

Our ref: MW/DJ/MRH981/AP439

21 November 2017

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

Dear Sirs/ Mesdames

BUSINESS REPORT – APPLECROFT SCHOOL

During the audit of the financial statements for the year ended 31 August 2017, we examined and sample tested the accounting systems which the company 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.

Our report also includes details of recently released accounting standards and legislation which we would like to bring to your attention.

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 LLP

WILKINS KENNEDY LLP

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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 4 July 2017 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 the preparation of the Corporation Tax Return and the calculation of the associated tax liability in addition to carrying out the audit. However, as directors you remain responsible for both accounts and your Tax Returns. As independent auditors we cannot take any decisions that rightfully belong to management. Accordingly, if there are any decisions relating to the accounts or treatment of items on the Tax Return we will explain your options in layman's terms.</p> <p>However, you must make the ultimate decision.</p> <p>There is nevertheless a threat that, as a firm, we become 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 tax work.</p>	<p>We have extended the cyclical inspection of our completed audit engagements that is performed for quality control purposes to include a random selection of audit engagements where non-audit services have been provided.</p> <p>This independent review will comment on whether the safeguards being implemented by the firm on all audit clients are sufficient to address the threats identified.</p> <p>The independent review will also comment on whether audit work is being conducted in accordance with relevant standards and will ensure that sufficient audit work has been carried out, regardless of who prepared the original data.</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 become 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>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 audit work being carried out.</p>
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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 1

General Information

1. VAT – Audit Review
2. Disclosure of Governors' Remuneration
3. Role of Members and Trustees
4. Accounting Officers Annual letter
5. ESFA Approach to Academy Financial Health and Efficiency
6. Board of Trustees – Skills and Experience
7. Edubase – Notification to DfE
8. Risk Management
9. Executive Pay
10. Novel, Contentious and Repercussive Transactions
11. Staff Severance Payments
12. General Data Protection Regulations

1. VAT – AUDIT REVIEW

Observation

The academy is currently 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 principal 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.

Client Response

The school remains ever mindful of its various income streams and the level of liable VAT – at present the school remains well below the threshold but if things were to change would seek an independent review as to the need to become VAT registered.

2. DISCLOSURE OF GOVERNORS' REMUNERATION

Observation

Three governors (trustees) of the Academy receive remuneration through their employment with the Academy. This is disclosed in note 10 of the accounts and does not fully comply with the Academies Accounts Direction 2016 to 2017. The reason for the non-compliance is the aggregation of the salaries of the staff governors. An explanation has been provided for the departure from best practice in the notes to the accounts.

Issue

Section 7.6.13 of the Academies Accounts Direction 2016 to 2017 sets out the reasons for disclosure of related party transactions with academy staff and trustees and the disclosure requirements.

Academy trusts are both exempt charities and companies limited by guarantee. As a charitable company, an academy must comply with the Academies Accounts Direction, Companies Act 2006, the Charities Act 2011 and the Charity Statement of Recommended Practice (SORP).

The Charity SORP requires the disclosure of an employee's remuneration where the employee is also a trustee. This is due to it not being standard practice for charity trustees to receive remuneration from the charities for which they are responsible. Under the SORP the disclosure must include the name of each trustee in receipt of remuneration and other benefits and details of the amounts involved.

Where staff are employed by the Academy are also Governors, and thus trustees, then the EFSA requires the remuneration to be presented in £5,000 bandings.

The EFSA have confirmed that confidentiality cannot be used as a reason for non-disclosure of principals' and other trustees' remuneration in related party disclosures.

As set out above, currently the financial statements list all the staff Governors names and then amalgamate their salaries with an explanation for the non-compliance. The Headteacher's salary is disclosed as required.

Recommendation

We recommend that the Governors' consider the disclosure on an annual basis.

Client Response

After discussion with staff Governors they indicated that they would feel very uncomfortable if their actual remuneration were to be disclosed to the point where they may have to reconsider remaining as part of the Governing Body.

3. ROLE OF MEMBERS AND TRUSTEES

Observation

The guidance within the Academies Financial Handbook on registers of interests has been updated. The roles of members and Trustees/Governors/Directors have been explained and the key points highlighted,

Issue

Members:

- are the subscribers to the trust's memorandum of association (where they are founding members)
- may amend the articles of association (the articles include a definition of the trust's charitable objects and governance structure) subject to any restrictions in the articles or in the trust's funding agreement or charity law
- have powers to appoint and remove trustees in certain circumstances
- appoint the trust's auditors and receive the trust's audited annual accounts (subject to the Companies Act).

The Department's minimum requirement before entering into a funding agreement is that academy trusts have at least three members, although the Department's recommendation is for trusts to have at least five members wherever possible, as this:

- provides for a more diverse range of perspectives to enable robust decision making and reduces the risks of concentrating power
- ensures members can take decisions via special resolution without requiring unanimity.

Employees of the trust **must not** be appointed as members unless permitted by their articles of association. The current model articles do not allow members to be employees.

The Department's view is that the most robust governance structures will have a significant degree of separation between the individuals who are members and those who are trustees. If members also sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's recommendation is for a majority of members to be independent of the board of trustees.

As responsibility to conduct the business of the trust in accordance with company and charity law sits with the trustees, **members should be 'eyes on and hands off'** and avoid compromising the board's discretion in exercising its responsibilities. However if the governance of the trust by the board of trustees becomes dysfunctional the members will have a strong interest in ensuring the board has sufficient plans to address the issues.

Trustees/Governors/Directors:

The board of trustees manages the business of the academy trust and should focus strongly on the three core functions of governance:

- ensuring clarity of vision, ethos and strategic direction
- holding executive leaders to account for the educational performance of the organisation and its pupils, and the performance management of staff

- overseeing the financial performance of the organisation and making sure its money is well spent.

The trustees must ensure compliance with the trust's charitable objects and with company and charity law, and adherence to the trust's funding agreement with the Secretary of State.

Whilst the model articles give the members the decision on whether to appoint the trust's senior executive leader as a trustee, the Department's strong preference is for no other employees to serve as trustees in order to retain clear lines of accountability through the senior leader.

The board may delegate functions to committees. Each committee of the board (other than those in a multi-academy trust constituted under the articles as a local governing body) must contain a majority of trustees, but it may also include other people the board chooses to appoint.

Individuals **must** ensure that they fully understand their duties as company directors and charity trustees.

Academy trusts **must** not have de facto trustees.

Recommendation

We recommend that the Governors review the roles as described within the DfE's Governance Handbook - <https://www.gov.uk/government/publications/governance-handbook>.

Wilkins Kennedy can provide training to Governors to help them understand their responsibilities

Client response

As part of the Governors ongoing wish to improve and comply with recommendations of the Academies Financial Handbook we will arrange a Governor training session through Wilkins Kennedy.

4. ACCOUNTING OFFICERS ANNUAL LETTER

Observation

The Academies Financial handbook now includes guidance on the “Dear Accounting Officer letters” received by academy trusts,

Issue

ESFA’s accounting officer will send a ‘Dear Accounting Officer’ letter annually to all academy trust accounting officers, covering issues pertinent to their role such as developments in the accountability framework and findings from ESFA’s work with trusts. Accounting officers **must** share this letter with their members, trustees, chief financial officer and other members of the senior leadership team, arrange for it to be discussed by the board of trustees and take action where appropriate to strengthen the trust’s financial systems and controls.

Recommendation

We recommend that the Governors ensure they receive a copy of the letter and minute that the contents have been discussed.

Client Response

The Accounting Officer will take on these recommendations and share the content of “Dear Accounting Officer” letters with the Governing Body and ensure that the discussion is included in the minutes.

5. BOARD OF TRUSTEES – SKILLS AND EXPERIENCE

Observation

The board of trustees should identify the skills and experience that it needs, and address any gaps through recruitment, induction and/or training and other development activities. This is particularly important at key transition points, for example when converting to a multi-academy trust or during a time of growth. The board should also address this for any local governing bodies in place. The Governance Handbook identifies a range of training material to help trustees including a competency framework for governance that all trusts should refer to in determining whether they have skill gaps.

The Academies Financial Handbook includes additional information for trusts about improving efficiency.

Issue

The board of trustees **MUST** provide details of the academy trust's governance arrangements in the governance statement published within its annual accounts and on its website. The governance statement should include:

- What has been done to review and develop the governance structure
- Composition of the board of trustees
- Assessment of the trusts' governance
- Review of the composition of the board in terms of skills, effectiveness, leadership and governance.

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 refer to the six features of effective governance set out in the Governance Handbook (strategic leadership, accountability, people, structures, compliance and evaluation).

Client Response

We will take on the recommendations made

6. EDUBASE – NOTIFICATION TO DFE

Observation

All academy trusts **MUST** use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer, including direct contact details.

Issue

There are no changes to the requirements but it is important to remember that any such changes must be notified to the DfE within 14 days and failure to do so is a breach of the AFH. The trust **MUST** ensure that its record on Edubase for all individuals holding the above positions remains up to date.

Recommendation

We recommend that the Governors appoint an individual with responsibility for ensuring that the DfE is notified within the 14 day limit and are checking that the direct contact details are all up to date.

Client Response

The Trust's company secretary is responsible for updating Edubase and ensures notifications are made to the correct timescale

7. RISK MANAGEMENT

Observation

The Academies Financial Handbook states that Academy Trusts MUST be aware of the risk of fraud, theft and/or irregularity occurring and, as far as possible, address this risk in their internal control and assurance arrangements by putting in place proportionate controls. Trusts MUST take appropriate action where fraud, theft and/or irregularity is suspected or identified.

Issue

There are no changes with regard to when the academy must notify the ESFA of fraud however the ESFA have now published guidance on reducing the risk of financial irregularities. Trusts should refer to this information and to the findings from EFSA's investigation reports as part of its risk management approach.

Recommendation

We recommend that the trust review the guidance on reducing the risk of financial irregularities which can be found at <https://www.gov.uk/guidance/academies-guide-to-reducing-any-risk-of-financial-irregularities>.

Client Response

The Trust takes on the recommendations offered.

8. EXECUTIVE PAY

Observation

The Academies Financial Handbook states that the Board of Trustees **MUST** ensure that their decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's role and responsibilities.

Issue

The policy for determining the executive's pay must be included within the Governors report in the accounts including any benchmarks, parameters or criteria used in setting their pay. Therefore it is key that the Governors set out a policy stating how the pay will be determined and what evidence they are to obtain each year to ensure the amounts are reflective of the individual's role and responsibility.

Recommendation

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

Client Response

The Trust will take on this recommendation and review our current pay policy to ensure it is robust enough with regards individuals roles and responsibilities

9. NOVEL, CONTENTIOUS AND REPERCUSSIVE TRANSACTIONS

Observation

Novel, contentious and/or repercussive transactions MUST always be referred to ESFA for explicit prior authorisation.

Issue

Descriptions of such transactions are:

- Novel payments or other transactions are those of which the academy trust has no experience, or are outside the range of normal business activity for the trust.
- Contentious transactions are those which might give rise to criticism of the trust by Parliament, and/or the public, and/or the media.
- Repercussive transactions are those which are likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

ESFA may also need to refer such transactions to HM Treasury for approval and so trusts should allow sufficient time for proposals to be considered.

Recommendation

We recommend that the trust consider any “unusual” transactions to see if they potentially meet the criteria above and if believed to be the case or unsure notify the ESFA for authorisation.

Client Response

The Trust will review any such “unusual transactions” in light of recommendations given

10. STAFF SEVERANCE PAYMENTS

Observation

The Academies Financial Handbook has clarified that trusts' delegated authority to make non-statutory/non-contractual staff severance payments under £50,000 is gross before income tax and other deductions

Issue

Academy trusts have delegated authority to approve individual staff severance payments provided any non-statutory/non-contractual element is under £50,000 gross (i.e. before income tax or other deductions). Where the trust is considering a non-statutory/non-contractual payment of £50,000 or more, (gross, before deductions), ESFA's prior approval **must** be obtained before the trust makes any binding settlement offer to staff. ESFA will also need to refer such transactions to HM Treasury and so trusts should allow sufficient time for proposals to be considered.

If an academy trust is considering making a staff severance payment above the statutory or contractual entitlements, it **MUST** consider the following issues before making a binding commitment:

- that trustees reasonably consider the proposed payment to be in the interests of the trust
- whether such a payment is justified, based on a legal assessment of the chances of the trust successfully defending the case at employment tribunal. If there is a significant prospect of losing the case then a settlement may be justified, especially if the costs incurred in maintaining a defence are likely to be high. Where a legal assessment suggests that the trust is likely to be successful, then a settlement should not be offered
- if the settlement is justified, the trust would then need to consider the level of settlement. This **must** be less than the legal assessment of what the relevant body (e.g. an employment tribunal) is likely to award in the circumstances

Staff severance payments should not be made where they could be seen as a reward for failure, such as gross misconduct or poor performance. The only acceptable rationale in the case of gross misconduct would be where legal advice is that the claimant is likely to be successful in an employment tribunal claim because of employment law procedural errors. In the case of poor performance, an acceptable comparison would be the time and cost of taking someone through performance management and capability procedures.

Recommendation

We recommend that the Governors review any additional payments that are being made to staff to ensure within the ESFA guidelines.

11. 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 with the current Data Protection Act can currently bring fines of up to £500,000 for a breach. Under the new law, 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.

Recommendation

We recommend that in preparation for the new law, you should consider the following:

1. Understand how GDPR affects your organisation - you may need to consult a specialist to assist in this process.
2. Review your data workflows and storage policies and procedures.
3. Consider appointing a Data Protection Officer (DPO) which can be either internally or an external consultant.
4. Gain appropriate accreditation such as the Government driven Cyber Essentials as proof that you are trying to protect your data.
5. Inform and train your staff about the changes.

Please contact us if you would like further advice.

Appendix 2

Issues Identified in current year audit

Medium risk

1. 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.

Medium risk

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.

Appendix 3

Unresolved 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.

High risk

2. 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.

Appendix 4

Resolution of previous years issues

Medium risk

1. Tendering process - documentation

Observation

During the audit testing, the tender for the playground work was reviewed and it was found that initially the cheapest supplier was selected but following further investigation it was decided to use an alternative supplier due to the quality of the materials used. Although sufficient quotes were obtained and there was documentation in place to explain that the cheapest supplier was not used due to the quality of the materials, there was no documentation to explain how the alternative supplier was selected as they were not the next cheapest option.

Impact

This means that there is not full documentation of how the decision was made and why the selected supplier represents the best value for money.

Recommendation

We recommend that any tendering decisions are documented in full so that it is clear that the selected supplier is the best option for the academy.

Client response

We have taken note of the recommendation and will ensure all documentation is clear and precise.

Update 2017

All tender processes were well documented. Although there were some other issues identified with the tendering process (which have been documented under current year issues), the above issue was resolved.

Medium risk

2. Purchases

Observation

During the audit testing, some of the expenses purchased on the charge card had not been authorised by a second member of staff.

Impact

Although we understand that the business manager reviews all of the purchases in some cases there was no documentation of the review or authorisation.

Recommendation

We recommend that any purchases made are authorised by a second individual.

Client response

The school has now implemented an alternative process so that purchases made with the charge card are authorised by the budget holder and headteacher before they are placed

2017 Update

No issues were identified during 2017 testing, this issue has been resolved.