

The Audit Findings for Surrey Choices Ltd

Year ended 31 March 2019

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Dear Sirs

Audit Findings for Surrey Choices Ltd for the year ended 31 March 2019

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.

Joanne Love

Engagement Leader
For Grant Thornton UK LLP

Chartered Accountants

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Status of the audit

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.



Final review and agreement of financial statements.
Letter of representation to be signed alongside the financial statements

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Audit opinion

Our anticipated audit report opinion will be unmodified

Significant findings

Significant risks are defined by ISAs (UK) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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

- Audit work performed:
 - Documented our understanding of management's controls over revenue recognition;
 - Reviewed the appropriateness of management's revenue recognition policies;
 - Reviewed significant contracts to check that contract revenues have been accounted for appropriately; and
 - Substantively tested all material revenue streams.

Conclusion

From the work performed, we are satisfied that revenue is not materially misstated.

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2

Management override of controls

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

Auditor commentary

To gain reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, we have performed the following work:

- Review of accounting estimates, judgements and decisions made by management.
- Gained an understanding of the control environment surrounding journal posting
- Reviewed the journals posted to the GL including entries which appear outside the normal course of business which will be agreed to supporting documentation.
- Tested any significant transactions outside the normal course of business operations for the validity of their business rationale.

Conclusion

From the work performed, we are satisfied that there are no material misstatements as a result of management override of controls. We have however identified a several control deficiencies - please see further detail within the internal controls section. Other than this, no issues noted.



Other findings

Other risks are, in the auditor's judgment, those 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 other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risks identified in our Audit Plan

Commentary

1

Operating expenses and creditors

- There is the risk that operating expenses are understated or not recorded in the correct period. There is also the risk that creditors at year end are understated.

Auditor commentary

- Audit work performed:
 - Documented the controls in place in relation to operating expenses;
 - Performed cut off testing to assess whether transactions occurring close to the year end have been recorded in the correct accounting period;
 - Tested expenditure and year end creditor balances.

Conclusion

From the work performed, we identified a misstatement within creditors and expenses above trivial. This adjustment has been proposed but because it is below materiality it has been left as unadjusted. No other issues found and we are satisfied that operating expenses and creditors are recorded correctly.

2

Employee Remuneration

- There is the risk that payroll costs, tax obligations and pension expenses are understated or inaccurate.

Auditor commentary

- Audit work performed:
 - Documented the controls in place in relation to payroll expenditure;
 - Tested a sample of starters and leavers to supporting documentation held
 - Tested a sample of payroll transactions to supporting records; and
 - Reconciled payroll records to the financial statements.

Conclusion

From the work performed, we are satisfied that payroll expenditure has been recorded correctly in the financial statements.

Other findings (continued)

Risks identified in our Audit Plan

Commentary

3

Defined benefit pension scheme

- A defined benefit pension scheme is operated by the company. There is a risk that the assets held in the pension fund do not exist and actuarial assumptions are not accurate.

Auditor commentary

- Audit work performed:
 - Obtained the actuarial report prepared by RSM and reconciled to the financial statements;
 - Assessed the reasonableness of the assumptions and models used by the actuary to determine the fair value of the pension scheme;
 - Reviewed the initial impact of GMP equalisation and McCloud judgement, provided by the actuary, and assess for reasonableness.

Conclusion

From the work performed, we are satisfied that the deferred pension calculations have been recorded correctly in the financial statements.

Going Concern

Description

The assessment of the entity's ability to continue as a going concern is an essential part of the accounts approval process.

The adequacy of disclosure of the risks associated with going concern remains an area of focus for the regulators when reviewing financial statements, even in entities where there is no obvious going concern risk.

For this reason both the board and ourselves need to consider a period of at least 12 months from the date of approval of the financial statements.

Work commentary

Work performed:

- Reviewed the disclosures concerning the basis of preparation of the financial statements.
- Reviewed the business plans and will review the cash flow forecasts prepared by management, including the assumptions used and level of headroom available.
- Consider robustness of the forecasts to potential changes in underlying assumptions and management contingency plans in the event of such circumstances arising.
- Obtained a letter of support from Surrey County Council confirming that they will not demand repayment of the loan for at least 12 months from the date of approval of the Surrey Choices statutory financial statements

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570)

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	Disclosures	<ul style="list-style-type: none"> We identified no significant disclosure errors or omissions in the financial statements.



Internal controls

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

- The purpose of an audit is 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 here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265.
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.

Assessment

Issue and risk

Recommendations

1



Whilst carrying out our review of journal postings in the year, we noted the following:

- Individual journal entries are not authorised. We are aware of compensating controls in place through the monthly review process. However, there is the risk that errors or fraud could occur without being detected.
- Senior members posting journals. In our testing we identified a number of journals which had been posted by Andrew Gray. He is a senior member of the finance team and hence we would not expect him to be posting journals. However as they have had multiple changes in staff during the year, this was necessary due to the lack of experience in other staff members. There is still a risk that error or fraud could occur due to the lack of segregation.

- We recommend that all individual journal entries are approved by another member of the finance team with the appropriate level of authority.
- We also recommend that Andrew does not post journals and has a review capacity only.

Management response

Management has considered this and will train more staff to post journals so there will be a formal process of review and authorisation.

No control points were raised in the prior year in which to report on.

Unadjusted misstatements

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
	Profit/(Loss) per draft accounts					100,000
1	Dr Creditors			15,213		
	Cr Expenses		15,213			15,213
	<i>Being the adjustment to balances within creditors which relate to FY20</i>					
	Profit/(Loss) per final accounts					115,213

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There were no adjusted misstatements to note.



Independence and ethics

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.

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		

- 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.
- The fees reconcile to the financial statements.

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	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
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 Findings, outlines those key issues, findings 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.

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.

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.





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