

The Audit Findings for S. E. Business Services Ltd

Year ended 31 March 2016

8 September 2016

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8 September 2016

Dear Sirs

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Audit Findings for S. E. Business Services Ltd for the year ended 31 March 2016

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK and Ireland) 260. Its contents have been discussed with Management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Richard Hagley

Chartered Accountants

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Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion.

Our anticipated audit report opinion will be unmodified

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you in May 2016.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies for compliance with applicable standards Review of the recognition of revenues from the significant contracts 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> Testing of journal entries Review of accounting estimates, judgements and decisions made by management review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p>
3	<p>FRS 102 compliance</p> <p>For periods commencing on or after 1 January 2015, new accounting standards come into effect for entities previously reporting under UK GAAP.</p> <p>Management are required to assess the impact of the changes under FRS 102, to select appropriate accounting policies and make required adjustments in the preparation of the financial statements.</p>	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> A review of management's impact assessment to ensure all changes have been identified and that management have selected appropriate accounting policies. A review of the financial statements to ensure these changes have been correctly accounted for in accordance with those policies. A review of the presentation and disclosures in the financial statements to ensure compliance with the new standards. 	<p>There were some minor updates agreed to the initial draft of the accounts we received, however these impacted on the notes only.</p> <p>No other issues noted with respect to application of the new FRS 102 framework.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you in May 2016.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	Revenues Contract accounting is not consistent with terms.	We have undertaken the following: <ul style="list-style-type: none"> Walkthrough of arrangements for accounting for contract arrangements Agreement of significant income to contracts Review of significant contract arrangements to ensure they are accounted for correctly at year end Review and testing of other income where significant to ensure in line with terms 	Our audit work has not identified any issues in respect of the consistency of revenue treatment from the terms of contracts.
2	Operating expenses Expenditure and the corresponding creditors are understated or not recorded in correct period.	We have undertaken the following: <ul style="list-style-type: none"> Walkthrough of the operating expenses system Sample testing of in-year expenditure Completeness testing of expenditure and payables 	Our audit work has not identified any issues in respect of the treatment of operating expenditure and creditors. Through our review of transactions it was identified that the group tax relief had been recorded in the incorrect period. Note that the treatment of this in the draft accounts was pending confirmation from HMRC and the adjustment made reflects the outcome of this rather than being an error in the accounts.
3	Employee remuneration Employee remuneration and benefit obligations and expenses are understated.	We have undertaken the following: <ul style="list-style-type: none"> Walkthrough of payroll arrangements Review of work performed over the payroll by the Surrey County Council audit team Tested the payroll records for completeness Tested payroll transactions to supporting records Reviewed the reconciliation of payroll records to general ledger 	Our audit work has not identified any issues in respect of the completeness of employee remuneration expenditure and obligations.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

We determined overall materiality based on revenue. We have considered whether this level remained appropriate during the course of the audit and no items were raised which required us to adjust our levels of risk.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	As all transactions made by the entity affect the balance, it is therefore considered to be material by nature.	This will be set at an amount determined as trivial for overall audit materiality purposes.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1k

Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> The Board considers the risk of fraud. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which are required to be disclosed but which have not been.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> The principal laws and regulations with which the entity complies include the Companies Act 2006, various tax legislations and FRS 102. We are not aware of any significant incidences of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Board of directors. We are expecting to receive the signed version of this after the September Board meeting.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to counterparties for bank balances. This permission was granted and the requests were sent. Positive confirmations were received for all balances
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. There were some minor disclosure updates suggested with regards to: <ul style="list-style-type: none"> The treatment of the group tax relief in the tax notes and the Statement of Changes in Equity New disclosures required under FRS 102 <p>Adjustments have been agreed with management and the accounts have been updated accordingly.</p>

Other matters discussed with management

	Matter	Commentary
1.	Group tax relief	<p>The following matters in respect of group tax relief were discussed with management:</p> <ul style="list-style-type: none">• S.E. Business Services Ltd obtained advice and applied for group tax relief for the 2014/15 financial year and will be looking to do the same for the 2015/16 financial year. HMRC have accepted the returns provided to them by the company, however, there is a period of 4 years from the date of the end of the period in which HMRC is able to challenge the treatment applied. Management discussed the use of a non-distributable reserve for the period in which the tax treatment is open to challenge. We are satisfied with the adoption of this approach. We discussed the impact on disclosures for FRS 102 and management have updated the accounts accordingly. <p>Our work has not identified any further significant issues in relation to application of the group tax relief.</p>

Adjustments and disclosure changes

The table below provides details of changes identified during the audit which have been made in the final set of financial statements. We are required to report all non-trivial adjustments to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There were no unadjusted misstatements identified.

	Adjustment type	Value £'000	Account balance(s)	Impact on the financial statements
1(a)	Numerical adjustment to financial statements	55	Debtors Tax	Our review of the transactions considered the group tax relief relating to the tax return submitted in January 2016, which should have been recorded as a debtor within the 2015/16 financial statements. Note that the treatment of the group tax relief in the draft accounts was pending confirmation from HMRC and the adjustment made reflects the outcome of this rather than being an error in the accounts.
1(b)	Disclosure	146	Non-distributable reserve	Review of the treatment of the group tax relief and the subsequent non-distributable reserve within the statement of changes in equity and the tax reconciliation note identified a change to be made in the revised draft of the financial statements. Note that this treatment in the draft accounts was pending confirmation from HMRC and the adjustment made reflects the outcome of this rather than being an error in the accounts.

Non-audit fees and independence

	Fees	Threat (Yes / No)	Safeguard
Audit	16,500*	No	
Non-audit services			
- Tax compliance services	1,425	Yes	A separate team undertakes the preparation of the tax submission

- The above non-audit services are consistent with the company's policy on the allotment of non-audit work to your auditor

*includes one-off FRS 102 compliance review fee of £1,500 as per Audit Plan

Independence and ethics:

- Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
 - We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements
 - We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the group's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non-compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

International Standard on Auditing (ISA) (UK and Ireland) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Distribution of this Audit Findings report

Whilst we seek to ensure our Audit Findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to those charged with governance

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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