8

Halsey Garton Residential Ltd
Key Audit Findings

For the year ended

31 March 2023

Knowing all your business,
tax and wealth needs

Our values

Our values define who we are and how we do things at Kreston Reeves. They reflect our attitudes and behaviours and represent a promise of quality, personal service and commitment to our clients, communities and colleagues.

Collectively and individually we aim to:

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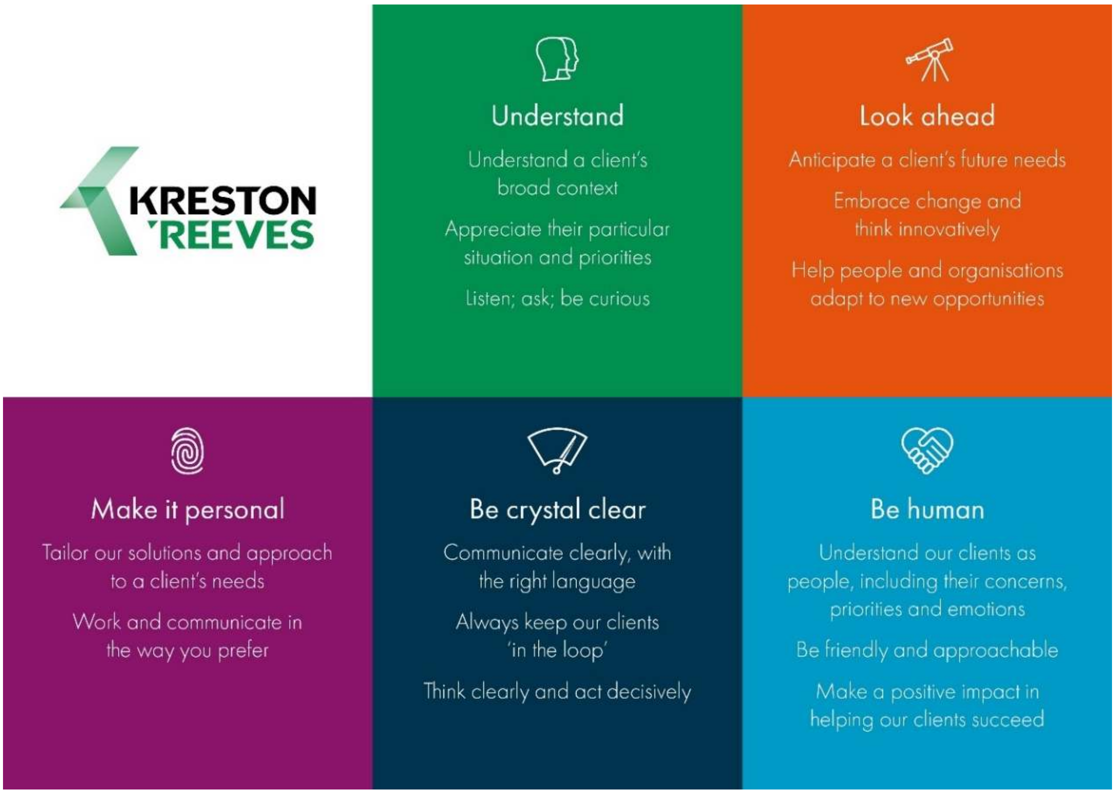

Our awards

We are regularly recognised and shortlisted in prestigious national, regional and industry awards. As well as receiving award recognition ourselves, it's important to us to help recognise and award the successes and growth stories of other businesses. We regularly support and sponsor awards such as Kent MegaGrowth and Sussex Super Growth Awards.

Halsey Garton Residential Ltd

Key Audit Findings
For the year ended 31 March 2023

Index

8

Appendices

Halsey Garton Residential Ltd

Key Audit Findings
For the year ended 31 March 2023

1. Introduction and audit summary

The purpose of this report is to bring to your attention our findings from the recent audit carried out on Halsey Garton Residential Ltd. We appreciate that you will already be aware of the majority of the matters contained in this report through earlier discussions you will have had with the audit team, but we hope that you will find this report a useful summary of those discussions.

8 We would like to take this opportunity to thank Joe Stockwell, Cristina Robinson and the rest of your accounts team for the assistance they have provided to us during the course of our audit.

Our audit has given us a unique opportunity to understand your business and processes. We have used this opportunity to provide you a service that is of real positive benefit to you.

During the course of our audit work this year we have performed the following tasks which we hope that you will have found to have been of benefit.

- We have assisted you with the preparation of the company's financial statements, ensuring that they comply with all statutory requirements and with accounting standards. In doing so we have ensured that the company has taken advantage of any accounting exemptions available to it so as to avoid any unnecessary over-disclosure of the company's affairs that are not required to be published in publicly available financial statements.

- In order to be able to assist you with the preparation of the company's financial statements we have highlighted to you misstatements in the accounting records discovered by our audit work, and worked with you to ensure that where material these have been corrected. Further information related to misstatements discovered during our audit are set out in Section 6 of this report and supporting Appendices II and III.

- As part of our audit, we have reviewed the financial reporting framework under which the company prepares its financial statements. As part of this review, we have ensured that the company is complying with Generally Accepted Accounting Principles as well as best practice for your industry sector.

- We have advised you of changes to the reporting standard FRS102 that are due to come into force in future accounting periods and how they will impact upon your reporting requirements.

- We have advised you of planned future changes to corporation tax that are likely to affect the company, providing an indication of their likely impact on the company's future tax liabilities and the timing of their payment. These changes are detailed at Section 5 of this report.

- We have reviewed the company's systems of accounting and internal control systems and made recommendations where these can be improved. These are detailed at Section 7 of this report.

- We have considered the company's governance and compliance with elements of company law, suggesting improvements that could be made. These are detailed at Section 8 of this report.

Should you have any questions regarding any of the issues raised in this report please contact Graham Hunt as the partner responsible for the audit of your company, or any other member of the audit team, who will be happy to provide further explanations as required.

Kreston Reeves LLP

Statutory Auditor
Chartered Accountants

July 2023

KRESTON REEVES

2. Audit report

We can confirm that our audit has not revealed any matters which will require modifications to our audit report. Thus, at this stage we expect that an unqualified audit opinion will be issued.

3. Key audit matters

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Key audit matters are those matters that, in our professional judgement, were of greatest significance in our audit of the financial statements. These include the significant risks of potential material misstatement that we identified during our planning of the audit and had the greatest impact on our overall audit strategy, which we advised you of in the Audit Plan issued to you prior to the commencement of our work.

We can now report to you how our audit addressed these areas of significant risk and the conclusions we formed.

- **Revenue recognition due to fraud**

  ISA 240 requires us to assess the risk of fraud in revenue recognition.

  As part of our work on revenue we have selected a sample of months and properties throughout the year and have agreed from the tenancy agreement/contract through to the monthly Curchods reports, into QuickBooks and to the bank receipt. We have also performed work around cut off via a review of deferred income.

  No issues were identified from our testing.

- **Valuation of property**

  There is a risk that the valuation of the investment properties could be materially misstated.

  As part of our work we have reviewed the independence, capability and competence of the valuers. We have also reviewed the assumptions and calculations performed by the valuers.

  We are satisfied that the valuation is not materially misstated. However, we have noted an unadjusting journal with respect of these as described further within Section 6 of this report.

- **Management override of controls**

  International Standards on Auditing require us to treat the management override of controls in place as a significant risk on all assignments.

  We have made use of data analytics to review your general ledger as a whole. Further details on this have been included within Section 4 of this report.

  No issues were identified from our testing.

4. Data analytics

As previously communicated, we have used data analytics software to support our audit. Data analytics complements our traditional audit methodology with a comprehensive, risk-based approach which through the power of computer assisted techniques examines 100% of the data population.

This risk-based approach is driven by a number of control points and it is the weighting of these control points that determines the assessed risk of a transaction. As detailed in our Audit Plan, this is an area where management can have valuable input to identify potentially high-risk transactions. We have used our knowledge of the company and the data analytics software to tailor the control points which has produced the following risk-based analysis. 8

Overview

The company's dataset has been analysed into the following risk categories:

High Risk	Medium Risk	Low Risk
£0	£8.38M	£5.61M
0 transactions (0%) of the ledger	5 transactions (1.1%) of the ledger	430 transactions (98.9%) of the ledger

As expected, the vast majority of transactions are deemed low risk. 5 transactions have been identified as medium risk. On review of these, 2 of them relate to the posting of the year end revaluation of the investment properties. 1 journal relates to the opening balance adjustment for last year's revaluation. 1 journal relates to the posting of the annual interest on the loans. The final medium risk journal is a £3.49 write off of an old rental debtor.

On review of the above journals, we are satisfied these are legitimate business transactions.

Transaction review

Following this analysis, a number of transactions were selected for further scrutiny. This included all transactions considered medium risk transactions, all transactions we deemed to be material in value and a review of any transactions including suspicious keywords.

A review of these transactions did not highlight any inappropriate transactions, and all were found to be within the normal and expected course of business based on our knowledge of the company's operations, systems and the sector in which it operates.

1) Material value

- This control point sets the value for which transactions will be flagged which contain a value above the company's assessed materiality value.
- 4 transactions were identified as being material. Of these, two relate to revaluation postings and one to the annual loan interest posting as identified above. The fourth journal relates to the bank payment of the annual loan interest. We are satisfied these are all legitimate business transactions.

2) Reversals

- This control point identifies any transactions that are reversals.
- No such transactions were identified.

3) Suspicious key words

- This control point identifies any transactions that include in the description words from a pre-set listing of words considered suspicious, e.g. fraud, incentive, adjust, cancel, fix, estimate, request. It also includes the names of related parties.
- 33 such transactions were identified. The majority of these are the posting of recharges or accruals as these are picked up as suspicious words within the system. Given the way the business operates, we are satisfied these are appropriate transactions.

4) Empty text fields

- This control point identifies any transactions posted without a description. 162 empty text fields were identified. These all relate to the posting of receipts into and payments out of the bank accounts with the other side of the transaction being posted to debtors or creditors as appropriate. Due to the way the information is exported for data analytics, we do not have the ability to trace these, but QuickBooks would allow further analysis within the system to identify exactly what these relate to. As such, we are satisfied these do not create any issue.

Halsey Garton Residential Ltd

Key Audit Findings
For the year ended 31 March 2023

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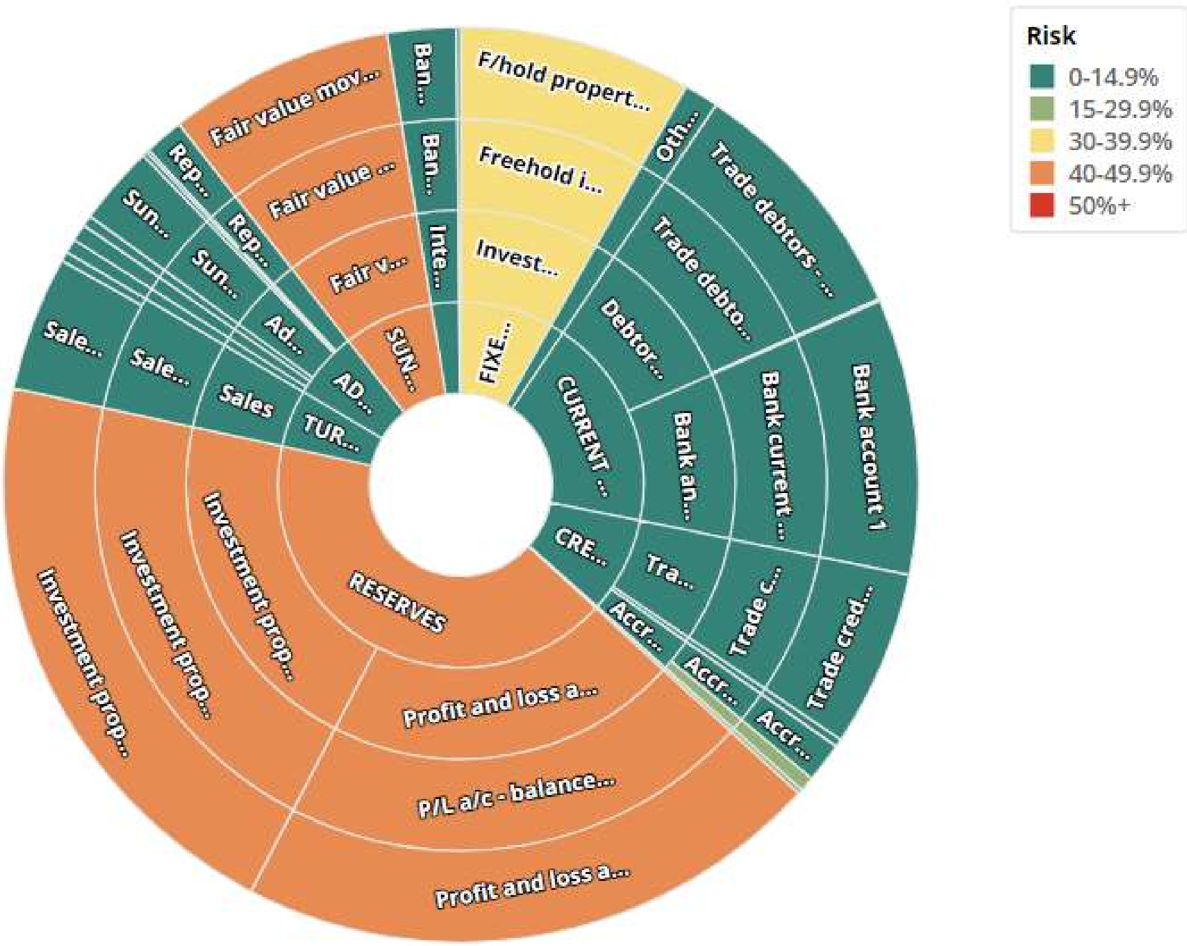

The above graph provides a visualisation of where the riskier areas were identified. As expected, the risks are around the investment property valuation and the associated fair value movement as well as the transfer between the Profit and loss and Other equity reserves. We have reviewed these as part of our audit testing and have not identified any material issues.

Summary

Overall, the findings from the data analytics software indicate that transactions in the data set appear to be genuine transactions made in the normal course of business, in line with our expectations and knowledge of your company.

5. Taxation

We are not engaged to prepare the corporation tax return for the Company. Based upon the computations provided, a provision has been made within the accounts for corporation tax of £40,188.98. This is made up of tax payable of £40,221.67, offset by a tax payment of £32.69 during the financial year.

Provision for deferred tax has also been made within the financial statements at the amount of £2,527,325. This provision reflects the estimated future tax consequences of transactions and events recognised in the financial statements of the current and previous accounting periods, and has been calculated in accordance with the requirements of FRS102.

Future tax changes

The Spring budget in March 2023 announced several changes to business taxation. These changes, along with other previously announced changes, may impact your future tax position.

Since 1 April 2017 there has been a single rate of corporation tax of 19%. From 1 April 2023, the main rate of corporation tax is now 25% for companies with profits over £250,000. For companies with profits of £50,000 or less, corporation tax will be paid at the small profits rate of 19%. Where a company’s profits fall between £50,000 and £250,000, they will pay corporation tax at the main rate reduced by marginal relief. Please note, the upper and lower limits will be proportionally reduced for short accounting periods and where there are associated companies.

The ability for companies to take advantage of trading losses that have been incurred became more flexible from April 2017. Since that date, losses incurred can be used against profits from other income streams or the profits of other companies within a group, not just against future profits arising from the same trade. There are restrictions though, in that companies may only utilise losses carried forward against up to 50% of their profits above £5m. For groups the £5m allowance applies to the entire group.

Further changes to the treatment of losses have been introduced which took effect from 1 April 2020. From this date the proportion of annual capital gains that can be relieved by brought-forward capital losses will be limited to 50%. The £5m allowance relates to both capital and income losses.

Changes to capital allowances that have been announced include:

- The Chancellor has set the Annual Investment Allowance (‘AIA’) at £1m permanently, for all qualifying investments in plant and machinery, which will result in businesses continuing to be able to deduct 100% of the costs of qualifying plant and machinery up to £1m each year. The £1m AIA is shared between group companies.

- From 1 April 2021 to 31 March 2023, a super deduction for capital allowances was introduced. The super deduction provides 130% allowance for most new plant and machinery acquired by the business which would have qualified for capital allowances at 18% ordinarily. There is also a 50% first year allowance for special rate assets, that would usually qualify for capital allowances at 6%. Exclusions apply, assets must be new and not used, and some assets are excluded entirely such as cars.

- From 1 April 2023, the super deduction scheme has been replaced with 'full expensing of capital expenditure', which allows companies to fully deduct the cost of certain plant and machinery (or 50% if the expenditure falls into the "special rate" category of plant and machinery). This is in addition to the AIA and is expected to last for an initial period of 3 years until March 2026. Similar to the super deduction scheme, exclusions apply, assets must be new and not used, and some assets are excluded entirely such as cars.

- Structures and buildings allowances are available for qualifying expenditure on the construction, renovation or conversion of non-residential buildings and structures where all the contracts for the physical construction works are entered into on or after 29 October 2018. The rate of the allowance is 3% (previously 2% for expenditure up to 31 March 2020). This relief is not available for the costs of land or dwellings.

From 1 April 2022, there is a new tax called the Residential Property Developer Tax will apply to companies or groups which undertakes UK residential property development with profits derived from that activity of more that £25m. The tax is charged at 4% on the property development profits over the £25m annual profits allowance. The allowance can be allocated between group companies. The tax in included in the corporation tax return. Periods that straddle 1 April 2022 will have profits time apportioned between the amounts that fall before and after that date.

The pension annual allowance has increased from £40,000 to £60,000. As employer pension contributions are tax deductible for corporation tax purposes, it could allow companies to review their remuneration planning to reduce their taxable profits and therefore the impact of the rising Corporation tax rate. This is especially relevant for those companies with profits that will be taxed at the effective 26.5% marginal rate.

For more information on how these changes may impact upon the company please contact your usual Kreston Reeves adviser.

Making Tax Digital

HMRC have an ambition to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for taxpayers to comply with.

A major step towards this ambition has been made with the introduction of Making Tax Digital (MTD) for VAT. From 1 April 2019, most VAT-registered entities with a taxable turnover above the VAT threshold of £85,000 have been required to use the MTD service to keep records digitally and use compatible software to submit their VAT Returns. From 1 April 2022, MTD for VAT will be extended to all VAT registered companies.

Plans to extend MTD to other areas of taxation, including corporation tax reporting, are awaited from HMRC, although it has now been confirmed that usage of MTD for Corporation Tax will not be mandated for businesses before 2026. We will keep you informed as further developments arise.

6. Misstatements encountered during the audit

We are required to inform you of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The following significant misstatements have been identified:

- A journal has been put through to correct the year end corporation tax and deferred tax liability in line with the computations provided
- A journal has been put through to recognise the transfer between the Profit & Loss reserve and the Other Equity reserve. This represents the fair value uplift in the investment properties net of associated deferred tax
- A journal has been posted to correct the year end deposit amounts in line with the year end statements.
- We have raised a journal to split out the amounts owed to/by the parent undertaking within the notes of the financial statements as required under FRS102. As this was not split out last year, we have also corrected the prior year split.

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A full summary of adjustments made to the company's results during the course of the audit, including a reconciliation between your management information and the financial statements, can be found within Appendix II.

You should review these adjustments in order to satisfy yourselves that they have been properly made. Confirmation that you have done so should be communicated to us within the letter of representation.

In addition, one unadjusted misstatement was discovered during the course of our audit. This was as follows:

- On review of the valuation workbook provided, it was noted that the yield rate being applied to Flat 3, 6a School Cottages, Woking was 550%. Given all other properties sit between 5 and 6%, we have amended the yield to 5.5% and confirmed the difference in valuation is immaterial.

A full summary of the significant unadjusted misstatements discovered during the course of our audit and their potential impact on the financial statements can be found within Appendix III. This does not include any misstatements discovered during the course of the audit which we consider to be trivial in nature.

7. The accounting and internal control systems

We can confirm that we have found the company's accounting and internal control systems to be appropriate to the company's needs based upon the nature and complexity of your activities and the need for any systems to be cost effective. No matters have come to our attention during our audit to suggest that any serious error has arisen with these systems during the accounting period under review. Thus we believe that the systems can be relied upon to produce financial statements that show a true and fair view.

There are however a number of suggestions that we have made regarding the accounting and internal control systems, and these are set out in Appendix IV.

Please note that the purpose of the audit was to enable us to express an opinion on the financial statements. Our audit did include consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in such circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. The matters being reported to you are limited to those deficiencies that we have identified during our audit, which was conducted on a test basis, and that we have concluded are of sufficient importance to merit being reported to you, but this does not represent a comprehensive statement of all weaknesses which may exist in the accounting and internal control systems or of all improvements which may be made. We can only address those matters which have come to our attention as a result of the audit procedures which we have performed.

8. Qualitative aspects of the company's accounting practices and financial reporting

As part of our audit, we have considered and reviewed the company's accounting policies with UK Generally Accepted Accounting Practice and we have not encountered any material departures. In our opinion the accounting policies selected are appropriate to the circumstances of the company.

Future accounting changes

8 The company's accounts are prepared in accordance with FRS102. This standard is due to be updated and revised every four to five years in order to ensure that it reflects any legal changes and developments in accounting practice that have taken place.

The Standard at this stage has not been updated for recent changes to International Financial Reporting Standards (IFRS), and in particular the following major new standards that have recently been implemented:

- IFRS9 *Financial instruments*
- IFRS15 *Revenue from contracts with customers*
- IFRS16 *Leases*

Although the long-term aim is to keep FRS 102 as closely aligned to IFRS as possible, the FRC has stated that further consideration is required of the changes that may be required, and that this work will not begin until these standards have been fully implemented by IFRS reporters and insight can be gained from their implementation experience. It is therefore unlikely that any changes will be made to FRS 102 in respect of these issues that will impact on your reporting for the foreseeable future.

For more information on these future changes please do not hesitate to contact your usual Kreston Reeves adviser.

Appendix I – Other matters required by International Standards on Auditing to be communicated to you

Audit report – further information

Our audit report contains details of the scope of the audit of the financial statements conducted in accordance with legislative requirements and International Standards on Auditing. Further information on the scope of the audit is set out on the website of the Financial Reporting Council and can be found using the following link:

https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx 8

The original audit report will be signed by Graham Hunt, being the Senior Statutory Auditor for this assignment, for and on behalf of Kreston Reeves LLP. The financial statements incorporating the original audit report should be retained with the company's other permanent documents. Copies of the financial statements that require a signed audit report, including for filing with Companies House, will be signed as Kreston Reeves LLP as the statutory auditor.

Our audit report has been drafted in accordance with International Standards on Auditing and the latest guidance from the Financial Reporting Council and our Institute. This involves the inclusion of a paragraph which clarifies what our responsibilities as auditors are. It does not affect our responsibilities to the company or yourselves, nor does it mean we would be unwilling to accept responsibility to any third parties, providing that our specific agreement to do so is obtained beforehand.

Independence

We can confirm that we have re-evaluated our firm's independence in connection with the audit and can confirm that we are not aware of any factors affecting our independence or objectivity and thus our ability to continue to act as auditor of the company.

Letter of representation

Before we can complete our audit, we require from you a letter of representation on your headed notepaper. A draft version of such a letter accompanies this Memorandum. The letter will provide us with additional evidence in areas where we have relied upon representations from staff members during the audit. We suggest that this letter is signed by a representative member of the Board of Directors and that you make your own enquiries of staff to verify that you support the representations that have been made.

Liability

This report has been drafted solely to report to you as directors matters in relation to our audit. It has not been drafted with any third parties in mind and thus must not be disclosed to a third party, or quoted or referred to, without our written consent. We do not accept responsibility to any third party in respect of our audit or this report.

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Appendix II - Summary of adjusted misstatements

	Debit £	Credit £	Impact on profit £
Retained profit as per accounts presented for audit			**2,405,228**
Tenant deposits (Creditor)		**6,398**	
Deposits held with DPS (Debtor)		**236**	
Deposits held with TDS (Debtor)	**6,634**		
To correct the year end deposit amounts so that they agree to the year end statements			
Transfer to Other Equity reserve (SOCIE)		**1,752,019**	
Transfer from P&L reserves (SOCIE)	**1,752,019**		
To post the movement between the P&L reserve and Other Equity reserve based upon the fair value movement and associated deferred tax movement			
Amounts due from parent undertaking (BS)	**93,716**		
Trade debtors (BS)		**93,716**	
To split out the amounts due from the parent, Surrey County Council, as at the year end			
Corporation tax charge (P&L)		**717**	**717**
Corporation tax liability (BS)	**717**		
Deferred tax charge (P&L)	**585,748**		**(585,748)**
Deferred tax liability (BS)		**585,748**	
To provide for corporation tax and recognise the deferred tax movement			
Retained profit as per revised financial statements			**1,820,197**

For further details of the significant adjustments that have been made to the financial statements during the audit see Section 6.

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Appendix III - Summary of unadjusted misstatements

	Debit £	Credit £	Potential Impact on profit £
Investment property revaluation (BS)	**93,000**		
Fair value gain on investment property (P&L)		**93,000**	**93,000**
Deferred tax liability (BS)		**23,250**	
Deferred tax charge (P&L)	**23,250**		**(23,250)**
Transfer to revaluation reserve (SOCIE)		**69,750**	
Transfer from P&L reserves (SOCIE) *Adjusting current yield applied to Flat 3, 6a School Cottages, Woking from 550% to 5.5%*	**69,750**		
Total unadjusting impact upon retained profit			**69,750**

For greater details of the significant unadjusted misstatements discovered during the audit see Section 6.

We would request that you review these misstatements and consider amending the financial statements accordingly. If you decide not to amend the financial statements then your reasons for doing so should be communicated to us within the letter of representation.

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Appendix IV – Summary of recommendations regarding the accounting and internal control system

In order to assist management in using this report, we categorise our recommendations according to their level of importance:

Importance 1	Major issues for the attention of senior management/potential significant implications for the company
Importance 2	Other recommendations to be dealt with
Importance 3	Minor points representing best practice

Confirmation Statement

Nature of problem

As part of our testing we review Companies House to ensure that all statutory obligations are being followed. On review of this, we have noted that the last Confirmation Statement submitted is showing total shares of 1,168,808. However, per the accounts there are 4,087,109 shares.

Potential consequences

Companies House is showing incorrect information.

Recommendation for corrective action

We recommend correcting the Confirmation Statement to reflect the true position.

Management response

****** Detail ******

Bank mandate

Nature of problem

On review of the bank mandate, we note that Nicola O'Connor is listed despite no longer being a director.

Potential consequences

The bank mandate is out of date and there is a risk that payments could be made by directors no longer involved in the Company

Recommendation for corrective action

We recommend updating the bank mandate.

Management response

****** Detail ******

Leasehold title

Nature of problem

On review of a sample of title deeds, we note that Halsey Garton Residential Ltd are not shown as being leaseholders.

Potential consequences

There is a risk that Halsey Garton Residential Ltd do not have title of the assets and their ownership could be challenged.

Recommendation for corrective action

We recommend having the title deeds updated as soon as possible.

Management response

****** Detail ******

Lease valuation

Nature of problem

We note that the basis of valuation has assumed that the existing rental amounts will last for a period of 10 years on all properties.

Potential consequences

If the existing rental is charged for a period that differs to this, then there is a risk that the valuation may be misstated. From our testing we have calculated the average rental length and applied this instead to confirm that no material misstatement arises.

Recommendation for corrective action

We recommend reviewing the basis of the valuation next year to determine whether 10 years of the existing rent rate remains appropriate.

Management response

****** Detail ******

Purchase recognition

Nature of problem

As part of our purchase testing we identified two invoices relating to the prior year that had not been accrued for last year. The value of these was deemed trivial.

Potential consequences

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Expenses are potentially being recognised in the wrong financial year. However, we have confirmed that the invoices identified are trivial. We have not identified an issue around purchase cut off this year.

Recommendation for corrective action

We recommend ensuring that all work carried out in the year is accrued in at the year end.

Management response

****** Detail ******

Two-factor authentication

Nature of problem

We note that you do not insist upon two-factor authentication to access QuickBooks.

Potential consequences

There is potentially a greater risk of QuickBooks being incorrectly accessed.

Recommendation for corrective action

We recommend making use of two-factor authentication wherever possible.

Management response

***** *Detail* *****

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