REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- Eurocell plc’s group financial statements and company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the company’s affairs as at 31 December 2020 and of the group’s loss and the group’s cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2020 (the “Annual Report”), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 31 December 2020; the Consolidated Statement of Comprehensive Income, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in Note 1 to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (‘ISAs (UK)’) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the group.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the group in the period under audit.

Our audit approach

Overview

Audit scope

- A component was considered to be a company or division where discrete financial data was prepared. Financially significant components were determined to be those which contributed more than 15% of the underlying profit before tax (measured on an absolute basis).
- For components that were not financially significant audit work was performed over specific Financial Statement Line Items (“FSLI’s”) if they contributed more than 5% of the consolidated FSLI and were above group performance materiality. For all other balances/components disaggregated analytical review procedures were performed to group materiality.
- Work on the consolidation was considered separately to the component scoping exercise and performed to group materiality.
- All work was performed by the group audit team.

Key audit matters

- COVID-19 (group and company).
- Assessment of the valuation of inventory (group).
- Trade receivables provisions (group).
- Impairment of assets at a Cash Generating Unit (“CGU”) level (group)
- Impairment to intercompany investments and intercompany receivables (company).

Materiality

- Overall group materiality: £891,000 (2019: £1,130,000) based on 5% of the average underlying profit before taxation for the past three years (2019: 5% of underlying profit before taxation for 2019).
- Overall company materiality: £647,000 (2019: £730,000) based on 1% of total assets.
- Performance materiality: £668,000 (group) and £485,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to fraud, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management overstating the financial position and/or performance of the group as a result of pressure to meet expectations/objectives (for example loan covenants or analyst expectations). Audit procedures performed by the engagement team included:

- enquiry of management and those charged with governance around actual and potential frauds, litigations or claims against or by the group/company;
- reviewing financial statement disclosures and testing supporting documentation to assess compliance with applicable laws and regulations;
- auditing the risk of management override of controls, through testing journal entries (using our data analysis tools to confirm completeness of data) by adopting a risk based approach for appropriateness, testing significant accounting estimates (as defined in the notes to the financial statements) because of the risk of potential management bias, and evaluating the business rationale and accounting for significant or unusual transactions outside the normal course of business (for example claims under the Job Retention Scheme and the non-underlying items detailed in Note 7);
- auditing the risk of fraud in revenue recognition by using our data analysis tools to identify unusual credits to revenue for further investigation and through testing any material judgements within revenue recognition (such as customer incentives) and the year end accrued and deferred income balances; and.
- performing unpredictable audit procedures, which are changed year on year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

COVID-19, Impairment to intercompany investments and intercompany receivables (company) and Impairment of assets at a Cash Generating Unit ("CGU") level (group) are new key audit matters this year. IFRS 16, which was a key audit matter last year, is no longer included because of the risk in the prior year related to the adoption of this new complex standard. With only one material new lease entered into in 2020, the impact and risk assessment for this year's audit has been reduced. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
COVID-19 (group and company) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties) and pages 80 to 84 (Audit and Risk Committee report). The impact of the first lockdown and the subsequent uncertainty caused by the global economic environment since this period has had an impact on the Group. This has specifically impacted forward looking key estimates (inventory provisions, trade receivable provisions, asset impairments and going concern). It has also resulted in material non-underlying charges in the year of £10million (2019: £nil) as detailed in Note 7. Due to the equity raised and extension of the financing facilities, both agreed in 2020, and the performance of the business in the second half of 2020 going concern was not considered a Key audit matter. The key estimates are linked to the below Key audit matters and therefore only the work performed in relation to non-underlying costs are detailed in this Key audit matter.	For work performed in relation to asset impairments please refer to the other key audit matters below. In relation to the classification of certain costs as non-underlying our audit work consisted of: • We obtained from management their analysis of items to be included as non-underlying and considered if these agreed with the requirements of IAS 1 and the group accounting policies; • We discussed with the Audit and Risk Committee the basis of management's assessment of these costs; • In relation to the impairment of goodwill and the costs associated with the dual running of the warehouse we noted that no such costs had been incurred in the prior five years; • We obtained an analysis of the non-underlying items and performed audit procedures to validate accuracy of management's analysis; and • We challenged management on the disclosure of these costs as non-underlying and the disclosures made of this key judgement within the Annual Report. Based upon the above audit procedures we concluded that these costs met the group accounting policy requirements to be treated as non-underlying. The disclosures and narrative in relation to these is appropriate and in line with the requirements of accounting standards, notably IAS1.
Assessment of the valuation of inventory (group) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties), pages 80 to 84 (Audit and Risk Committee report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 18 (Inventories). Inventory totalled £38.1 million as at 31 December 2020 (2018: £37.3million) after provisions of £4.2 million (2019: £1.4 million). We focused on this area because the Directors' assessment of the absorption of labour and overhead costs into inventory and the assessment of the recoverability of inventory involved complex and subjective judgements. Specifically, the determination of inventory provisions for slow moving, obsolete and discontinued line items, reflecting the level of inventory held across the branch network and manufactured goods at the year end, requires the exercise of judgement.	Our audit procedures over the initial valuation of inventory consisted of: • We understood the nature of the costs that the Directors absorbed into inventory and determined their appropriateness in line with IAS 2 'Inventories' ("IAS 2"); • We tested, on a non-statistical sampling basis, the valuation and calculation of costs absorbed into inventory; • We re-performed the valuations of inventory on a non-statistical sampling basis; and • We challenged management over the costs included within inventory, the setting of the standard costs and the accounting for variances. Our audit procedures over the impairment of inventory consisted of: • Our attendance at the physical inventory counts, conducted by management, highlighted no increased areas of concern, regarding excess / unused stock held at either the branches we visited or the manufacturing sites; • We understood the Directors' methodology for calculating inventory provisions. We evaluated the Directors' assumptions over future forecast usage and validated historic usage and compared this to forecasted future sales; • Where inventory provisions were based upon expected future demand or historical sales data, we tested the underlying report to validate the data on which management's calculations were based; • We selected an audit sample of inventory held as at 31 December 2020 and verified that sales recorded in 2021 were made above cost; and • Where specific impairments were made, outside of the standard impairment reviews, we challenged management of the completeness and appropriateness of these additional amounts. Based on the results of our audit work, we concluded that the inventory recognised by the Directors was at an appropriate and was consistent with the requirements of IAS 2. Appropriate disclosures regarding the above had also been made.

Key audit matter	How our audit addressed the key audit matter
Trade receivables provisions (group) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties), pages 80 to 84 (Audit and Risk Committee report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 19 (Trade and other receivables). The Group had gross trade receivables of £38.6 million at 31 December 2020 (2019: £36.9million) against which provisions of £4.4 million (2019: £1.6 million) were held in accordance with IFRS 9. We focused on this area because the Directors' assessment of the provisions required in respect of trade receivables included complex and subjective judgements. These increased in complexity this year due to the uncertain economic environment at 31 December 2020.	We understood the Directors' methodology for calculating trade receivables provisions across the Group and considered if these complied with IFRS 9. Audit procedures performed were: • We confirmed that the amounts included in the IFRS 9 model agreed back to the audited sales ledgers as at 31 December 2020; • We tested the ageing of amounts due at the balance sheet date to validate management had analysed the data correctly; • We tested the accuracy of the calculations in the model; • We reviewed the accuracy of past management estimates; • We considered the results of our other audit procedures over trade receivables (for example review of post year end payments made by customers) for inconsistencies with the IFRS 9 models; and • We challenged management over the increase in the expected credit loss percentage applied to each category. We identified no material exceptions from the procedures noted above. Based on the results of our audit work we concluded that the provisions recorded were materially accurate, calculated in line with the requirements of IFRS 9 and appropriate disclosures have been made.

Key audit matter	How our audit addressed the key audit matter
Impairment of assets at a Cash Generating Unit ("CGU") level (group) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties), pages 80 to 84 (Audit and Risk Committee report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 17 (Impairment). The group has intangible assets of £19.9million (2019: £27.0million) and total assets of £201.4million (2019: £189.6m). Management must perform an annual impairment assessment for Goodwill and for other assets where impairment triggers are noted. Management have therefore performed an impairment assessment at a CGU level for the group's assets. The recoverability of these assets, and in particular intangibles not subject to amortisation (for example Goodwill) require the use of significant judgement and estimates by management, which are further complicated by the impact of COVID-19. Management have prepared an analysis, as detailed in Note 17, regarding the recoverability of the assets within each CGU. During the year an impairment of £5.8million has been recognised in relation to the full impairment of the Goodwill relating to the acquisition of Eurocell Recycle North ("Ecoplas"). No other impairments have been noted as a result of management's CGU impairment review.	As the CGU's were defined to be in line with the legal structure of the group, with the exception of the S&S division of Eurocell Profiles Limited, we concurred that management had appropriately defined CGU's (these were also in line with the prior year). Audit procedures over the validity of management's impairment models and key estimates/data were: • We tested the integrity of the models (i.e calculations were being performed as expected); • We confirmed that the assets being considered for impairment were appropriately split by CGU and agreed back to the audited consolidated statement of financial position; • We tested the calculations for the Weighted Average Cost of Capital ("WACC") by reperforming management's calculations; • We agreed the cashflows for each CGU for 2021 to the latest board approved budgets. For the 2022 & 2023 periods we discussed with management the basis of any improvements in the underlying performance of each CGU and other key assumptions such as capital expenditure. We understood the basis for these key assumptions and considered them against of our experience from prior years (for example comparing forecasted gross margins and capital expenditure to historical levels); • We considered the prior accuracy of management's budgets and the impact this might have on management's assessment; • We challenged management on the key assumptions within the model being, 1) The WACC, 2) the terminal growth rate of 2% and 3) the underlying cash flow projections for the next three years (with the third year being utilised in the terminal value calculations); and • We audited the impairment assessment performed as at 30 June 2020 which resulted in the £5.8million impairment to Goodwill relating to Ecoplas. As noted in managements sensitivity disclosures, a significant change to WACC or the terminal growth rate would be required prior to further impairments being noted. In addition to the above procedures, we performed our own analysis to consider what level of underperformance would be required prior to further impairments being recorded. All CGU's apart from Ecoplas highlighted that underperformance against budgets, outside that experienced in recent history, would be required prior to further impairments being noted. We also compared the total of all the CGU's valuation to the market capitalisation of the group. We specifically challenged management on the latest projections for Ecoplas, given the impairment made in the year with headroom noted at the year end. No exceptions were noted during our audit testing. In line with the detailed requirements of IAS 36, the impairment made at 30 June 2020 regarding the goodwill of Ecoplas has not been reversed as at 31 December 2020. We therefore concluded that sufficient audit evidence has been obtained regarding management's impairment assessment. These have been performed in line with the requirements of IAS 36 with appropriate disclosures being made.

Key audit matter	How our audit addressed the key audit matter
Impairment to intercompany investments and intercompany receivables (company)) Refer to Note 34 (Accounting Policies), Note 35 (Critical Accounting Estimates and Judgements), Note 37 (Investments) and Note 38 (Trade and other receivables). The company has investments in subsidiary companies of £17.8million (2019: £17.8million) and intercompany receivables of £46.2million (2019: £55.2m). Material impairment to these could result in implications for future dividends.	We obtained managements impairment assessment regarding the investments carrying value and management's IFRS 9 expected credit loss model in respect of the intercompany receivables. The recoverability of the investments carrying value was based upon the same underlying data noted in the group impairment of non-current assets key audit matter above. We also noted that the market capitalisation of the group was circa £240million as at 31 December 2020 which is significantly in excess of the company's total assets. We considered the IFRS 9 model and noted that a significant change in the key assumption (being the expected loss of 0.1%) would be required prior to a material impairment being noted. The amounts owed to the company were due from profitable subsidiaries, with net assets and no history of losses being recognised. We tested the integrity of the models and the validity of the key data inputs. No exceptions were noted in the performance of the above procedures. We therefore concluded that the investments and intercompany receivables were accounted for in line with IFRS 9 and IAS 36, with appropriate disclosures being made.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Eurocell operates in the market of the extrusion of UPVC (unplasticised polyvinyl chloride) window and building products to the new and replacement window market and the sale of building plastics materials. The Group has sites throughout the UK with its headquarters in Alfreton.

The business is managed as two primary divisions:

- Eurocell Building Plastics, focusing on sales and distribution across just over 200 branches within the UK and two in Ireland to generally smaller scale customers. This segment includes the trading subsidiary companies Eurocell Building Plastics Limited and Security Hardware Limited; and
- Eurocell Profiles, focusing on manufacture and distribution to large-scale customers. This division includes the trading subsidiaries Eurocell Profiles Limited, Vista Panels Limited, and Ecoplas Limited.

Other than Vista Panels Limited, which has its own finance team, all finance and operational management functions are located at the Alfreton headquarters. Therefore, all audit work, including work on components, was completed by a single group audit team.

For the purposes of our audit of the group we considered components to be operations where there was discrete financial data maintained by management, including a separate trial balance. For the consolidated audit of Eurocell plc this related to the individual subsidiary companies, with Eurocell Profiles Limited being seen as two components (as S&S Plastics is now a division within Eurocell Profiles Limited).

A component was included within our full scope audit procedures, and considered to be a financially significant component, if it represented 15% or more of the reported underlying profit before taxation, measured on an absolute basis (as some entities act as cost centres then all results of components were added together and then if a component represented 15% or more of this total it was included as a financially significant component). In line with prior years, there were two financially significant components (Eurocell Profile Limited, excluding the S&S plastics division, and Eurocell Building Plastics Limited). These alone represented 86% of the reported consolidated revenues and 61% of the reported consolidated underlying profit before taxation on an absolute basis.

We then considered the remaining components to ascertain if further procedures would be required. Where these had an Individual Financial Statement Line Item ("FSLI") that represented more than 5% of the Consolidated FSLI and was individually above group planning materiality we included that specific FSLI within our scope of testing and performed audit procedures over this FSLI to group materiality. Due to the relative size of the acquisitions between 2015 and 2019 a number of additional FSLI's were included as a result of the above assessment, which increased the coverage over reported revenues to 93%. For all other balances not considered for detailed testing, analytical review procedures were performed, to group materiality.

There were no specific components or areas included within our group audit scope due to specific risk factors.

Work was performed over the consolidation adjustments separately to the above scoping of components, due to the relative simplicity of the group and the nature of the consolidation (performed by the head office finance function with mainly UK operations). This was performed using group materiality.

For the Eurocell plc company audit the only material transactions and balances related to the intercompany investments (including amounts owed by subsidiary companies) and the debt held by the Company. These were all included in the scope of our audit and tested using the company materiality by the group audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£891,000 (2019: £1,130,000).	£647,000 (2019: £730,000).
How we determined it	5% of the average underlying profit before taxation for the past three years (2019: 5% of underlying profit before taxation for 2019).	1% of total assets
Rationale for benchmark applied	We believe that underlying profit before tax is the key measure used by the shareholders in assessing the performance of the group. This benchmark, which excludes the non-underlying items described in Note 7 to the financial statements, provides a consistent year on year basis for determining materiality by eliminating the non-recurring impact of these items. Due to the significant impact of the closure of business in the late March to early May 2020 first lockdown period, for this year we have applied an average, based upon the last three years of underlying financial results.	We believe that total assets is the primary measure used by the shareholders in assessing the financial position of the entity, and is a generally accepted auditing benchmark

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £630,000 and £815,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £668,000 for the group financial statements and £485,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £44,500 (group audit) (2019: £60,000) and £30,000 (company audit) (2019: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Discussions with management and those charged with governance regarding the future plans and cash flow projections for the group. This included discussions around the forecast cash requirements and sufficiency of available facilities to deal with a severe but plausible downside to these projections;
- We obtained managements analysis and cash flow model. We checked this for consistency (i.e the integrity of the model) and that the base projections agreed to the approved budgets and were consistent with our work in other areas, for example the projections were consistent with those used for the impairment reviews;
- We considered the accuracy of managements forecasting in prior years by comparing actual to forecasted cash flows in the past three years (i.e the period for which the senior management team has remained materially unchanged);
- We discussed with management the basis of the "base case" and what factors had been considered in their downside "sensitised case". We recalculated management's assessment of the impact of these scenarios on the forecasted compliance with financial covenants and sufficiency of facilities/available cash;
- We considered the reported headroom on facilities at each month end for the review period (i.e until 31 December 2023);
- We challenged management around which scenarios would be required prior to the covenant facilities being breached or available facilities being breached and considered if these were plausible or possible. This included performing our own sensitivities to ascertain the levels of underperformance required to a breach;
- We reviewed the debt facilities to ascertain if management had correctly factored in financial covenants to their model, including that covenants were appropriately calculated at each measurement point;
- We audited management's compliance with the covenants during 2020; and
- We critically assessed the disclosures in relation to going concern compared to the evidence obtained above, our understanding of the group and the various requirements detailed within Company Law, the Listing Rules and accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company'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.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report and Accounts 2020 that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 29 April 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 December 2015 to 31 December 2020.

Christopher Hibbs
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
11 March 2021