard (**Finding 5 - Medium**)
- No monthly write-off and review reports have been produced in 2019/20 (**Finding 6 - Medium**)
- There is no policy for Members expenses and mileage claims. There is insufficient detail on members mileage expense claims and no evidence of checking or authorisation/approval (**Finding 7 - Medium**)
- New supplier registration forms could not be located for a sample of new suppliers since 1/4/19 (**Finding 8 - Medium**)
- There is no evidence that purchase card transaction logs are always sent for approval prior to processing (**Finding 9 - Medium**)

## CONCLUSION:

Based on our review we have raised two high and seven medium level recommendations to improve the Council's Accounts Payable, Accounts Receivable and Expenses systems.

The controls across the key financial systems examined are generally well designed, with some exceptions, and documented within Financial Regulations and relevant policies and procedures. However, the significant change the Council has undergone, including a new organisational structure and ways of working, have had a detrimental impact on day-to-day operations and some significant financial tasks have not been undertaken in 2019/20, e.g. credit control.

Consequently, we conclude moderate assurance over the design of the controls and limited assurance over their operational effectiveness.

## DETAILED FINDINGS

RISK: LACK OF MONITORING OR ACTIONS TO ATTEMPT TO CLEAR OR AT LEAST REDUCE THE LEVEL OF DEBT OWED TO THE COUNCIL

Ref	Significance	Finding
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1

High

Debtors

The Sundry Debtors Policy & Procedure contains a six stage process for the effective recovery of outstanding debts.

At the time of the fieldwork (14/11/19) an aged debtor report was provided. The report contained 333 individual debts with a total value of over £820K. The breakdown by age was as follows:

Age of debt	Total value
21-41 days	£147,312
42-62 days	£2,101
63-83 days	£11,163
>84 days	£335,304

Fourteen debts from the aged debtors listing were selected at random. None have been dealt with in line with the policy.

For 8/14 selected there had been no recovery action attempted. The value of the highest individual debt in the sample was £189K (Leisure) and was over 84 days overdue. The remaining 6/14 were at stage 1 (first reminder letter sent) of the policy but should all have been at least at stage 4 (passed to external debt collection agency).

The absence of the application of the debt recovery process increases the likelihood of outstanding debts being recovered which will have an impact on the Council's income and may increase pressures on the budget. In addition, the bad debts provision may need to increase year on year should action not be taken.

### RECOMMENDATION:

Action to recover aged debts must be prioritised with the largest outstanding items being addressed first. At a minimum all debts not already at stage 1 of the recovery process must be written to immediately.

### MANAGEMENT RESPONSE:

All debts now at Stage 1 recovery process - completed end Dec 19  
 End Feb - all stages will be completed and kept up to date  
 Large outstanding items with Directors for action by end March 2020

Responsible Officer: Christine Hitchins      Accountable Officer: Al Morrell

Implementation Date: As above - All actions by end March 2020

**RISK: FAILURE TO REPORT TO SENIOR MANAGEMENT ON DEBTS THUS THEY ARE NOT AWARE OF THE LEVEL OF DEBTS OR HOW THE COUNCIL IS ADDRESSING THE CLEARANCE OF DEBTS**

Ref	Significance	Finding
2	Medium	<p><u>Management reporting of aged debt</u></p> <p>The management reporting section in the Sundry Debtors Policy and Procedure states that</p> <p><i>A monthly aged debt report will be sent to Service Admin, Directors, Service Mangers and the Finance Manager. These reports must be checked by the Service area and Finance informed of any action taken for debts reaching Stage 3 recovery.</i></p> <p>In addition, the Performance Management section of the policy states that</p> <p><i>Financial services will review the following reports to assist with the effective recovery of outstanding debts.</i></p> <ul style="list-style-type: none"> <li>• <i>Daily reconciliation of Debtors ledger</i></li> <li>• <i>Aged Debt Analysis</i></li> <li>• <i>Monthly review of outstanding balances by responsible officer in Finance</i></li> <li>• <i>Volume of invoices raised</i></li> <li>• <i>Volume of Stage 1 and 2 letters sent</i></li> <li>• <i>Number of cases sent to Court/Debt collection agency</i></li> </ul> <p>At the time of the fieldwork no aged debt reporting has taken place in 2019/20. This increases the likelihood of management and other stakeholders being unaware of the levels of outstanding debt and the lack of recovery actions.</p>

**RECOMMENDATION:**

The management and performance reporting processes as defined in the policy should be adhered to so that management are made aware of the current situation and can if necessary prioritise actions and resources to reduce the level of debt the Council faces.

**MANAGEMENT RESPONSE:**

Monthly debt report to be sent to Tier 2, Finance & Directors for action from Jan 2020

Responsible Officer: Christine Hitchins      Accountable Officer: Al Morrell

Implementation Date: End Jan 2020

**RISK: LACK OF MONITORING OR ACTIONS TO ATTEMPT TO CLEAR OR AT LEAST REDUCE THE LEVEL OF DEBT OWED TO THE COUNCIL**

Ref Significance Finding

3 Medium Sundry Debtors Policy & Procedure

The aged debt reports produced by the accounting system (SAGE) are out of line with the recovery action stages contained in the Sundry Debtors Policy & Procedure.

Stage	Sundry Debtor Policy & Procedure	Aged debt report
1	21 days	>21 days
2	35 days	>42 days
3	49 days	>63 days

To report as per the policy some manual manipulation of the data extracted from the accounting system (SAGE) will be required which increases the likelihood of errors and potential misreporting.

In addition the Council's Financial Regulations state that invoices must be paid within 14 days. However, the Sundry Debtors Policy & Procedure states that recovery processes and reporting does not commence until the debt is 21 days overdue.

**RECOMMENDATION:**

The recovery stages in Sundry Debtors Policy & Procedure are updated in line with reports generated by the accounting system or the intervals in the aged debtor reports from the accounting system are amended to bring them in line with the policy.

The Council's payment terms, as defined in Financial Regulations, and the commencement of aged debt recovery actions, as defined in the policy, are brought in line with each other.

**MANAGEMENT RESPONSE:**

Policy drafted to align recovery stage 1 to 14 days. Approval of policy to be completed by S151 and approved at Committee by end March 2020. New stages to be built into Credit Hound automatic recovery tool.

Responsible Officer: Annette Cardy

Implementation Date: End March 2020



**RISK: NEW OR EXISTING SUPPLIER CHANGE CONTROLS ARE INADEQUATE TO SAFEGUARD THE INTEGRITY OF CHANGES MADE TO DATA HELD**

Ref	Significance	Finding
4	High	<p><u>Changes to supplier standing data</u></p> <p>There has been a large increase in standing data frauds in recent years, usually related to changing bank details. A fraudster may contact by email or letter, often using a familiar looking email address or the correct client letterhead stating that they have changed their bank details.</p> <p>In discussion with staff it was apparent that only cursory, reasonableness checks, e.g. is the request on company headed paper, are undertaken when notification of a change to supplier standing data is received.</p> <p>Failure to undertake checking of the validity of the changes could result in inappropriate payments being made and legitimate creditors not being paid.</p>

**RECOMMENDATION:**

Any requested changes to supplier standing data, eg bank details, are verified through direct contact with a named individual in authority at the supplier. The contact details (supplier set up form) on file or other official source should be used, not the details contained within the change request notice.

**MANAGEMENT RESPONSE:**

Training was provided in December to all caseworkers to illustrate how to cross check changes and the impact of not doing so.

Suppliers changes will be fully checked with additional checks implemented and controls around this i.e. cross checking the company information, re-issuing the supplier form, checking bank information.

Responsible Officer: Al Morrell

Implementation Date: End Jan 2020



**RISK: THE RAISING OF INVOICES FOR CLIENTS IS NOT BEING COMPLETED IN A TIMELY MANNER THUS DELAYING THE COUNCIL RECEIVING INCOME DUE**

Ref	Significance	Finding
5	Medium	<p><u>Raising invoices</u></p> <p>The Council’s policy is that if an invoice cannot be raised in advance the request from the service to Finance to raise an invoice should be received within 5 days. 14/23 invoice requests (where the date of the service was defined) were received by Finance later than the 5 day standard. The longest delay was 140 days.</p> <p>A failure to raise invoices in a timely manner will affect the timeliness of receiving income and may have an impact on the cashflow of the Council.</p>

**RECOMMENDATION:**

The requirement to send invoice requests to Finance within 5 days should be re-iterated to all staff. Adherence to the 5 day standard should be monitored and frequent or persistent transgressors should be identified and contacted directly.

**MANAGEMENT RESPONSE:**

One Team communication & FreshService will be completed.

Report to Resources Manager will be provided if cases not adhering to timeline to take action and escalate as required with Tier 2 and CLT.

Responsible Officer: Al Morrell

Implementation Date: End Jan 2020

**RISK: THE WRITE OFF OF BAD DEBTS IS NOT BEING APPROVED IN ACCORDANCE WITH COUNCIL POLICY**

Ref	Significance	Finding
6	Medium	<p><u>Write-offs</u></p> <p>The Sundry Debtors Policy &amp; Procedure states that a monthly Write offs and review report will be sent to the Section 151 Officer for authorisation of action required and approval of write offs.</p> <p>Testing revealed that no monthly reports have been produced in 2019/20.</p> <p>In 2019/20 only 6 write-offs have occurred, all during the audit fieldwork on 13/11/19. A significant amount of time had passed (between 6 and 14 months) between the accounts being returned by the external debt recovery agency as unrecoverable and the write-offs being processed.</p> <p>The Council have a significant amount of aged debt over 84 days overdue (see 1. Above).</p>

**RECOMMENDATION:**

The policy should be adhered to and where appropriate write-offs should be processed.

**MANAGEMENT RESPONSE:**

1. Write Off's are reported as occur to S151 officer for action due to the low number. To commence and continue from Jan 2020.
2. Outstanding Write off's to be sent to and progressed by S151.

Responsible Officer: Action 1 C Hitchins      Accountable Officer: Al Morrell  
 Action 2 S151

Implementation Date:      1. End Jan 2020  
    2. End Feb

**RISK: INSUFFICIENT EVIDENCE TO SUPPORT EXPENSE CLAIMS**

Ref	Significance	Finding
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7	Medium	<p><u>Members expenses</u></p> <p>No Members Mileage &amp; Expenses policy could be located setting out the requirements for claiming mileage and out of pocket expenses.</p> <p>We also found from testing a sample of members mileage claims that there is insufficient detail on members mileage claims to verify that the mileage claimed reflects the journey made, e.g. the start &amp; finish address/postcode is not recorded. In addition there is no checking or authorisation of member’s mileage claims.</p> <p>Incorrect or inappropriate expenses may be claimed and paid.</p>
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**RECOMMENDATION:**

A Members Mileage & Expenses Policy should be drafted. The staff Mileage & Expenses Policy should be used as a template as it includes all the relevant principles, with the key difference being who should review and approve the claims.

For Member’s mileage claims the claim form should clearly show the start and finish location and the purpose of the journey. In addition, all members expense claims should be forwarded to a nominated officer, e.g. Monitoring Officer, for approval before being processed for payment.

**MANAGEMENT RESPONSE:**

1. Policy to be produced with ne claim form to be approved through Committee by end March in line with staff ones to meet above requirements.
2. Caseworkers to use staff template for Members template & check that it is fully completed correctly. Document approval by a Director recorded

Responsible Officer:            Action 1 Annette Cardy  
    Action 2 Al Morrell

Implementation Date:        Action 1 - End March 2020  
    Action 2 - End March 2020

**RISK: NEW SUPPLIERS MAY BE SET UP INCORRECTLY**

Ref	Significance	Finding
8	Medium	<p><u>New supplier set-up</u></p> <p>Orders cannot be placed until a supplier is set up on SAGE. The process is that the new supplier is asked to complete a proforma supplier registration form which when received is used to set up a new supplier on the system.</p> <p>Since 1/4/19, 80 new suppliers have been set up on the system. A new supplier registration form could not be located for 8/22 suppliers randomly selected for testing.</p> <p>There is a risk that the supplier may be set up incorrectly and/or key data may not be recorded, eg contact information or bank details, and the placing of orders or making payments may be delayed. In addition, if no contact details are recorded on file it may delay the verification process should a request to change standing data be received.</p>

**RECOMMENDATION:**

The new supplier set-up proforma is sent to all suppliers and when received the data is recorded on SAGE and the form retained.

**MANAGEMENT RESPONSE:**

Caseworker to ensure the pro-forma is completed before supplier is set up on Sage and forms stored centrally

Responsible Officer: Al Morrell  
 Implementation Date: End Jan 2020

**RISK: PROCUREMENT CARD TRANSACTIONS MAY NOT BE APPROPRIATE**

Ref	Significance	Finding
9	Medium	<p><u>Purchase cards</u></p> <p>At the time of the audit fieldwork there were 11 purchase cards in use at the Council. There is a detailed Purchase Card Holder Instruction Manual that is provided to card holders and is available on the intranet. Since 1/4/19 there have been 47 credit card purchases with a combined value of £47,500.</p> <p>Card holders must complete a monthly transaction log which includes cost codes, and reconcile this to their monthly statement. They must then sign the statement and forward it, the transaction log and all receipts to their Approving Manager.</p> <p>Three card holders were selected at random and all their statements and transaction logs from April 2019 to October 2019 were examined, 17 in total.</p> <p>10/17 transaction logs had not been signed by an Approving Manager meaning there is no evidence that the transactions have been scrutinised and verified as legitimate business purchases. This increases the risk of inappropriate use of purchase cards.</p> <p>Additionally, 3/17 statements had not been signed by the cardholder and 1 instance of a non-VAT receipt was identified where VAT had been coded.</p>

**RECOMMENDATION:**

All purchase card holders and Approving Managers are reminded of the prescribed process for logging transactions and getting them approved. Finance do not post, and return all unapproved transaction logs to the relevant Approving Manager or the card holder's line manager.

**MANAGEMENT RESPONSE:**

Guidance to be re-issued to all P Card holders and Tier 2 Approving Managers

Monthly reconciliation of P cards to be completed by caseworkers to ensure statements completed and approved and all transactions approved and checked that coded correctly

Responsible Officer: Al Morrell

Implementation Date: End Feb 2020

## STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Annette Cardy	Resources Specialist Services Manager
Chrissie Hitchins	Resources Caseworker
Holly Sanders	Resources Caseworker

APPENDIX I – DEFINITIONS				
LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.



## APPENDIX II - TERMS OF REFERENCE

### PURPOSE OF REVIEW

The purpose of this review is to provide assurance over the design and effectiveness of the controls in place around the Main Financial Systems, specifically, the accounts payable, accounts receivable and expenses (including Members expenses).

### KEY RISKS

#### Accounts receivable/debtors

- Client accounts are not set up correctly or approved.
- The raising of invoices for clients is not being completed in a timely manner thus delaying the council receiving income due.
- Lack of monitoring or actions to attempt to clear or at least reduce the level of debt owed to the Council.
- Failure to report to senior management on debts thus they are not aware of the level of debts or how the Council is addressing the clearance of debts.
- The write off of bad debts is not being approved in accordance with Council policy.

#### Accounts payables/creditors

- Insufficient controls over the authorisation of invoices places the Council at risk of incurring unnecessary and inappropriate expenditure

#### Expenses

- Expenses procedures are unclear and not followed
- Insufficient evidence to support expense claims

### SCOPE OF REVIEW

The following areas will be covered as part of this review:

#### Accounts receivable/debtors

- Invoices are raised promptly for income due, and cash income is properly recorded and promptly banked
- Amendments made to invoices are authorised
- The receipt of Payments is independent of persons raising, amending or writing off invoices, or payments are properly and promptly allocated to invoices
- Debt recovery processes are continuous and subjected to constant review.
- Write offs are made after appropriate debt recovery processes are followed and are made by authorised personnel
- Management information provided in respect of income and debtors is accurate, adequate, on a timely basis, and is subject to effective management review

requesting a write off and these write offs have been authorised at the appropriate level.

#### Accounts payable/creditors

- Invoices received are subject to adequate checks and authorisation prior to payment
- Invoices received are matched to orders prior to payment
- Disputed invoices are paid only after the dispute is resolved
- VAT element of payments is properly coded
- Credit notes are matched to invoices and suppliers, and therefore payments made are reduced to reflect credit notes
- Procurement card expenditure is subject to appropriate limits and management review
- Management information provided in respect of payments and creditors is accurate, adequate, on a timely basis, and is subject to effective management review
- Orders are placed using the Council's ordering system and legitimate reasons are identified when the ordering system not being used.
- New or existing supplier change controls are inadequate to safeguard the integrity of changes made to data held
- New suppliers are not subject to sufficient due diligence to provide reasonable comfort over their nature and background Confirm the finance system has built in authorisation procedures and workflow hierarchy

#### Expenses

- Confirm the expenses policy is appropriate, up to date and accessible to all staff and members
- Confirm for a sample of staff and members expenses, these have been authorised for payment appropriately and with sufficient evidence to support expenses claimed.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

### KEY RISKS

#### Accounts receivable/debtors

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- Write offs are made after appropriate debt recovery processes are followed and are made by authorised personnel
- Management information provided in respect of income and debtors is accurate, adequate, on a timely basis, and is subject to effective management review requesting a write off and these write offs have been authorised at the appropriate level.

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- Confirm the expenses policy is appropriate, up to date and accessible to all staff and members
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FOR MORE INFORMATION:

**Greg Rubins**

Greg.Rubins@bdo.co.uk

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