



Surrey Choices Limited

Report to the Board
Year ended 31 March 2020

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The matters raised in this Report to the Board are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for any other purpose.

Surrey Choices Ltd (“the Company” or “SC”)

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of the Company for the year ended 31 March 2020.

This report provides an update to the significant matters raised in our Audit Service Plan, which was provided to the Company on 1 May 2020.

This report provides an update to the matters discussed at that meeting and the other matters which arose during the course of our audit.

Audit scope

Our terms of engagement are set out in our engagement letter. That letter sets out our audit responsibilities and their limitations and the responsibilities of the directors in relation to the financial statements.

Our Audit Service Plan set out in detail the key issues and risks identified at the planning stage

and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Communication with those charged with governance

International Standard on Audit 260 “Communication of audit matters with those charged with governance” (“ISA 260”) is an auditing standard designed to ensure that there is effective two-way communication between auditors and those charged with governance of the Company. In the context of ISA 260 “those charged with governance” means the Board of Directors of the Company.

Matters relating to the planning, conduct and results of the audit are communicated to those

charged with governance of the Company on a sufficiently prompt basis to enable the recipients to take appropriate action.

During the audit, regular communications were made by us to Andrew Gray and Nick Ighodaro at SC. These communications were generally made informally, either by telephone or email.

After the completion of the audit, important matters requiring the attention of Directors are communicated by way of this report.

Audit independence

In accordance with the requirements of ISA 260 and the Ethical Standard issued by the Financial Reporting Council, we confirm the matters set out below.

We discussed the specific threat to you posed with our involvement in the services provided and how we mitigate such threats in our Audit Service Plan. We have not identified any further threats during the course of the audit.

We confirm that: We are auditors of Surrey Choices Ltd;

The audit is subject (if selected as part of a sample) to our internal independent quality control procedures, and reviews by the ICAEW as part of their inspections.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact:

Jessica Moorghen

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e: j.moorghen@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Company and, accordingly is addressed to the Board.

It is not intended to include every matter that came to our attention. For these reasons, we

believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

UHY Hacker Young
June 2020

Acknowledgement

We wish to thank Andrew Gray and Nick Ighodaro for their helpfulness and co-operation during the course of the audit process.

Audit structure

We have carried out the audit of the Company. The audit working papers have been reviewed by the audit manager and audit partner. Any significant issues arising during our audit were discussed with Andrew Gray and have been included in this report if deemed necessary.

The audit was planned and conducted to concentrate on the high risk areas in the financial

statements. The key audit issues arising in these areas are explained further on page 5 below.

The accounting systems were documented and the controls over those systems evaluated. Using these assessments we designed and conducted detailed tests of transactions and balances.

Current position

The audit of the Company is substantially complete. All queries arising during the audit were dealt with as the audit progressed. There were no limitations on the scope of our audit work completed to date.

There are, however, at the time of writing some outstanding unresolved audit matters which are

set out below and which may or may not have an impact on our audit opinion on the Company financial statements.

We expect to be in a position to sign our audit report as soon as practicable after clearing the outstanding matters.

Outstanding audit matters:

Signed Letter of Representation from the directors;

Signed Directors' Report;

Signed Statement of Financial Position and;

Completion of our subsequent events review to the date of our audit report.

Identified key risk areas and our responses

We have identified the following key risk areas as part of our audit planning processes. During our audit we focused on these areas, in addition to our other normal audit procedures, and we set out below our comments and the results of our testing.

Management override of controls

Explanation of risk

Auditing standards require that the risk of management override of controls should be considered to be a significant risk for all audit engagements.

Audit response to risk

We will review a sample of transactions in the year for unusual items outside the ordinary course of

business and also test journals raised to ensure that such entries are relevant to the Company's business.

Outcome

Audit testing of a sample of journals posted in the year and other significant transactions did not indicate any instances of management override of controls occurring in the accounts.

Revenue recognition

Explanation of risk

Auditing standards require that revenue recognition is considered a significant risk unless it may be appropriately rebutted. There is a risk that revenue is incomplete and that it has not been accurately recorded or calculated.

Audit response to risk

A sample of revenue items were chosen and agreed to supporting documentation. A sample of the recognised income was also chosen either side of the year-end to ensure revenue recognition was accurate.

Any manual journals relating to work in progress or deferred income were recalculated on a sample

basis and agreed to the supporting documentation to gain assurance over the accuracy of the calculation.

Outcome

There were no errors noted in the testing for both completeness and accuracy of revenue. We performed substantive testing on all material revenue streams. This is to determine whether the accounting policy had been correctly applied and performed specific cut-off testing to ensure that revenue has been accounted for in the correct period. All items sampled were satisfactory tested with no issues noted. As such we believe that revenue is materially correct.

Debtor recoverability

Explanation of risk

There is a risk that debtor balances are not recoverable and therefore are overstated.

Audit response to risk

A sample of debtors was agreed to post-year end receipts to ensure amounts are recoverable. Any doubts raised over recoverability were queried with Sarah McDonald and documentation obtained to verify recoverability / dates.

Outcome

Our sample items tested for recoverability overall proved adequately received post-year end leading to the conclusion that debtors are materially correct.

Valuation of pension scheme liabilities

Explanation of risk

The fair value of the company’s share of its LGPS and TPS pension liabilities will need to be included in the financial statements.

Management do not have the appropriate expertise to value the pension liability and therefore a valuation needs to be obtained by the Local Authority who have arranged for professional valuations from actuaries.

There is a risk that the pension scheme liability will not be recorded and accounted for incorrectly due to the complexities of the FRS 102 requirements.

Audit response to risk

As part of our audit procedures, we will assess the competence of the actuary, consider the reasonableness of the basis of the calculation and the assumptions made in the valuation.

We will review the disclosures in the financial statements, of both the pension liabilities and any

corresponding asset, and confirm that these are reasonable and complete.

Outcome

Assessing the fair value of the pension scheme assets and liabilities is a complex exercise and the valuation has been obtained from the Local Authority who have arranged for professional valuations from actuaries.

As part of our audit procedures, the competence of the actuary performing the valuation was assessed.

In addition, the assumptions and basis of the calculations were assessed in light of assumptions used in similar valuations of companies that UHY also audit. The impacts on the valuation of using differing assumptions were assessed.

We have reviewed the FRS102 disclosures in the actuarial valuation and confirm that these are reasonable and complete.

Going Concern

Explanation of risk

As the company is profit making, with healthy cash reserves at the year-end, going concern would not usually be considered a risk to an entity in this financial position.

However, due to the economic uncertainty surrounding COVID-19, we have highlighted it as a risk to consider in detail as this may have a significant impact on the company's ability to continue as a going concern and pay back the loan to SCC as payments fall due. There is also a risk of reduced funding from the Surrey County Council going forward. However, as the block contract with the SCC is guaranteed until March 2021, the risk of this occurrence is considerably reduced.

Audit response to risk

We will discuss in detail with the directors, the steps being taken to ensure that the company will continue as a going concern. We will request and review the cash flow forecasts of the company for the next 12 months and assess the reasonableness

of the assumptions made. We will also perform a sensitivity analysis on the cash flow forecasts.

Outcome

We assessed the company’s ability to continue their operations until the end of June 2021. We have reviewed the cash flow forecasts to end of June 2021 and compared actual results from April and May 2020 to those predicted in the forecast.

The key assumptions made in the cash flow forecast were reviewed and deemed reasonable.

We also performed a sensitivity analysis on the key assumptions to ensure that in a reasonable worst case scenario, the company would continue to have sufficient cash to continue in their operations for the 12 months from signing the audit report.

It was concluded that Management’s plans are considered feasible and there is no reason to doubt the going concern assumption.

Opening Balances

Explanation of risk

This is a first year audit, under ISA 510- Initial Engagements; there is limited assurance over the accuracy of the brought forward balances.

Audit response to risk

We will vouch opening balances to prior year signed accounts and ensure all audit journals have been posted correctly. We will complete detailed work programmes tailored to gaining assurance on the accuracy of the brought forward balances. We will review records, as well as accounting and control procedures in the preceding period. We will also consult with the previous auditor and review (with their permission) their working papers and relevant management letters.

Outcome

During our testing of the brought forward balances, it was identified that retained earnings did not agree to the prior year signed accounts. Once this was corrected, this affected the bank balance, meaning an amended bank reconciliation was required to amend this. This error was amended by the client as part of a late client journal, which was subsequently reviewed and deemed reasonable.

Internal controls

Our audit is tailored to our assessment of the risk of material misstatement, taking into account the inherent risk of error or fraud and our assessment of the effectiveness of controls in eliminating or reducing those risks.

We cannot examine every activity and procedure within the Company, nor can we substitute for management responsibility to maintain adequate controls at all levels of business.

Accounting policies

We have reviewed the accounting policies adopted by the Company in the preparation of its financial statements and consider that they are appropriate and suitable for the Company's particular circumstances.

As required by FRS 102, the Board of Directors should formally review the Company's accounting

Our work cannot therefore, be expected to identify all weaknesses in the Company's procedures and systems. However, we will gladly discuss with you an extension of our work to review in more depth any aspect of the business which potentially concerns you.

policies and treatments to ensure that they remain the most appropriate to the Company's particular circumstances for the purposes of giving a true and fair view. We suggest that the Board of Directors should minute this discussion.

Significant subsequent events

In March 2020, many countries across the global entered into widespread lockdown of businesses and life as we know it. The spread of COVID-19 has caused significant volatility in the UK economy and as such there is significant uncertainty around the full impact and duration of business disruptions related to the pandemic. The impact of COVID-19 on the company's ability to continue as a going concern has been concerned in detail during our going concern review, with the conclusion being that Management's plans are considered feasible and there is no reason to doubt the going concern assumption.

Consideration of fraud

We have discussed fraud with Andrew Gray and Nick Ighodaro.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

It was confirmed that:	There have been no instances of fraud during the year; and Those charged with governance of the Company consider there to be a low risk of fraud occurring.
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Summary, adjustment and audit report

Audit adjustments agreed with management

We received the draft trial balances for the Company from Nick Ighodaro in accordance with the audit timetable.

During the course of the audit, small adjustments were necessary in order to facilitate the preparation of the statutory financial statements, including some reclassifications of balances for statutory presentation purposes.

Where we have proposed reclassifications of balances for disclosure purposes these

amendments were reviewed and agreed by Andrew Gray.

Late adjustments provided by management, mainly in order to correct the brought forward balances, bank, unrecorded accruals and income were reviewed as part of our audit process and have been agreed and processed in the financial statements.

We have not proposed any audit adjustments that would have had an impact on the profit or loss for the year of the Company.

Unadjusted items

During the course of our audit we identified some non-material items which have not been adjusted for in the financial statements.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be

undertaken prior to finalisation of the Company accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Audit report

We propose issuing an unqualified audit report on the financial statements of the Company for the year ended 31 March 2020.

Remaining timetable

We are in a position to finalise the statutory accounts subject to the outstanding matters noted on page 3 of this report.

Appendix 1

Management letter points

We wish to draw your attention to the following matters that arose during the course of our audit of the Company's accounts for the year ended 31 March 2020.

Loan Agreement with Surrey County Council (SCC) was not signed	
Observation	The amended loan agreement with SCC was originally not signed. It was also noted that upon review of correspondence with SCC, there was a period where the original loan agreement had been expired and a new agreement had not yet been completed.
Implication	Expired loan agreements may result in potential dispute between parties involved, resulting in fines or litigation.
Recommendation	This is less of an issue as the agreements are with the parent entity but nonetheless, please ensure that all loan agreements are up to date and signed by both parties. However we appreciate that this was subsequently signed.

Brought forward balances	
Observation	Brought forward retained earnings did not agree to the prior year signed accounts. Once this was corrected, this affected the bank balance, meaning an amended bank reconciliation was need to amend this. I appreciate this was partly due to an issue with Xero.
Implication	Incorrect brought forward balances may lead to material errors in the financial statements.
Recommendation	Please ensure brought forward balances are reconciled to the carried forward prior year figures.

Late client journals	
Observation	During completion of field work, there were some minor changes made to the Trial Balance that were not made aware to us.
Implication	This may result in increased time spent reconciling the changes made to the trial balance.
Recommendation	We appreciate that the audit took place very close to the year end and adjustments were likely to be raised. Please can you let us know if there is any further changes to the figures, as this affects our materiality and requires us to reassess each audit test to ensure we have covered a sufficient level of substantive testing, it also means that we have to reconcile our TB to the updated one each time.

Employee Number Disclosure	
Observation	Average number of employees were being counted by taking half numbers for employees who only work part-time. This meant that the number of employees per the monthly payroll reports varied significantly from the numbers per the monthly average workings. This also meant having to restate 2018 employee figures.
Implication	Disclosure of average number of employees in the financial statements may be incorrect and provide an inaccurate representation of the actual employee count.
Recommendation	Under FRS 102, the disclosures required by s411 must be based on the average number of employees irrespective of whether they are full-time or part-time. Therefore, we need the average based on the actual number of employees; this can be split for those who work full time and part time separately.

Old balances on the bank reconciliation	
Observation	There are old balances on the bank reconciliation for the current account – these are dated 24/8/18 and 7/12/2018. We understand that these relate to funds received but subsequently queried as they may have been incorrectly given.
Implication	The cash and cash equivalents may be misstated.
Recommendation	Please clear these amounts as they are historic. However we appreciate that there have been problems with Xero stopping you from doing so.