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GROUP

AUDIT SERVICES

Our ref: MW/DJ/HMT994/AP439

1 November 2018

The Board of Governors
Applecroft School
Applecroft Road
Welwyn Garden City
Hertfordshire
AL8 6JZ

Dear Sirs/Mesdames

AUDIT FINDINGS REPORT – APPLECROFT SCHOOL

During the audit of the financial statements for the year ended 31 August 2018, we examined and sample tested the accounting systems which the academy trust has established to ensure that the accounting records are accurate and reliable and to ensure that its assets are safeguarded.

We enclose a report which details weaknesses in accounting and internal controls which came to light during the course of the audit.

The report includes explanations of how the weaknesses could affect your business and our recommendations on how to improve the systems – see appendix 2 - 4.

Our report also includes details of recently released accounting standards and legislation which we would like to bring to your attention – see appendix 5. This section is for information only.

We would like to take this opportunity to thank you and your staff for the assistance given to us during the course of the review.

If you wish to discuss any of the issues raised in the attached appendix in more detail, please do not hesitate to contact us.

Please note that the report has been prepared for the use of the Governors only.

Yours faithfully

Wilkins Kennedy Audit Services

WILKINS KENNEDY AUDIT SERVICES

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Appendix 5 – Emerging Issues for Information Only

Appendix 6 – Reminder of MUSTS as set out in the Academies Financial Handbook 2017
These can be found in appendix C of the Academies Financial Handbook 2017:

<https://www.gov.uk/government/publications/academies-financial-handbook>

1. **Scope of the audit**

Our audit was carried out in accordance with Auditing Standards and with reference to the legal and regulations requirements as detailed in Section 3 of this report. Our audit approach is designed to ensure that our tests are focused in those areas where in our judgement the risk of errors is high, and where the likely impact of such errors would be significant. More specifically, this involved:

- a. Subjecting systems, controls, transactions and balances to substantive testing on a sample basis;
- b. Revising our audit plan for any significant financial matters;
- c. Subjecting the financial statements to detailed analytical review, examining key ratios, trends and other statistics, obtaining and testing explanations for any unusual or unexpected variations;
- d. Reviewing minutes of meetings;
- e. Reviewing statutory financial statements where prepared by the Academy.

It must be appreciated that the matters dealt with in this report arose from the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the financial statements of the Academy and do not necessarily involve an examination of all aspects of your internal control procedures. The responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with Governors.

For the above reasons, our comments cannot be regarded as a full analysis of all the weaknesses or irregularities in the system of internal control or of all the financial trends or other performance data relevant to the Academy's which might be disclosed by a more detailed review nor, since we are not specifically required to search for fraud, can our audit be relied upon to disclose such matters. However, our audit was planned so that we would have reasonable expectation of detecting material misstatements of the financial statements.

This report has been prepared for the private use of the Governors and its contents may not be disclosed to any third party without our express written consent. We assume no responsibility to any other person.

2. Independence Issues

On 23rd July 2018 we wrote to you identifying our perception of the principal threats to our objectivity and independence in carrying out this audit, along with the safeguards in place to mitigate those threats.

The principal threats and safeguards are repeated below:-

Principal threats	Safeguards Implemented (and why they are considered effective)
<p>We are responsible for the preparation of the financial statements in addition to carrying out the audit. The service will not involve initiating transactions.</p> <p>There is a threat that, as a firm, we are perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own accounting work.</p>	<p>It is agreed that a senior staff member, will carry out a review of the financial statements. This will mitigate the threat of being too closely aligned with management and ensure that all accounting judgements are impartial and that the service is just one of a technical nature.</p> <p>Please see the below comment with regard to the independent principal review of the audit, which will address the self-review risk, as all audit work will need to be clearly explained.</p>
<p>We are responsible for carrying out the role of responsible officer/internal audit.</p> <p>There is a threat that, as a firm, we are perceived as being too closely aligned with the views of management to provide an independent review and/or members of the audit team could be reviewing their own accounting work.</p>	<p>The role of responsible officer/internal audit will be carried out by a member of staff from a different office of Wilkins Kennedy LLP or from our internal audit team who has no connection with the statutory audit work being carried out.</p>

We consider that the safeguards in place have been sufficient to ensure our independence and objectivity has not compromised during the course of the audit.

3. Compliance with Legal and Regulatory Requirements

In undertaking our work, we reviewed compliance with the following legal and regulatory requirements:

- Relevant Academies Accounts Direction issued by the ESFA
- Applicable accounting standards (UK Generally Accepted Accounting Practice)
- Companies Act 2006
- Charities Statement of Recommended Practice (SORP) 2015

No matters came to our attention that suggested any significant breach of these requirements

Appendix 2 – Current year issues

There have not been any current year issues

Appendix 3 – Unresolved issues from previous years

There are no unresolved issues from previous years

Appendix 4

Resolved issues from previous years

Medium risk

1. Tendering process FGB approval

Observation

During the audit testing, the tender for the new canopy was tested and it was found that the purchasing decision was not taken to the full governing body for approval because the purchase was financed by the PTA.

Impact

Although the equipment was paid for by the PTA, the school has input into the items purchased and therefore any larger items should be approved by the full governing body in the same way as other purchases.

Recommendation

We recommend that all purchases over the limits as set out in the finance manual are taken to full governing body for approval.

Client response

The school will ensure that all projects that require a tender process are carried out in accordance with the schools finance manual and the schedule of financial delegation

Update 2017

During current year testing it was identified that some purchasing decision were still not taken to full governing body.

Client response

We will ensure that in future this will not happen again

Update 2018

No issues were identified with the tenders which were tested during the audit.

2. Tendering process FGB approval

Observation

During the audit testing, the tender for the multimedia as part of the classroom refurbishment project was tested and it was found that although an appropriate number of quotes were obtained and the cheapest supplier was selected, the purchasing decision was not taken to the Full Governing Body for approval.

Impact

The school's finance manual was not strictly followed in this instance, however the academy still achieved good value for money and undertook a competitive tendering policy.

Recommendation

We recommend that going forward there is clear documentation of the tendering process, including full governing body approval.

Client response

The trust will ensure that this risk is not repeated and that the tendering process is followed correctly.

Update 2018

See point above.

3. Personnel files

Observation

It was found that personnel files did not always contain up to date salary information.

Impact

Salary changes need to be communicated in writing to the employee and filed on the personnel file to ensure that both sides are clear on the agreed remuneration.

Recommendation

We understand that the academy has already started the process of reviewing personnel files and updating the salary information.

Client response

All personnel files have been reviewed with any missing or inaccurate contracts replaced. Annual salary statements have been forwarded to teaching staff and a copy placed in their personnel files.

Update 2016

Although there was salary information on personnel files for both support staff and teachers, the salary information for the support staff did not agree to the salary paid through the payroll. We recommend the salary information for support staff is reviewed and updated.

Client response

We have taken recommendations but would like to note that the salary information held in the file can only be offered at a set date and when salary increases need to wait until union approval this can have an effect as to what appears on a member of staff's payslip.

2017 update

As per client's response above this issue was again identified during current year's testing as some pay changes were still awaiting union approval.

2018 update

Of the sample selected all files had up to date salary information in them.

Medium risk

4. Personnel files

Observation

During the audit testing, it was noted that one of the personnel files tested did not have a signed copy of the employment contract.

Impact

All personnel files should have a signed employment contract so that both parties are clear on the terms.

Recommendation

We recommend that all personnel files are reviewed and updated for any missing contracts.

Client response

All personnel files are to be reviewed and for any new starters or staff having changes to contract details we will ensure that any new contracts obtain a signature.

2018 update

Of the sample selected all files had signed contracts in them.

Appendix 5

Emerging Issues for Information Only

1. VAT – Audit review
2. Related party transactions
3. Executive pay and salaries in excess of £100,000
4. Governance
5. Internal controls, budgeting and management accounts
6. Procurement controls
7. Financial returns
8. General data protection regulations
9. TPS contribution increases
10. Irregular expenditure - alcohol

1. VAT – AUDIT REVIEW

Observation

The academy is currently not VAT registered and reclaiming VAT via the Form 126.

Issue

Our audit does not examine VAT in detail and our audit procedures are not designed to detect immaterial fraud or error. Therefore, we have not reviewed individual streams of income to:-

- a. Assess whether the academy is over the VAT registration threshold
- b. Ascertain whether the VAT reclaimed is correct

There are a number of income streams that may be liable to VAT, we have provided some common areas below, but please note this is not an exhaustive list:-

1. Contracts whereby you receive commission or the net of income/costs for items such as uniforms. The contract may be worded in such a way that you are actually the primary supplier and not an agent, if this is the case then you may be liable to register and charge VAT on these items.
2. The sale of meals to staff is a supply liable to VAT. The VAT treatment of outsourced catering contracts means that an Academy will act as principle in the sale of all meals. The sale of a meal to a member of staff (not a duty meal) will count towards the VAT registration limit.
3. Certain supplies under salary sacrifice schemes can have a VAT implication either as the amounts count towards the VAT registration limit or VAT on expenses could be restricted.
4. Although the majority of income from letting the premises will be exempt depending on the exact nature of the "let" and to whom the let could be "taxable". If additional services are supplied as a separate cost they would be seen as taxable. Any charges for parking would be taxable.

From experience most Academies have some business income and if not VAT registered we would expect there to be some irrecoverable VAT and is the Academy carrying out the appropriate restrictions and checks on the VAT claimed via the VAT 126 form.

Recommendation

We recommend that a separate VAT audit is undertaken if required.

2. RELATED PARTY TRANSACTIONS AND CONNECTED PARTY TRANSACTIONS

Observation

Related party transactions continue to be of keen interest to the ESFA and they have clarified a number of points in the Academies Financial Handbook 2018.

Issue

The board **MUST** ensure requirements for managing related party transactions are applied across the Trust. The Chair of the Board and the accounting officer **MUST** ensure their capacity to control and influenced does not conflict with these requirements. They **MUST** manage personal relationships with related parties to avoid both real and perceived conflicts of interest.

Reporting of related party transactions to ESFA

The Trusts **MUST** report all transactions with related parties to ESFA in advance of the transaction taking place, using the online form. This applies to transactions made on or after 1 April 2019. There is no de-minimis in place.

Approval of related party transactions by ESFA

Trusts **MUST** obtain prior approval from the ESFA for contracts for the supply of goods or services to the trust by a related party where:-

- A contract exceeds £20,000
- A contract of any value that would take the total value of contracts with the related party beyond £20,000 in the same financial year
- A contract of any value if there have been contracts exceeding £20,000, individually or cumulatively, with the related party in the same financial year

Trusts **MUST** obtain ESFA's approval for transactions with related parties that are "novel, contentious and/or repercussive"

- Novel – transactions which the Trust has no experience or are outside its range of normal business
- Contentious – transactions that might cause criticism of the Trust by Parliament, the public or the media
- Repercussive – transactions that are likely to cause pressure on other Trusts to take a similar approach

Approval of transactions for salaries and other payments made to a person under a contract of employment are not included

At cost requirements

A Trust **MUST** pay no more than 'cost' for goods or services provided by members of trustees of the academy trust and parties connected to them. Full cost **MUST NOT** include any profit and includes all direct costs and indirect costs (a reasonable proportion of overheads).

Contributions made by a Trust to its Diocese for services it receives are regarded as meeting the "at cost" requirement.

Recommendation

We recommend that the Trustees review the guidance on related party transactions and disclosures to the ESFA – this can be found at: -

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714474/Academies_Financial_Handbook_2018.pdf

3. EXECUTIVE PAY AND SALARIES IN EXCESS OF £100,000

Observation

The ESFA have issued a series of letters to Academy Trust's which are paying salaries in excess of £150,000 and/or are paying salaries to 2 or more employees between £100,000 and £150,000.

Issue

The letters asked for further information on the rationale for the level of pay along with the due process followed for all such salaries.

The Academies Financial Handbook further strengthened the requirements of the Board who MUST discharge its responsibilities effectively by:-

- Determining executive pay is agreed by the Board in advance and documented
- Ensuring decisions reflect independent and objective scrutiny
- Ensuring factors in determining pay are clear
- Ensuring pay is defensible relative to the public sector market
- Documenting the rationale behind the decision making process
- Presuming that non-teaching pay should not increase at a faster rate than that of teachers
- Understanding that inappropriate pay can be challenged by ESFA

Recommendation

We recommend that the Trustees should review their policies on determining executive pay and ensure they include a robust evidenced based process.

4. GOVERNANCE

Observation

The Academies Financial Handbook 2018 has made changes to reinforce responsibilities for Trustees to discharge their responsibilities and ensure robust governance and effective financial management. The Chair of Trustees is responsible for ensuring effective functioning of the Board and setting professional standards of governance.

Issue

The role of the trustee/governor remains unchanged, however, their duties have been clarified.

1. Trustees **MUST** apply the highest standards of governance and take full responsibility of their duties;
2. Although Boards are still required to meet at least 3 times a year, they **MUST** describe in the governance statement in the accounts how it maintained effective oversight of funds where they have met less than 6 times a year;
3. The Board **MUST** approve a written scheme of delegation of financial powers that maintains robust internal controls.
4. The Board **MUST** ensure there is an appropriate, reasonable and timely response to any findings by auditors, whilst taking opportunities to strengthen the systems of financial management and control. Repeat points that aren't addressed may lead to a compliance visit.

Recommendation

We recommend that the Trustees review their responsibilities and ensure that they comply with the new requirements.

5. INTERNAL CONTROLS, BUDGETING AND MANAGEMENT ACCOUNTS

Observation

As budgets become increasingly tighter, Boards will need to ensure that they produce effective and regular management accounts, have good budget monitoring systems and apply robust cash management.

As well as the annual and three year budget submissions to the ESFA, the ESFA also recommend 5 year budgets been prepared.

Issue

The handbook has strengthened the requirements in this area from should to a **MUST**.

- The Trust **MUST** manage its cash position robustly
- The Trust, and its sub-committees **MUST** ensure rigour and scrutiny in budget management
- The Board **MUST** ensure that budget forecasts are compiled accurately, based on realistic assumptions and are reflective of lessons learned from previous years
- The Trust **MUST** prepare monthly management accounts, that comprise budget variance reports and cash flow forecasts with sufficient information to manage cash, debtors and creditors
- Management accounts **MUST** be shared with the Chair of Trustees every month and with the other trustees 6 times a year
- The Trust **MUST** select key financial performance indicators and measure them regularly against its performance.

As a reminder, Academies Financial Handbook sets out that the board should be meet at **least 3** times a year and a written scheme of delegation of financial powers should be in place.

Recommendation

We recommend that the Governors review their financial controls to ensure they follow the new requirements.

6. PROCUREMENT CONTROLS

Observation

With the focus on greater financial monitoring and budgets become increasingly tighter, the Department of Education recommends the "deals for schools".

Issue

The "deals for schools" make buying simpler and quicker and can provide better Value for Money. There are currently 6 main deals available:-

- Energy and water supplies – 10% saving on schools' utility bills
- Loans to fund energy saving schemes – An interest-free loan to help schools make energy-saving improvements
- Printers, copiers, scanners – 40% saving for individual schools' copier and printer costs
- Microsoft software licensing – savings and/or better licensing terms on Microsoft products
- ICT for Education – Easy to use deal with pre-negotiated prices from suppliers specialising in ICT for education settings
- RPA

Recommendation

We recommend that the Governors review the current deals:-

<https://www.gov.uk/government/publications/deals-for-schools/deals-for-schools>

7. FINANCIAL RETURNS

Observation

Annually the ESFA sends letters to trusts' Accounting Officers/CEOs which cover issues pertinent to their role and the ESFA's findings. The topic of the latest letter was deadlines for returns and a firmer stance on non-compliance.

Issue

The 2018 Handbook now states that where information is not received by the deadline or not of acceptable quality the ESFA may conduct investigations to collect it. The ESFA may then deduct the cost of the investigations from the trust's recurrent funding (4.8.4).

Recommendation

We recommend that with budgets stretched and the costs of the investigations unknown, academy trusts cannot afford to be missing deadlines or providing poor quality returns and should therefore ensure that all returns are made on time and prepared to an acceptable level.

8. GENERAL DATA PROTECTION REGULATIONS

Observation

By 25 May 2018, all organisations should have reassessed their data security and policies and procedures to ensure that they are fully GDPR compliant.

Within Article 5 of the law, it states the following:

"Personal data is processed in a manner that ensures appropriate security of the personal data, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures."

Issue

Blatant and overt non-compliance under the new law mean organisations could face fines of up to €20 million or 4% of their annual turnover (whichever is higher).

Apart from imposed fines, individuals may also sue organisations for both financial and emotional loss if they feel their data rights have been abused.

Under the new regime, organisations need to be able to demonstrate compliance. There is also greater emphasis placed on the documents that must be kept to demonstrate accountability and compliance.

Recommendation

We recommend that you should consider the following:-

1. Carrying out an information audit addressing data you process, the purpose you hold the data, legal basis of processing and who you share data with.
2. Reviewing your data workflows and storage policies and procedures.
3. Ensuring you have in place:-
 - a. Policies
 - b. Procedures
 - c. Privacy notices
 - d. Consent forms
4. Appointing a Data Protection Officer (DPO) which can be either internally or an external consultant.
5. Training the DPO – ensuring they have expert knowledge in data protection law and practice in proportion to the type of data being processed.
6. Inform and train your staff about the changes – influence a staff culture change.

9. TPS CONTRIBUTIONS – INCREASE

Observation

Communication has recently been sent to Academy Trusts informing them that teacher pension employer contribution rates are to increase to 23.6% from 1 September 2019.

It has also been communicated that the government intends to provide extra funding to schools in 2019 – 20 to help meet the extra cost.

This increase has not yet been confirmed by the Government.

Issue

The increased cost of additional pension contributions are only guaranteed by the government for the 2019 – 20 year. There is no guarantee of funding after that. Therefore the Trust needs to build any increase in costs into the budgets going forward.

Recommendation

We recommend that the Trust revises their budgets once the increased contributions are published to assess the implications.

10. IRREGULAR EXPENDITURE - ALCOHOL

Observation

Section 9.1.22 of the Academies Accounts Direction 2017 – 2018 sets out areas that the ESFA investigation reports have highlighted including irregular expenditure not for the purpose intended, for example, alcohol.

There is no reference to expenditure spent on alcohol in the Academies Financial Handbook 2018.

Issue

At recent conferences the ESFA have verbally stated that no Trust funds should be used to purchase alcohol.

Whilst it was previously confirmed that the use of restricted funds was not an appropriate application of funds, the ESFA have now also stated that unrestricted funds should also not be expended.

Recommendation

Whilst this policy has only been communicated verbally, we would recommend that the Trust does not apply any funds of the Trust for the purpose of purchasing alcohol.

PLEASE CONTACT US IF YOU WOULD LIKE ANY FURTHER ADVICE ON THE ISSUES NOTED ABOVE.