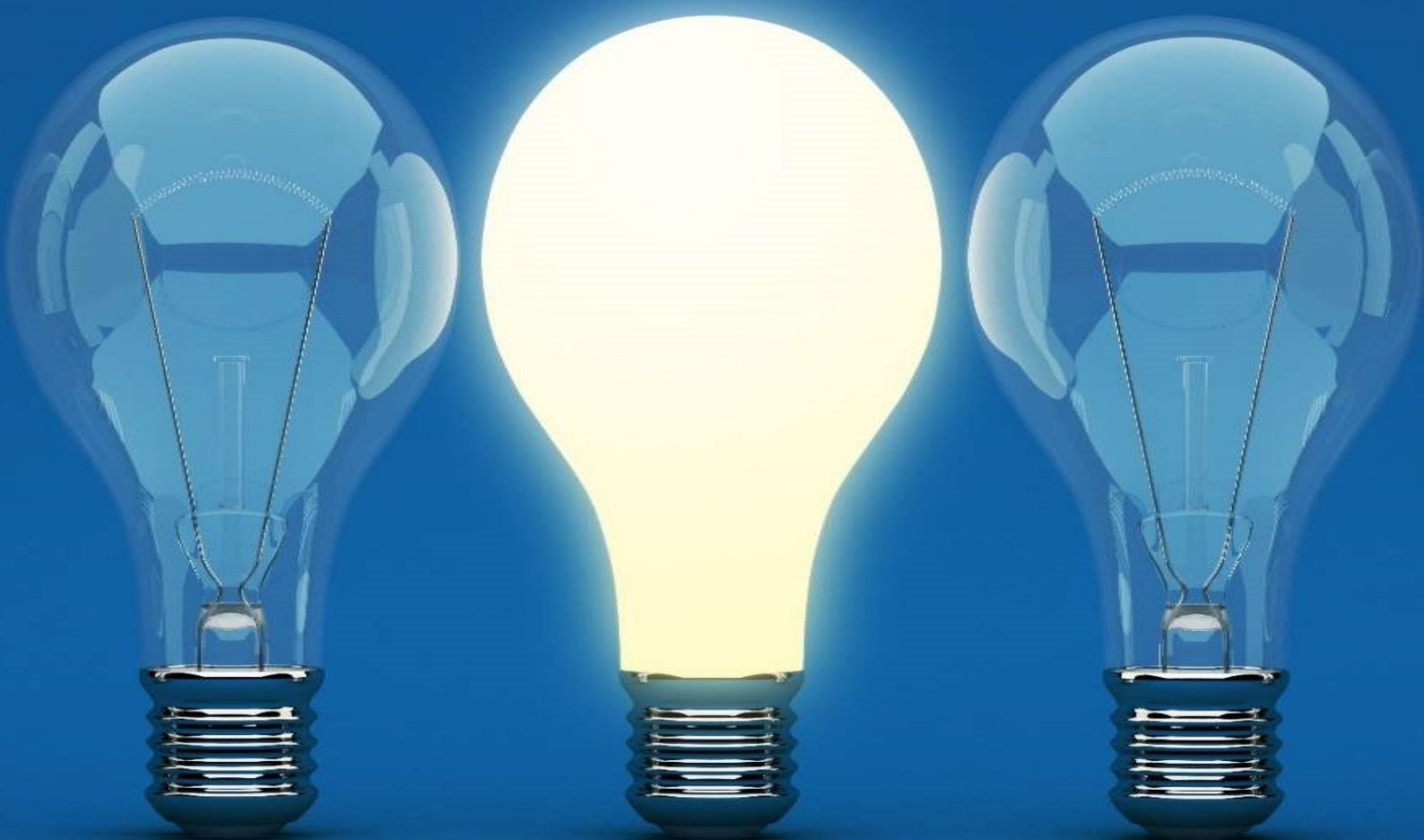


# Report to the Board Surrey Choices Limited

Year ended 31 March 2021



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The matters raised in this and other reports that will flow from the audit 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.

# Introduction

## **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 Surrey Choices Limited ("the Company") or ("SC") for the year ended 31 March 2021.

This report provides an update to the matters raised in our Audit Service Plan, which was provided to the directors on 26 May 2021, focussing on observations 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.

This report provides an update to matters which arose during the course of our audit.

## **Audit scope**

Our terms of engagement are set out in our engagement letter. This 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.

## **Audit independence**

In accordance with the requirements of auditing standards we disclose the following:

- We are auditors of the Company;
- 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;
- In addition to the audit, we provided the following services in 2021:
  - End of year certificate (EOYC)

We discussed the specific threat to you posed with our involvement in services provided and how we mitigate such threats in our Audit Service Plan. We have identified no further threats during the course of the audit.

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 partners 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 on 020 7216 4670 or at [j.moorghen@uhy-uk.com](mailto: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 Group 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.

### Acknowledgement

We have received full co-operation from all SC staff. We wish to thank in particular Andrew Gray, Nick Ighodaro and the entire SC team for the helpfulness and co-operation during the course of the audit process.

# Audit status

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The audit of the Company is substantially complete. All matters encountered during the audit were dealt with as the audit progressed. There are, however, at the time of writing some outstanding unresolved audit matters which are set out below which may or may not have an impact on our audit opinion on the Company's financial statements:

- 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.

We expect to sign our auditor's report as soon as practicable after clearing the outstanding matters and the approval of the directors' report and accounts by the directors. Our anticipated auditor's report opinion will be unmodified.

# Our approach to materiality

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The concept of materiality is fundamental to the preparation of the financial statements and the audit process.

It applies to monetary misstatements and also to disclosure requirements in compliance with the accountancy framework and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the company's financial statements	<b>£134,700</b>	<p>We have considered turnover to be the key driver of the business's financial performance. This is because the company does not hold any significant assets or investments.</p> <p>We have used a 1% benchmark which is in line with the FRC's thematic review.</p>

# Significant matters

Significant matters, as identified in our Audit Service Plan:

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Risks identified in Audit Service Plan	Work identified by management	Comments
<b>Management override of controls</b>  Under ISA 240 (UK) there is a presumed risk that the risk of management override of controls is present in all entities	Management were to ensure there are appropriate procedures in place to prevent override of controls.	<b>We have:</b> <ul style="list-style-type: none"> <li>Updated our documentation around the posting of journals and formulation of key estimates and assessed the design and implementation of those controls.</li> <li>Assessed and challenged accounting estimates, judgements and decisions made by management.</li> <li>Tested a sample of journal entries, adjustments and accounting estimates for bias that could result in material misstatements.</li> <li>Review significant transactions to ensure they were in the normal course of business.</li> </ul> <b>Conclusion:</b> We found no indication of management bias or significant transactions outside the normal course of business.
<b>Improper revenue recognition</b>  Under ISA 240 (UK) there is a resumed risk that revenue may be misstated due to the improper recognition of revenue	Management were to review the status of all significant transactions close to the year end to ensure that all were accounted for in the appropriate accounting period.  Management were to ensure that rent proof in total workings were completed for each entity, as this	<b>We have:</b> <ul style="list-style-type: none"> <li>Updated our documentation of the revenue process and controls in place, this included assessing the design and implementation of those controls.</li> <li>Assessed whether revenue was accounted in</li> </ul>

	was considered to be a key management control.	<p>accordance with the accounting policy on revenue recognition.</p> <ul style="list-style-type: none"><li>• Analytically reviewed revenues and verified significant movements against expectations and performed a proof in total on the SCC Block Contract income.</li><li>• Tested a sample of transactions to agreements to supporting evidence</li></ul> <p><b>Conclusion:</b> We found no significant or reportable adjustments were noted based on the work performed.</p>
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# Going concern

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## Management's assessment

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.

Management were to evaluate whether the group is trading as a going concern.

Management was thus required to provide a cash flow projection to March 2023 which confirmed their assessment of the going concern principle.

We assessed the company's ability to continue their operations until the end of July 2022. We have reviewed the cash flow forecasts to end of July 2022 and compared actual results post year-end 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. We also looked through the joint strategic plan and will continue to monitor progress over the next reporting periods.

The cash balance is expected to remain positive throughout.

**Conclusion:** We concur with management's assessment that the going concern principle is applicable.

## Other matters (non-significant risks)

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Other Risks identified in our Audit Service Plan	Work done by Management	Comments
<b>Debtors recoverability</b>	Management were to ensure that debtors were a true representation of the actual amounts that were expected to be received from customers post year-end and any provision for bad debts was complete and accurate.	Our sample items tested for recoverability overall proved adequately received post-year end leading to the conclusion that debtors are materially correct.
<b>Valuation of pension scheme liabilities</b>	<b>Management were to ensure that the pension scheme liability and changes to actuarial assumptions were accurately recorded using the information provided by the Company's actuaries.</b>	<p>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.</p> <p>As part of our audit procedures, the competence of the actuary performing the valuation was assessed.</p> <p>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.</p> <p>The pension liability has been transferred to SCC on the last day of the year and no liability exists at the year end. We have reviewed the contract and proposed audit adjustments to ensure that the liability was fully removed from the accounts.</p>

# Other communication requirements

## Other matters

The transfer of the pension Scheme liability was effected on the 31 March 2021. Therefore as at the year end, there is no liability reflected on the company's balance sheet. We have reviewed the contract and proposed audit adjustments to ensure that the liability was fully removed from the accounts.

## Changes in accounting policies

No changes in accounting policies have been made during the course of the year.

## Review of board minutes

No material or significant matters have arisen from the review of board minutes.

## Significant post balance sheet events

No significant or material post balance sheets were identified.

## Consideration of fraud

We have discussed fraud with Andrew Gray. 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.

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.

## Related parties

We are not aware of any related parties or related party transactions which have not been disclosed.

## Laws and regulations

We are not aware of any significant incidences of non-compliance with laws and regulations.

**Written representations**

Following conclusion of our audit work we will issue a letter of representations to management. At the date of this report we expect to be requesting specific representations in respect of the assessment as a going concern, recoverability of debtors and the pension scheme liability transfer to SCC.

**Confirmation request from third parties**

Confirmations have been requested and received for all bank and loan accounts.

**Disclosures**

A review of disclosures has been performed as part of our review of the accounts with necessary amendments being processed.

# Audit adjustments

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During the course of the audit, adjustments were necessary in order to facilitate the preparation of the statutory financial statements, consisting of fundamental underlying transactions together with matters of presentation for statutory purposes.

A schedule of audit adjustments has been provided to you. The main adjustment related to the following:

- Transfer of pension liability to Surrey County Council;

## **Unadjusted items**

A schedule of unadjusted errors has been provided to you. The directors have confirmed in the letter of representation total of £7,893 (decrease in profit) is immaterial and, accordingly, no adjustment is required.

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 group 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.

## **Remaining timetable**

We are scheduled to be in a position to sign all statutory accounts by 15 July 2021 in respect of the Company.

## **Management Letter**

We will discuss with management matters arising where we consider that the internal systems and procedures could be improved. A draft copy of the letter highlighting these issues will be supplied to management. We will then require formal confirmation of management's comments which will then be incorporated before we circulate the document to the full Board.

## **Audit report**

**We propose issuing an unmodified audit report on the financial statements of the company for the year ended 31 March 2021.**

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