

The Audit Findings for Surrey Choices Limited

Year ended 31 March 2018

September 2018

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Board of directors
Surrey Choices Limited
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August 2018

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Dear Sirs

Audit Findings for Surrey Choices Limited for the year ended 31 March 2018

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) 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), 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.

Richard Hagley

Director
For Grant Thornton UK LLP

Chartered Accountants

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. 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.

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Status of the audit

Our work is substantially complete subject to the following areas:

- finalisation of manager and director review;
- receipt and review of the signed management letter of representation; and
- updating our post—balance sheet events review to the point of issue of the audit report.

There are currently no matters of which we are aware that would require modification of our audit opinion.

Audit opinion

Our anticipated audit report opinion will be unqualified.

Section 1: Audit findings

- 01. Audit findings
- 02. Independence, ethics, fees and non-audit services
- 03. Communication of audit matters

Audit findings – Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Significant risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

- We completed the following procedures:
 - documented and considered management's controls over revenue recognition;
 - reviewed the appropriateness of management's revenue recognition policies;
 - substantively tested revenue in respect of the main block contract with Surrey County Council;
 - substantively tested all material non-contract revenue streams; and
 - substantively tested year end debtors.

No issues in relation to improper revenue recognition were noted from our audit procedures completed.

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2

Management override of controls

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities.

Auditor commentary

- We completed the following procedures:
 - reviewed accounting estimates, judgments and decisions made by management;
 - performed risk-based testing of journal entries; and
 - reviewed of unusual significant transactions.

No issues in relation to management override of controls were noted from our audit procedures completed.

Audit findings – Reasonably possible risks

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental.

Reasonably possible risks identified in our Audit Plan

Commentary

1

Revenue

- Contract accounting not consistent with terms (Existence / Occurrence)

Auditor commentary

- We completed the following procedures:
 - documented management's arrangements for accounting for contract revenues in respect of the main block contract with Surrey County Council;
 - substantively tested receipts in relation to the main block contract with Surrey County Council; and
 - reviewed the terms and conditions of revenue billed under the main block contract with Surrey County Council to verify whether revenue had been recognised in accordance with the terms of the contract.

No issues in relation to accounting for contract revenues were noted from our audit procedures completed.

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2

Operating expenses

- Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period (Completeness)
- Operating expenses understated or not recorded in correct period (e.g., accruals, prepayments) (Completeness)

Auditor commentary

- We completed the following procedures:
 - documented management's controls over the recording of expenditure and year end accruals;
 - performed cut-off testing to assess whether transactions occurring close to the year end were recorded in the correct accounting period;
 - performed substantive testing of expenditure and year end creditor and accrual balances; and
 - reviewed the appropriateness of the approach adopted by management for estimating year end expenditure accruals.

No issues in relation to operating expenses and creditors were noted from our audit procedures completed.

3

Employee remuneration

- Employee remuneration and benefit obligations and expenses understated (Completeness)

Auditor commentary

- We completed the following procedures:
 - documented management's controls in place in relation to the recording of payroll expenditure;
 - performed a substantive analytical review of the monthly payroll for the year; and
 - reconciled payroll records to the financial statements

Our payroll testing remains in progress and we will reach a conclusion in respect of this risk once this work is completed.





Audit findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Going concern	<ul style="list-style-type: none"> The directors have reviewed the Company's forecasts for the next financial year from the date of formally approving the annual report and financial statements. On this basis the directors consider that it is appropriate to prepare the accounts on a going concern basis. 	<ul style="list-style-type: none"> We noted from our review of management's going concern assessment that £2.8m of borrowings from Surrey County Council fall due for payment within 12 months of the expected date of signing of our audit report. £2.1m of borrowings will be due for repayment in June 2019 and £0.7m will be due for repayment in August 2019. The Company does not currently have sufficient cash resources to repay these balances and negotiations with Surrey County Council regarding options for the refinancing of this debt are on-going. During the course of the audit, the directors obtained a signed letter of support confirming that Surrey County Council will continue to support Surrey Choices financially for at least 12 months from the date of approval of the statutory financial statements for the year ended 31 March 2018. On the basis of the assurances set out in the letter of support, we have identified no material uncertainty in respect of the Company's future cash flows of the 12 months subsequent to the approval of the accounts in respect of the repayment of borrowings. 	 Green
Revenue recognition	<ul style="list-style-type: none"> Turnover represents amounts chargeable in respect of the provision of social care services, exclusive of VAT and is recognised when the services are rendered. 	<ul style="list-style-type: none"> We have reviewed the Company's revenue recognition policies and have verified that they are reasonable and compliant with the requirements of FRS 102. 	 Green
Other judgements and estimates	<ul style="list-style-type: none"> Other significant estimates and areas of judgement in the financial statements include: <ul style="list-style-type: none"> – expenditure accruals; – bad debt provision; – deferred tax asset; – deferred income; and – valuation of the net pension liability. 	<ul style="list-style-type: none"> We are satisfied regarding the appropriateness of significant accounting judgements and estimates reflected within the accounts. We note that the directors have made a judgement not to recognise any deferred tax asset because management are unable to demonstrate the availability of sufficient future taxable profits to utilise the asset against. While Surrey Choices achieved a taxable profit for the year ended 31 March 2018, management do not consider profits to be likely going forward because in on-going contract negotiations with Surrey County Council, the Council is seeking to reduce the value of the contract with Surrey Choices to eliminate profits going forward. We are satisfied that this is a reasonable judgement for management to make. 	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Audit findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Company's policies against the requirements of the Companies Act and FRS 102. 	<ul style="list-style-type: none"> We have reviewed the Company's other critical accounting policies and do not have any comments to make. 	 Green

Assessment
 ● Marginal accounting policy which could potentially be open to challenge by regulators
 ● 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 previously discussed the risk of fraud with the Board in our Audit Plan. We have not been made aware of any incidents of fraud in the year 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 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 with laws and regulations.
4	Written representations <ul style="list-style-type: none"> Representations will be requested from management in respect of the significant assumptions used in making accounting estimates.
5	Confirmation requests from third parties <ul style="list-style-type: none"> We requested from management permission to send a confirmation request HSBC in respect of the Company's closing bank balance as at 31 March 2018. This permission was granted and the requested letter was received.
6	Disclosures <ul style="list-style-type: none"> We identified no significant disclosure errors or omissions in the financial statements.
7	Internal controls <ul style="list-style-type: none"> During our audit we did not note any significant deficiencies in internal controls to report.

Adjusted misstatements – disclosure changes

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

Area	Detail	Adjusted?
Going concern	<ul style="list-style-type: none"> In Note 1.2 'Going concern', additional disclosure should be provided of the letter of support from Surrey County Council that the directors have placed reliance on in formulating their going concern assessment. 	✓
Financial instruments	<ul style="list-style-type: none"> In Note 16 'Financial instruments', the bad debt provision of £104,297 was not been included within the carrying value of financial asset debtors reported, however the provision forms party of management's process for measuring the carrying value of debtors and should be included in the debtors figure disclosed within this note. 	✓
Financial instruments	<ul style="list-style-type: none"> In Note 16, 'Financial instruments', taxation and social security creditors of £542,882 and deferred income of £1,052,016 were incorrectly included in the "other creditors" financial liabilities figure reported in this note, despite not meeting the definition of financial liabilities. 	✓

Section 2: Independence, ethics, fees and non-audit services

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. Communication of audit matters

Independence, ethics, fees and non-audit services

The table below sets out the total fees for audit and non-audit services charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

	Fees £	Threat identified	Safeguards
Audit of company	£17,000	None noted	N/A
Total audit	£17,000		
Certification of the teachers pensions return	£3,500	Self-interest threat (because this is a recurring fee)	The fee for this work is low in comparison to the total fee for the audit and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Total audit-related services	£3,500		
Total fees	£20,500		

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No non-audit services have been provided to the Company by Grant Thornton UK LLP.

The audit fee was not provided on a contingent fee basis.

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)



Section 3: Communication of audit matters

01. Audit findings

02. Independence, ethics, fees and non-audit services

03. 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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), 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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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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- Over 130 countries
- Over 700 locations
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FTSE 100 are non-audit clients

56%



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- Fee income \$2 billion
- Over 340 offices, 30 countries, presence in all major financial and economic centres
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- Over 290 offices, 75 countries, presence in all major financial and economic centres
- Over 15,000 people, including partners

Asia Pacific

- Fee income \$583 million
- Over 80 offices, 19 countries, presence in all major financial and economic centres
- Over 9,000 people, including partners



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