

The Audit Findings Report for Halsey Garton Property Limited and Halsey Garton Property Investments Limited

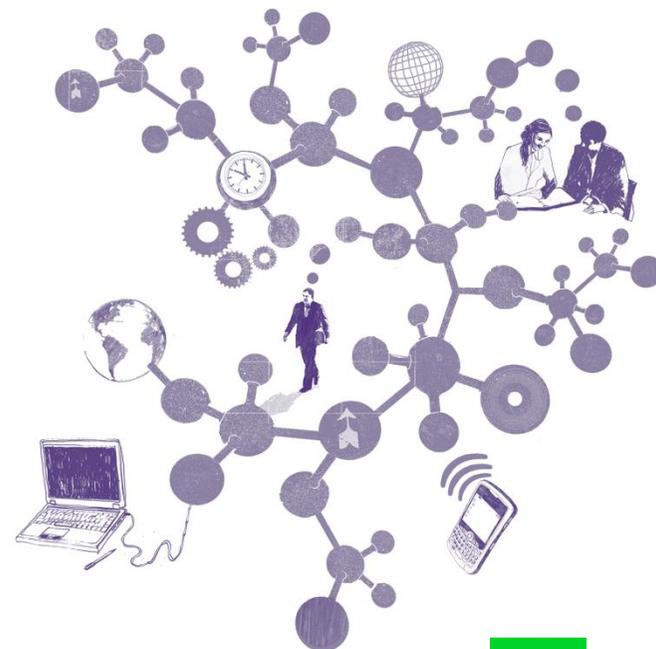
Year ended 31 March 2017

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12 September 2017

Dear Sirs

Audit Findings for Halsey Garton Property Limited and Halsey Garton Property Investments Limited for the year ended 31 March 2017

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standards on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & 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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Purpose of this report

This report highlights the key issues affecting the results of Halsey Garton Property Limited and Halsey Garton Property Investments Limited ('the Companies') and the preparation of their financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 5th July 2017.

Our audit is substantially complete. At the date of writing this report we are finalising our procedures in the following areas:

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

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting your reported financial position. We have recommended a number of adjustments to improve the presentation of the financial statements.

Controls

Roles and responsibilities

The management of the company 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 Directors.

Findings

We have noted no deficiencies in internal controls to report.

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

- 01. Executive summary
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Group audit scope

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Halsey Garton Property Limited has three fully owned subsidiaries. We have performed a full scope statutory audit on Halsey Garton Property Limited and Halsey Garton Property Investments Limited. Halsey Garton Residential Limited and Halsey Garton Property Developments Limited are dormant and have not been subject to an audit.



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.

	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 work in response to this risk:</p> <ul style="list-style-type: none"> • Documented our understanding of management's controls over revenue recognition. • Review of lease agreements and substantive analytical review of rental income for the period • Testing of occurrence of rent receipts. 	<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 work in response to this risk:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment property	Revaluation measures not correct (Valuation Gross)	We have undertaken the following work in response to this risk: <ul style="list-style-type: none"> • Documented our understanding of arrangements for valuing investment properties • Agreement of revaluation adjustments to the report of the external valuer • Reviewing the appropriateness of the methodology and assumptions applied in performance of revaluations 	Our audit work has not identified any issues in relation to this risk.
Investment property	Investment property activity not valid (Valuation Gross)	We have undertaken the following work in response to this risk: <ul style="list-style-type: none"> • Reviewing policies for capitalisation of expenditure • Testing of capital additions expenditure 	Our audit work has not identified any issues in relation to this risk.
Operating expenses	Creditors related to core activities (e.g. supplies) understated or not recorded in correct period (Completeness)	We have undertaken the following work in response to this risk: <ul style="list-style-type: none"> • Documented the controls in place in relation to operating expenses • Cut off testing to assess whether transactions occurring close to the year end have been recorded in the correct accounting period • Testing of expenditure and of year end creditor balances • Review of the appropriateness of the approach adopted by management for estimating year end expenditure accruals 	Our audit work has not identified any issues in relation to this risk.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Company's financial statements.

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Accounting area	Summary of policy	Comments	Assessment
Going concern	After reviewing the group's forecast and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.	We have reviewed management's assessment of going concern and are satisfied that the going concern basis is appropriate for the financial statements for the year ended 31 March 2017.	● Green
Revenue recognition	Revenue from rents and other property related services, is recognised when the property or service is provided, rather than when payments are received.	We have reviewed the Companies' revenue recognition policies and have verified that they are reasonable and compliant with the requirements of FRS 102.	● Green
Judgements and estimates	<p>Significant estimates and judgements include:</p> <ul style="list-style-type: none"> • Expenditure accruals • Deferred income • Accrued income in respect of unamortised lease incentives • Deferred tax • Fair value of investment property • Fair value of Halsey Garton Property Ltd's equity investment in Halsey Garton Property Investments Ltd • Judgements made in preparing the group financial statements 	<p>An amendment was made to the disclosure of management's judgement regarding the reasoning for not recognising a deferred tax asset, to clarify that this was due to uncertainty about the availability of sufficient capital profits in the foreseeable future to utilise the losses against.</p> <p>In all other respects we are satisfied regarding the appropriateness of significant accounting judgements and estimates reflected within the accounts.</p>	● Green
Other accounting policies	We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102.	We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102. The accounting policies adopted are appropriate and consistent with previous years.	● Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have discussed the risk of fraud with Directors. 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 procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any 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 incidences of non-compliance.
4.	Written representations	<ul style="list-style-type: none"> Standard letters of representation have been requested from the Company.
6.	Disclosures	<ul style="list-style-type: none"> We identified no significant omissions in the disclosures in the financial statements

Internal controls

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for rental revenues, operating expenditure, capitalisation of expenditure and valuation of investment properties as set out on page 9 above.

We have noted no internal control deficiencies during the course of our audit to report to you.

We note the group does not use a general ledger system to maintain the accounting records of the Companies and instead, accounting records are maintained in an Excel spreadsheet based on the cash book. The current arrangements for maintaining accounting records are reasonable given the current scale of the business and because the majority of the day-to-day transactions are administered externally by the property agent Cushman & Wakefield.

As the business continues to expand and the volume of transactions increases it will become necessary to procure a general ledger system. The directors are aware of this and have confirmed that they will continue to monitor the appropriateness of the arrangements in place.

"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&I) 265)

Disclosure changes – Halsey Garton Property Ltd

The table below provides details of disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Account balance	Impact on the financial statements
1 Disclosure	Judgements in applying accounting policies	Amendment was made to the disclosure of the judgement made not to recognise a potential deferred tax asset of £1,407k in respect of losses on revaluation of investment property.
2 Disclosure	Various	A number of other minor disclosure changes have been agreed

Disclosure changes – Halsey Garton Property Investments Ltd

The table below provides details of disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Account balance	Impact on the financial statements
1 Disclosure	Judgements in applying accounting policies	Amendment was made to the disclosure of the judgement made not to recognise a potential deferred tax asset of £1,407k in respect of losses on revaluation of investment property.
2 Disclosure	Various	A number of other minor disclosure changes have been agreed

Section 3: Fees, non audit services and independence

01. Executive summary

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We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Group audit	3,750	3,750
Subsidiary company audit	8,750	8,750
Total	12,500	12,500

Fees for other services

Service	Fees £
No other non audit services have been agreed	

Our fee assumptions include:

- Our fees are exclusive of VAT and out of pocket expenses
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- You will make available management and accounting staff to help us locate information and to provide explanations

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 therefore we 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 requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

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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 Company 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓

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International Standards on Auditing (ISA) 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 ISA's (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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