

The Audit Findings for Surrey Choices Limited

Year ended 31 March 2016

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December 2016

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Audit Findings for Surrey Choices Limited 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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Section 1: Executive summary

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- 02. Status of the audit and opinion
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Executive Summary

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the company's financial statements are that:

- the company produced draft financial statements for its first full year of trading in accordance with the agreed timetable and compliant with the new FRS 102 accounting framework, although there were a significant number of disclosure adjustments required
- although some progress has been made, there continue to be some challenges in the preparation of working papers for the audit
- a number of adjustments to the draft accounts have been identified during the audit process
- the company has strengthened its internal control framework, although we have identified areas where further improvements could be made.

We have identified a number of adjustments to the draft financial statements (details are recorded in section three of this report). The draft financial statements for the period ended 31 March 2016 recorded a loss for the year of £4,152,821. The equivalent figure per the audited financial statements is £3,619,553. The adjustments predominantly relate to:

- Write-off of a small amount of irrecoverable revenues and inclusion of bad debt allowance in respect of a number of aged debtors
- items incorrectly treated as prepayments
- various tax adjustments

We have also agreed with management a number of amendments to the notes to the financial statements and we have agreed a recommendation with management as regards the accuracy of key accounts working papers provided for audit. Full details can be found in Appendix A.

Progress since 2014/15

Our 2014/15 Audit Findings Report summarised these key messages arising from our work:

- the company produced draft financial statements for its first period of trading in accordance with the planned audit timetable and in time for inclusion in the consolidated accounts of the company's parent, Surrey County Council
- the company implemented a full general ledger system, BluQube, from February 2015 and began to develop and action some clearly defined month-end processes
- audit working papers as requested in the 'working paper requirements' document shared with the company were not provided at the start of the audit fieldwork – this caused a delay in some fieldwork being commenced
- the financial statements had to go through a number of iterations, with significant extra effort required to reach an acceptable standard
- the response time to audit queries was in many cases beyond the agreed timeframe and this meant that the completion of audit fieldwork was delayed significantly beyond the period of our onsite visit

As a result of these findings we raised a number of recommendations, the details of which are in Appendix B. As communicated in our 2015/16 Audit Plan, we have liaised with the company throughout to determine progress made in implementation and our assessment is reflected in Appendix B. This review has enabled us to confirm that since 2014/15:

- management have compiled an action plan that addresses our findings and actively monitored progress - weekly via the Executive Team and monthly via the Company Board
- significant improvements have been made as regards the ownership and transparency of financial performance across the company, supported by more robust governance and financial monitoring arrangements
- the company has compiled a Strategic Action Plan, supported by detailed financial analysis, that reflects a better understanding of the key drivers of the company's financial performance and reasons for deterioration of performance against previous versions of the Business Plan

Executive Summary (continued)

Since agreeing the prior year recommendations with management in December 2015, we have continued to support the company by:

- reviewing and commenting on the action plan raised as part of monthly liaison meetings with the Managing Director, Head of Finance and finance team
- holding ad hoc meetings with the Operations Director, Business Development Director and attending a Company Board meeting
- assisting with the restatement of the prior year accounts under the new FRS 102 accounting framework and providing advice on technically challenging disclosures, including pensions and tax

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Into 2017 we will continue to support the Head of Finance and new senior management team, focussing especially on the company's strategic plans and the key areas of audit risk.

Controls

Roles and responsibilities

The company's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the company.

Findings

We draw your attention to control issues identified in relation to approval of overtime, control account reconciliations, invoice processes and revenue contract arrangements.

Further details are provided within section three of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Finance and Managing Director.

Looking ahead, the company's key challenge is to deliver against the Strategic Action Plan, led by a new senior management team. This plan incorporates delivery of an efficiency programme and of strategies for continued rationalisation of the workforce and of the company estate. This will ensure the business is both sustainable and viable in the near future, building on the strong relationships embedded with Surrey County Council to drive improved health outcomes across the customer base. We will continue to support the company in this process and will work closely with the finance team to ensure accounts and audit working paper quality continues to improve. We will also take advantage of the company's new general ledger system in agreeing more extensive early testing in 2016/17.

Section 2: Status of the audit and opinion

01. Executive summary

02. Status of the audit and opinion

03. Audit findings

04. Fees, non-audit services and independence

05. Communication of audit matters

Status of the audit and 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, subject to the outstanding matters detailed below.



- obtaining the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

Status

- (Red) Likely to result in material adjustment or significant change to disclosures within the financial statements
- (Amber) Potential to result in material adjustment or significant change to disclosures within the financial statements
- (Green) Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

Section 3: Audit findings

01. Executive summary

02. Status of the audit and opinion

03. Audit findings

04. Fees, non-audit services and independence

05. Communication of audit matters

Significant findings

	Risks identified in our Audit Plan	Commentary
1.	<p>Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA 240 (UK and Ireland) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<p>Per our Audit Plan we detailed that we would undertake the following procedures in response to this risk:</p> <ul style="list-style-type: none"> We will review and test revenue recognition policies for compliance with applicable standards We will perform substantive testing on significant contracts with Surrey County Council We will review the treatment of non contract income <p>Our procedures in this area were undertaken as planned and we have not identified any issues to bring to your attention.</p>
2.	<p>Management override of controls</p> <ul style="list-style-type: none"> Under ISA 240 (UK and Ireland) there is a presumed risk that the risk of management over-ride of controls is present in all entities 	<p>Per our Audit Plan we detailed that we would undertake the following procedures in response to this risk:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management Testing of journals entries Review of unusual significant transactions <p>Our procedures in this area were undertaken as planned. We noted one immaterial journal for £100 on a bank holiday which could not be explained by management, although we were able to trace the amounts being subsequently cleared out of the relevant accounts. We also identified a number of journals on weekends which were not fully documented and explanations were provided verbally. We understand these were raised as part of the management accounts process. We have not identified any other issues to bring to your attention.</p>
3.	<p>FRS 102 compliance</p> <ul style="list-style-type: none"> For periods commencing on or after 1 January 2015, new accounting standards come into effect for entities previously reporting under UK GAAP. 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>Per our Audit Plan we detailed that we would undertake the following procedures in response to this risk:</p> <ul style="list-style-type: none"> Review of management's impact assessment to ensure all changes have been identified and that management have selected appropriate accounting policies Review of the financial statements to ensure these changes have been correctly accounted for in accordance with those policies Review of the presentation and disclosures in the financial statements to ensure compliance with the new standards <p>Our procedures in this area were undertaken as planned and we have not identified any issues to bring to your attention.</p>

Significant findings (continued)

	Risks identified in our Audit Plan	Commentary
4.	<p>Going concern</p> <p>You are facing significant financial challenges and have forecast a significant deficit position for 2015/16. This raises doubts over the completeness and accuracy of the going concern disclosures in the accounts, particularly in relation to material uncertainty.</p>	<p>In response to this risk, we undertook the following procedures:</p> <ul style="list-style-type: none"> Assessed management's use of the going concern assumption in preparing the financial statements and considered the appropriateness of the assumptions applied in arriving at that judgement Reviewed the most recent cashflow forecast covering the period to 31 March 2018 Reviewed the company's Strategic Action Plan, produced in July 2016 Reviewed and considered the appropriateness of disclosures regarding going concern in the financial statements <p>As a result of these procedures we have concluded that:</p> <ul style="list-style-type: none"> The financial analysis produced by the company as part of its Strategic Action Plan and cashflow forecasts are based on reasonable and sufficiently prudent assumptions The recent agreement of the block contract with Surrey County Council for 2016/17 has enabled the company to better understand its underlying costs and for both sides to clearly agree where responsibility for payment of each element lies The cashflow forecast is sufficiently robust and provides assurance that the company can achieve the desired financial stability in the near future The financial statements make appropriate disclosure of the uncertainties relating to management's use of the going concern assumption

Other findings

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan and any other issues arising. Our recommendations, together with management response, is attached at Appendix A.

	Risks identified in our Audit Plan	Work completed	Issues arising
1.	<p>Revenue and debtors</p> <ul style="list-style-type: none"> Contract accounting not consistent with terms 	<ul style="list-style-type: none"> Walkthrough of arrangements for accounting for contract arrangements Review of significant income contracts Agreement of significant income to contracts Review of significant contract arrangements to ensure they were accounted for correctly at year end Review and testing of other income where significant to ensure in line with terms 	<p>The company raised a £436k accrual relating to both 2015/16 and prior years relating to attendance of self-funders and those funded by other local authorities. There appeared to be few controls around the creation of this balance and documentation was hard to find.</p> <p>Subsequent to our testing of revenue we have agreed with management adjustments to a number of aged debts, involving writing off revenue amounting to £98k. A further bad debt allowance of £63k was recorded in the amended financial statements to reflect amounts not deemed wholly recoverable.</p> <p>Our testing of the residual debtors balance indicated that £118k remains unprovided and unpaid at the current date. management have indicated that they are confident in recovering this balance.</p> <p>Our testing identified £289k of items classified as prepayments which in fact related to 2016/17 and had been paid in 2016/17. Both debtors and creditors were over stated.</p> <p>We note that no formal block contract agreement was signed with Surrey County Council for 2015/16, but we have seen the signed contract for 2016/17.</p> <p>We have identified no other issues in relation to this risk we are required to report to you.</p>
2.	<p>Operating expenses and trade creditors</p> <ul style="list-style-type: none"> Creditors understated or not recorded in correct period 	<ul style="list-style-type: none"> Walkthrough of the operating expenses system Sample testing of in-year expenditure Completeness testing of expenditure and year end payables 	<p>Other than the amounts referred to regarding bad debt as per the risk above and the issue on transport and other costs set out below, we have identified no issues in relation to this risk we are required to report to you.</p> <p>During the period, management identified invoices totalling £251k in respect of transport costs relating to the prior year which had not been recharged from Surrey County Council. During our testing we identified a further extrapolated error of £145k in relation to other costs for 2014/15 which had not been accrued in the prior period. Management considered whether these should be treated as a prior period adjustment, but have concluded that the impact on the prior year is not fundamental and hence these costs have been recorded in 2015/16. We concurred with this treatment.</p>

Other findings

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan and any other issues arising. Our recommendations, together with management response, is attached at Appendix A.

	Risks identified in our Audit Plan	Work completed	Issues arising
3.	Payroll <ul style="list-style-type: none"> Employee remuneration and benefit obligations and expenses understated 	<ul style="list-style-type: none"> Walkthrough of payroll arrangements Review of work performed over the payroll system by the Surrey County Council audit team Completeness testing of payroll records Testing of payroll transactions to supporting records Reconciliation of payroll records 	We have identified no issues in relation to this risk we are required to report to you.
4.	Taxation <ul style="list-style-type: none"> Not identified in Audit Plan. 	<ul style="list-style-type: none"> Review of current tax and deferred tax computations. 	We noted a number of errors in the tax calculations, including the incorrect calculation of capital allowances and errors in treatment of prior year deductions. We also spent considerable time reconciling balances to the accounts and assisting in the correction of the computations. We recommend that management review their processes to prepare tax information and ensure these are fit for purpose.

Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Board and not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> The company updated this note. We are not aware of any related parties or related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> We draw your attention to the draft Letter of Representation separately provided, which includes representation on the deferred tax asset disclosed in the financial statements.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to the company's bank and loan with Surrey County Council. This permission was granted and the request was sent. This was returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Internal controls

Our audit has identified a number of observations in relation to the internal control framework. Items 2 to 4 below were communicated in our Audit Plan after completion of our interim audit in April 2016.

	Assessment	Issue and risk	Recommendations
1.	 (Red)	As set out in the previous section, transport costs of £251k and other costs of £145k were identified which should have been accrued in 2014/15. Controls over accruals at 31 March 2016 appear to be improved but we recommend that management carefully review their procedures for confirming the completeness of accruals at each balance sheet date.	Management response: We acknowledge your findings; this came up as part of the understatement of 2014/15 accounts. We took an immediate action in 2015/16 accounts to review as far as we were aware the suppliers accounts and other re-occurring costs. We have updated our controls to identify more clearly, costs and accruals for period end. Although we have improved this process in this current year, a continuous review of this process will be on-going, in order to make improvements and a new Purchase Order system should assist in supporting more accurate reporting on accruals, going forward.
2.	 (Amber)	Our testing of revenue and expenditure identified differences between the figures per the purchases/sales ledger and the nominal ledger. It is good practice to regularly reconcile the purchases and sales control accounts. We recognise the change of ledger system that will make this control much easier to implement in 2016/17. The Company needs to retain sufficient third party documentation to support revenue recognition.	Management response: We acknowledge your findings; we noticed this during our ledger review work in January 2016. The differences in the Ledgers were carried forward from the previous financial year. The audit close happened in December and proper reconciliation had not been done to reconcile the ledger back to the financial statement numbers. During this year, the ledgers were reconciled and corrected to prior year audit close. Beyond these opening differences, there were no other reconciliation issues during the year between the ledgers and the control Accounts. Going forward, with a new financial system and an operational process in place to reconcile and close ledgers, these findings will be rectified.

Assessment

-  (Red) Material weakness – risk of material misstatement (Red)
-  (Amber) Significant deficiency – risk of significant misstatement (Amber)
-  (Green) Deficiency – risk of inconsequential misstatement (Green)

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK and Ireland 265)

Internal controls

Our audit has identified a number of observations in relation to the internal control framework. Items 2 to 4 below were communicated in our Audit Plan after completion of our interim audit in April 2016.

	Assessment	Issue and risk	Recommendations
3.	 (Amber)	It was noted that it was difficult for the company determine accurately the services which fall within the block contract agreed with Surrey County Council. This is resulting in invoices either being raised incorrectly or not being raised/payment not being received when services outside the remit of the contract were being supplied. It is recommended that the Company and the Council clarify the services within the block contract arrangements.	<p>Management response:</p> <p>We acknowledge your findings. This is simply because the block contract from 2015/16 was amended from the original 2014/15 contract with little detail passed on to the administrator about variation of contracts and when to adjust. During the year, Surrey Choices has undertaken a lot of work in looking at what is included within the block contract. The signed contract document for 2016/17 that we have now shared with you contains details on what is included in the block contract.</p> <p>There has been a focus on working towards accurate reporting on Customers and their related information which will then inform us and the commissioner on customer volumes, needs and outcomes. This is now being done on an on-going basis in conjunction with Surrey County Council.</p>
4.	 (Amber)	<p>Business unit administrators are able to receive money and create invoices and credit notes. This represents an insufficient segregation of duties and it is recommended that additional controls are implemented in this area.</p>	<p>Management response:</p> <p>We acknowledge your findings. The majority of funds are received by Surrey Choices via BACS/CHAPS transfer and cheque. Occasionally, however, we do receive cash through our business units. Administrators have also been able to raise sales invoices and credit notes for customer activities. Surrey Choices is working to change this. The accounting function is becoming more centralised and administrators no longer have direct access to the accounting system. The new CRM will, in the future, become the driver for customer billing and in the interim, sales invoices are review by the accounting team prior to being captured on the accounting system.</p>

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Assessment

-  (Red) Material weakness – risk of material misstatement (Red)
-  (Amber) Significant deficiency – risk of significant misstatement (Amber)
-  (Green) Deficiency – risk of inconsequential misstatement (Green)

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK and Ireland 265)

Internal controls

Our audit has identified a number of observations in relation to the internal control framework. Items 2 to 4 below were communicated in our Audit Plan after completion of our interim audit in April 2016.

	Assessment	Issue and risk	Recommendations
5.	 (Green)	Administrators complete monthly spreadsheets detailing time and sickness but there is no approval process for overtime submitted by employees. It is recommended that overtime is formally approved before payment.	<p>Management response:</p> <p>The normal practice is for managers at each business unit is to authorise any overtime before it occurs and timesheets are filled in by administrators after the fact. Administrators need the business unit manager to approve the timesheet prior to submission to SCC payroll. The approval after the administrator has consolidated the timesheet is sometimes missing, which is what Grant Thornton is referring to. However, this is not the norm, as in most cases the business unit manager does approve the timesheet prior to submission.</p> <p>With our change of payroll provider, we have worked with those completing the forms to ensure they clarify the information they are putting in before they submit it. We have put in place a process across the board that no overtime or TOIL is to be accumulated or paid without the prior agreement of the Manager – which in itself should be evidenced if required. As part of the process for receiving the Payroll submissions on a monthly basis, the HR/Finance teams are now undertaking their own monthly sanity check of the submissions to ensure that there are no concerns, inconsistencies or patterns and if there are, then these will be checked and addressed directly with managers before they are put forward for payment.</p>

Assessment

-  (Red) Material weakness – risk of material misstatement (Red)
-  (Amber) Significant deficiency – risk of significant misstatement (Amber)
-  (Green) Deficiency – risk of inconsequential misstatement (Green)

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA UK and Ireland 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<ul style="list-style-type: none"> Our testing of payroll expenditure identified a number of individuals for whom the company did not hold contracts of employment. It has been explained that: <ul style="list-style-type: none"> (i) For staff transferred from Surrey County Council, contract files have not yet been released by the Council (ii) For joiners to the company post-transfer, employment contracts have not yet been signed (iii) For Senior Management, the employment contracts have not yet been signed <p>If signed contracts are not held by the company there is a risk of non-compliance with the requirements of the company's regulator, the Care Quality Commission. There is also a contractual risk in the event of disputes with employees.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> (i) We accept the findings of the report. We had identified this issue in July 2015 and have contacted Surrey County Council to ask for the files to be retrieved and passed to us as soon as possible. (ii) We accept the findings of the report. New contracts of employment have now been drafted and we expect all staff to have signed their contract by 31 March 2016. (iii) We accept the findings of the report. Contracts of employment for senior managers have been drafted and we expect all senior managers to have signed their contract by 31 March 2016. <p>Auditor commentary</p> <ul style="list-style-type: none"> During our testing of 25 employees in 2015/16, we noted 3 who did not appear to have signed contracts.
2.	✓	<ul style="list-style-type: none"> Testing of journals identified a number of weaknesses around journals processes. Specifically, there are no set limits in the system for journals posting, segregation of duties between journal preparer and poster have not always been followed and there is no evidence of journals authorisation have taken place. We recognise that the general ledger does limit the access to post journals to the financial controller only. 	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report. New sign off processes and limits are currently being developed and we would expect them to be in place, including a retrospective review of all journals by 31 January 2016. <p>Auditor commentary</p> <ul style="list-style-type: none"> These issues have recurred through our testing procedures in 2015/16 and we have confirmed that controls over journals have been significantly strengthened but only from December 2015.
3.	X	<ul style="list-style-type: none"> Our testing of creditors identified a small number of invoices that related to 2014-15 but that were not included in the year-end creditors balance (further details are provided in section eight of this report). This was due mainly to late receipt of invoices from some of the business units and, as a result, a lack of timely review by the finance team. <p>There is a risk that creditors are understated in the financial statements and in-year management accounts.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report in regard to the former manual accounting processes. Our bluQube processes are currently being reviewed to ensure all costs and liabilities are identified and that creditors are correctly stated. <p>Auditor commentary</p> <ul style="list-style-type: none"> Please see control point on previous page – this issue still needs to be addressed.

Assessment

✓ Action completed X Not yet addressed

Internal controls – review of issues raised in prior year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4.	✓	<ul style="list-style-type: none"> There was a difference of £777 identified when the petty cash balances were reconciled to the accounts, which the financial controller undertook during the audit. There is no formal process in place to reconcile the petty cash balances at year-end. <p>There is a risk that cash balances are not accurately stated in the company's assets and, if not regularly reconciled, that assets are misappropriated.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report. New processes are now in place to ensure petty cash is regularly reconciled as part of month end processes. We will also include a specific section on control of both petty cash and purchasing cards in our Quality Checking process. <p>Auditor commentary</p> <ul style="list-style-type: none"> These issues have not recurred through our testing procedures in 2015/16 and we have confirmed that controls over petty cash have been formalised and correctly implemented.
5.	✓	<ul style="list-style-type: none"> There were a number of income balances due from Surrey County Council for which no supporting invoices were raised. This is due to the Council being viewed as an internal department for which, per company policy, no invoices are raised. <p>There is a risk that this could put the company at risk of challenge from the Council over amounts due.</p>	<p>Management response per prior year Audit Findings Report</p> <ul style="list-style-type: none"> We accept the findings of the report. This was a particular issue relating to additional funding for EmployAbility activity. This is no longer the case as all revenues are invoiced. <p>Auditor commentary</p> <ul style="list-style-type: none"> These issues have not been observed through our testing procedures in 2015/16 and we have confirmed that invoicing processes have been sufficiently strengthened so as to mitigate the risk of such issues recurring.

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Assessment

✓ Action completed

✗ Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non-trivial misstatements 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.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key financial statements and the reported loss before tax for the year.

Detail	Statement of Comprehensive Income £	Statement of Financial Position £	Impact on loss before tax £
1 Additional bad debt provision.	Dr cost of sales 63k	Cr Bad debt provision 63k	Dr 63k
2 Write off of irrecoverable debtors.	Dr Bad debt expense 98k	Cr Trade debtors 98k	Dr 98k
3 Items incorrectly treated as prepayments		Dr Creditors £289k Cr prepayments £289k	nil
4 Taxation adjustments	Cr Tax charge 710k	Dr Tax payable 710k	Cr 710k
Overall impact			Cr 549k

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Unadjusted misstatements

Detail	Statement of Comprehensive Income £	Statement of Financial Position £	Impact on loss before tax £
1 Trade debtors unsubstantiated.	Dr Turnover 28k	Cr Trade debtors 28k	Dr 28k
2 2014/15 costs recorded in 2015/16.	Cr Operating expenses 396k	Dr Opening reserves 396k	Cr 396k
Overall impact			Cr 368k

Impact of unadjusted misstatements in the prior year

Included below are unadjusted misstatements from our prior year Audit Findings Report. We can confirm that we have not identified similar misstatements in the 15/16 financial statements and as such we are satisfied that the judgement made by management in relation to these issues remains appropriate.

Detail	Profit and loss account		Balance sheet		Profit effect	Reason for not adjusting
	Debit	Credit	Debit	Credit		
Loss per final accounts					(666,764)	
Cost of sales	19,179				(19,179)	
Creditors				19,179	-	
Being accrual of costs relating to 14/15 for which invoices were received post year-end						Amount is immaterial
Turnover	38,960				(38,960)	
Debtors				38,960	-	
Being inclusion of an amount in debtors that should have been removed						Amount is immaterial
Potential Loss	58,139	-	-	58,139	(724,903)	

Section 4: Fees, non-audit services and independence

- 01. Executive summary
- 02. Status of the audit and opinion
- 03. Audit findings
- 04. Fees, non-audit services and independence**
- 05. Communication of audit matters

Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Company audit	21,250*	N	n/a
Non-audit service: tax-compliance work – iXBRL tagging	1,000**	Y	Separate engagement team
Audit-related service: certification of Teachers' Pensions claim	3,500	Y	Separate engagement team
Total fees	25,750		

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

* Includes one-off fee of £3,250 for FRS 102 compliance

** To be confirmed

Independence and ethics:

- 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

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Status of the audit and opinion
- 03. Audit findings
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters**

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.

Appendices

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Appendix A: Action Plan

The following recommendation has been agreed with management:

Rec. No.	Recommendation for 2016/17	Priority	Management response
1.	Working papers in a number of key areas (revenue and payroll costs) did contain differences when compared to the financial statements. As such, we recommend undertaking a quality review of audit working papers before finalisation.	Medium	

Appendix B: Prior year action plan

We include below details of prior year recommendations. These were also included in our Audit Plan and include details of the extent to which they have been implemented by management.

Rec. No.	Issue in 2014/15 Audit Findings Report	Recommendation and management response	Assessment of progress made in implementation
1	<p>Compile working papers for the start of the audit that include transaction-level or equivalent listings supporting every balance in the financial statements</p>	<p>We agree with the recommendation in the report. The implementation of bluQube will help this area substantially. We would expect this to be in place for the preparation of the financial statements to the period ended 31 March 2016.</p> <p>However, we would also propose Surrey Choices and Grant Thornton undertake collaborative work, especially in planning of the audit. Changes to personnel and the extended gap between audit planning and fieldwork meant that some disruption occurred from our perspective, with some information requests being repeated. This led to confusion both in the finance team in Surrey Choices and the audit team in Grant Thornton and contributed to some of the issues highlighted in your report. Whilst this is by no means a significant issue, we believe there is scope to improve our joint working, making both the work of both client and auditor more efficient and effective.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> Working paper quality has improved significantly since last year, both in terms of completeness and accuracy. There were a small number of areas where there were differences still and this is reflected in a current year recommendation per the action plan in appendix A.
2.	<p>Ensure the 2015/16 accounts are prepared in accordance with the requirements of FRS 102 before submission for audit</p>	<p>We accept the recommendation in the report. Whilst our financial statements for the period ended 31 March 2015 were appropriately prepared using FRS 3, as mentioned above we believe that some of the adjustments were both a normal part of a year end review and that others especially relating to the application pension liabilities, proved so technically challenging that even experts within Grant Thornton struggled to provide the correct advice first time. Therefore, it is an unreasonable expectation that the financial statements will be perfect prior to audit. We agree that we can improve our readiness, (regardless of the accounting standard in operation), and that this can be achieved through improved planning as identified above.</p> <p>We acknowledge that for the period ended 31 March 2016 is past the trigger date for FRS 102 and we are training our staff in the use of FRS 102 in preparing our financial statements.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> We supported the company to produce its first set of FRS 102-compliant financial statements. There were no significant changes required to the presentation of the financial statements and supporting notes.

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