haysmacintyre

vision through partnership

TBAP Trust

Audit Findings Report

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Period Ended 31 August 2014

1. Introduction and Executive Summary

This report summarises our key findings in connection with the audit of the financial statements of TBAP Trust (the “Trust”) for the period ended 31 August 2014.

We would also like to take this opportunity to thank Nathan Crawley-Lyons and his team for their assistance during our audit.

Our audit approach

Our work was planned and performed in order to issue an audit opinion on the financial statements of the Trust in accordance with International Standards on Auditing (UK and Ireland) (“ISAs”) and the terms of our letter of engagement.

Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the financial statements, have included the examination of the transactions and the controls thereon of the Trust.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Overall conclusion and opinion

At the time of issuing this report we anticipate issuing an unqualified audit opinion, without modification on the financial statements.

2. Audit risks and key judgement areas identified during planning

We set out below the key areas of focus for our audit identified at the planning stage and the conclusions of our audit work:

Audit risk/key judgement area	How we addressed this	Our comments
Presumed risk in income recognition We are required to consider and respond to the risks of fraud arising from improper income recognition.	Detailed testing was performed on the income recognised in the period covering the accuracy, completeness, cut off and occurrence.	Planned audit work considered satisfactory in this area.
Presumed risk of management override We are required to consider and respond to the risks of fraud arising from management override of controls.	We reviewed the appropriateness of general journal entries posted throughout the period and at the period-end for the preparation of the financial statements. Accounting estimates were reviewed for potential bias. The business rationale for unusual or significant transactions outside the normal course of business for the School were evaluated. We considered the need to perform additional audit procedures where appropriate.	Planned audit work considered satisfactory in this area.
Expenditure Risk of state funding not being spent in line with the funding agreement	We performed substantive testing on a sample of expenditure transactions to ensure the costs were appropriate and in line with the funding agreement	Planned audit work considered satisfactory in this area.
Surpluses on conversion to part of multi-academy trust Risk that the surplus on conversion have not been correctly included and reflected in the accounts	We performed substantive testing to ensure surpluses on conversion have been accurately included in the accounts and correctly disclosed.	Planned audit work considered satisfactory in this area.

3. Accounting and Audit Matters

3.1 Qualitative aspects of accounting practices and financial reporting

Gift in Kind – Rent for The Bridge & Latimer

The Bridge and Latimer occupy their sites under a short term lease and pay a peppercorn rent for their respective sites.

In these circumstances, the charities accounting guidance (SORP) suggests recognising a gift in kind. This would involve recognising an estimate of the market value of the rental and a gift in kind for the same amount. There would be no impact on the surplus.

The Trust has taken the decision not to recognise this gift in kind, as it is not possible to obtain a reliable value of the rental.

Capitalisation of Long-Term Leases

The Trust has a 125 year lease agreement in place in respect of the Octagon and Beachcroft sites over the use of the land and buildings. As these leases transfer the risks and rewards of ownership of the land and buildings to the Trust it has been recognised on the balance sheet as a fixed asset, with a corresponding entry to voluntary income as part of the transfer on conversion.

The land and buildings should be brought into the accounts at fair value (a reasonable estimate of the current value the Directors would have to pay in an open market for an equivalent item). An external valuation has been completed by Fredericks Hearl and Gray and the total value of £17,477,907 has been reflected in the accounts.

Accounting standards governing depreciation of assets require an annual impairment review if you depreciate an asset over a time period greater than 50 years. The Trust has therefore opted to depreciate the land and buildings over this time period.

There is no cash impact of this treatment or impact on the GAG reserves of the School as the asset is kept in a separate restricted fixed asset fund on the face of the Statement of Financial Activities (SOFA).

The Bridge, Courtyard and Latimer currently constitute short term leases hence no valuation or capitalisation was required. However, we understand the position is likely to change with respect to The Bridge and Latymer sites in the future. A long-term leaseat Courtyard is due to be signed shortly.

Inherited fixtures, fittings and vehicles

On conversion the Trust inherited the various fixtures and fittings owned by the predecessor organisations. The Academies Accounting Direction suggests that any material items should be brought in as a donation in kind and shown within the balance sheet.

As these assets would be valued at their depreciated cost, the Trust has taken the view that none of the assets received from the predecessor organisations would be material and hence no donation in kind has been recognised.

VAT Recoverable

As at 31 August 2014 there is a VAT recoverable balance of £209k, £16k of which is greater than a year old. Whilst we understand that this balance is recoverable, we recommend that the School chases the amount due

Beachcroft Deferred Income – Top-Up

The first termly instalment of the Beachcroft annual top-up grant for the 2014/15 financial year was received in August 2014. This instalment has been assumed to relate to the first calendar quarter of August – November 2014 therefore only three quarters of this amount has been deferred in the financial statements. Whilst we are happy with this accounting treatment, it should be brought to your attention that there is an argument for treating the whole amount as relating to the first term of 2014/15 hence the full amount has been deferred into 2014/15.

Accounting System Cut-Off Issue

The accounting system crashed in mid-August which resulted in loss of data and a backlog in payment runs. As a result the accounting system remained open until late September 2014. Whilst this was necessary in order to clear the backlog, it resulted in a number of audit journals to correct the position as at 31 August 2014.

3.2 Unadjusted Misstatements

There were no unadjusted misstatements which were noted as part of our audit other than clearly trivial items.

3.3 Letter of Representation

International Standards on Auditing require us to obtain written representations from the Directors when you approve the accounts.

The letter contains only standard matters with no additional items specific to the Trust, other than the following:

- We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date.

Seamus Oates, in his role as Accounting Officer, will be required to sign the letter of representation.

3.4 Limited Assurance Report on Regularity

We are required to give a limited assurance report on regularity. Following the completion of our work, we confirm that we expect to issue an unmodified report on regularity and that there were no limitations in the scope of our work.

3.5 Accounts Return

The School's Accounting Officer, Seamus Oates, is required to provide an Accounts Return for 2013/14 to the EFA. This is to facilitate the consolidation of the School's results with the accounts of the EFA, Department for Education and the Whole of Government Accounts.

We will be required to give an assurance report on this return, once completed. The deadline for submission of the return is 31 January 2015.

This Accounts Return 2013/14 is additional to the School's duties under statute and its funding agreement with the Secretary of State to produce audited financial statements for academic period 2013/14, as set out in the Accounts Direction 2014.

3.6 Timetable for period end reporting

Action required	Date
File financial statements with Companies House	By 1 December 2014**
Submit signed financial statements and Audit Findings Report to EFA	By 31 December 2014
Complete and submit a Value for Money statement to EFA	By 31 December 2014
Complete and submit Accounts Return to EFA	By 31 January 2015
Publish Value for Money statement on website	By 31 January 2015
Publish financial statements on website*	By 31 January 2015

* The academy should retain accounts in respect of at least the previous two periods on its website.

** Due to the first period of accounts being a long period, filing with Companies' House is required by 1 December 2014, being 21 months from the first day of the accounting period.

4. Detailed control points

During the course of our audit we identified the following risk graded detailed control points that we feel need to be brought to the attention of the Directors and certain recommendations for improvements and/or corrective action.

Risk Level	Issue	Risk	Our comments	Client comment
HIGH	**BACS Supplier Details** It was noted that for the period under review the accountant was able to edit the bank details of suppliers without authorisation or a review being performed. Any changes would not be notified to individuals approving BACs payments.	Risk of fraudulent or erroneous payments going undetected.	We recommend that exception reports are produced so that any changes can be verified by a separate individual. Should this not be possible we suggest that a spot checks are performed on supplier payment details before each BACS run is executed and that this review is evidenced by signature.	*We have asked 3BM who provide our accounting package support to provide exception reports detailing changes made to standing supplier data.* ***Timescale:*** *In progress.*

HIGH	**Cheque signatories** Although we understand that the majority of payments are made by BACs we note that cheques of up to £5k require only one signature. Cheques over this value require two signatories. This is not in accordance with the Academies Financial Handbook. The cheque signatories have no access to the accounting system.	Risk of misappropriation of funds.	We recommend that all cheques require two signatures.	*Procedure changed November 2014*
MEDIUM	**Cash Handling for Petty Cash** It was noted that the site manager at The Bridge collects all the cash from the bank to distribute to the different sites.	Risk of misappropriation or loss of cash.	We recommend that petty cash transactions are kept to a minimum. Where petty cash is maintained we suggest cash in transit is avoided.	*The system is in the process of being changed so that cheques sent to individual sites to be cashed by designated individuals removing the need for cash in transit.* ***Timescale:*** *In progress.*

MEDIUM	**Manual Journal Entries** There is no review or control process surrounding manual journal entries.	Risk of erroneous entries remaining undetected.	We recommend that an authorisation process be implemented surrounding manual journal entries. Alternatively a list of all manual adjustments could be produced periodically and reviewed by an independent individual. We further recommend that this review be evidenced by a signature.	*Finance Consultant will process manual journals to be authorised by Head of Operation before entered on FMS.* ***Timescale:*** *December 2014.*
LOW	**Cash flow Forecast 2014/15** Due to the issues with loss of accounting data and the catch up process the 2014/15 cash flow forecast had not been completed by the start of the audit although was prepared during our onsite work.	Lack of control or review could result in future cash flow difficulties.	The cash flow forecast is a control document that should be prepared and reviewed well in advance of the period to which it relates as part of the budgeting process enabling management and Directors to plan effectively.	*Forecast will be updated with actual every month and reviewed by Finance Committee.* ***Timescale:*** *December 2014.*
LOW	**Supplier Remittances** There was a period in the year when due to IT issues the supplier remittances were not operating correctly.	Risk of disputes over balances owing to suppliers.	We recommend that supplier statements are reconciled to the purchase ledger control account on a periodic basis.	*We have been informed that this problem has been rectified post year end.*

LOW	**Fixed Asset Register** There was not fixed asset register in place at the year end. However, we were provided with a list of assets at the audit and this was used to calculate a depreciation charge for the year.	The valuation of fixed assets within the Trust could be incorrectly recorded.	We recommend that the client maintain and update the fixed asset register, ensuring it reconciles to the accounts at the year end.	*The Trust is purchasing software to enable it to maintain fixed asset register.* ***Timescale:*** *December 2014*.

5. Emerging issues

5.1 Academies Financial Handbook 2014

In August 2014 the Education Funding Agency (EFA) issued a revised Academies Financial Handbook ('Handbook') which applies from 1 September 2014.

The Handbook is a key document for the School's management and Governors, setting out the responsibilities and requirements regarding financial governance and management. Compliance with the Handbook is a requirement of the School's funding agreement.

The main changes in the Handbook from the 2013 edition include:

- There continues to be a focus on management of conflicts of interest within the Handbook. The academy must publish on their website the relevant business and pecuniary interests of trustees and members.
- The 2013 Handbook stated that the academy must pay no more than 'cost' for goods or services supplied by connected parties. A £2.5k de minimis has now been introduced.
- Requirement to disclose individually all non-statutory /non-contractual staff severance pay of <u>any</u> value (previously only amounts over £5k) in financial statements.
- Board of Trustees must approve a written scheme of delegation of financial powers.
- Staff employed by the School should not be members of the audit committee, or participate as members when matters relating to audit are discussed at combined finance and audit committee meetings.
- Must notify EFA if academy incurs losses through fraud or theft in excess of £5k, individually and cumulatively, in any financial period.
- Principles introduced that must be applied when making an investment.
- Must notify the EFA within 14 days if the School is formally proposing to set a deficit budget which is not covered by brought forward accumulated surpluses.

The 2014 Handbook also emphasised a number of areas where prior approval is required from the EFA:

- Transactions with connected parties that are novel and/or contentious
- All ex-gratia transactions.

Trustees continue to be required to provide details of governance arrangements in the Governance Statement in the School's financial statements. Trustees should consider the composition of the board in terms of skills, effectiveness, leadership and impact. When considering governance, academies are recommended to consider the following:

http://www.nga.org.uk/getattachment/Resources/Useful-Documents/Twenty-Key-Questions/20-questions-for-the-GB-v2-July-2012.pdf.aspx

It is important that management and Governors are familiar with the requirements of the handbook.

5.2 Governor Handbook

The Department for Education has recently released a revised Governors' Handbook (September 2014). This is a useful guide for governors of academies and free schools. Below is a link to the handbook:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/352752/Governors_Handbook_2014.pdf

5.3 Charities SORP

The Financial Reporting Council published new financial reporting standards (FRS 102) in March 2013 which will replace existing UK accounting standards for accounting periods commencing on or after 1 January 2015. A new Statement of Recommended Practice 'Accounting and Reporting by Charities' ("SORP 2015") has now been issued which is based on FRS 102, with which academies will need to comply.

The EFA has issued a brief guide to the Charities SORP 2015, which can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/348927/EFA_Academies_SORP_Guide.pdf

Areas of accounting which change under FRS 102 and may impact the academy include the treatment of holiday pay and recognition of income when it is probable rather than 'virtually certain' as currently.

Other changes include:

- Disclosure of total remuneration paid to key management
- Explanation in the Governors' Report of arrangements and policies for setting pay and remuneration of key management
- Simplified format for the Statement of Financial Activities (SOFA), with governance costs no longer separately disclosed on the face of the SOFA but instead included within charitable activities as support costs.

The new SORP applies to periods commencing on or after 1 January 2015 (period ended 31 August 2016), but it should be borne in mind that the comparative period including the balance brought forward on the first day of that period will need to be re-stated for any accounting changes.

The EFA will provide further information in the next Accounts Direction.

5.4 Commission updated guidance on conflicts of interest

The Charity Commission has published revised public guidance on conflicts of interest for charity trustees. This is referred to in the latest Academies Financial Handbook.

The guidance follows a public consultation and has been developed in light of the frequency of improperly handled conflicts of interest across the Commission's casework. In its recent publication, *Tackling Abuse and Mismanagement*, the regulator reported that conflicts of interest were a feature in all of its completed investigations of 2012/13.

As a result, the new guidance has been designed to improve general levels of understanding amongst trustees about this common governance issue and to be clearer about what is expected of charities and their trustees regardless of the size of the charity and the extent of the risks posed. The guidance consists of a high level summary and detailed guidance. It also published a paper setting out the legal underpinning of the guidance.

Across the guidance there is a new emphasis on the seriousness of the issue and the consequences that can follow from mishandling conflicts of interest. For the first time the Commission's guidance expressly explains that potential conflicts of interest may need to be considered as a 'pre-appointment' issue, placing the emphasis on preventing conflicts from arising. There is also an increased emphasis on the responsibility of individual trustees to identify and declare any conflicts of interest.

The pdf can be found at:

http://www.charitycommission.gov.uk/media/605880/cc29.pdf

6.5 Data Protection and PCI Compliance

Data Protection legislation is well known for being complex and burdensome, not only on corporate organisations, but also increasingly on charity and not for profit bodies. A number of public announcements on breaches have arisen as a result of organisations sharing information, or asking third party providers to process data on their behalf. It is however still the responsibility of the primary organisation to ensure that this data is secure.

With many charities holding personal information on donors and beneficiaries, it is key to ensure that the data protection legislation is understood and being adhered to. Within your charity you should have designated a Data Protection Officer. This person should receive appropriate training for the role, and provide regular (at least annually in our view) reports to Trustees to provide comfort that internal policies and procedures are in place, communicated to relevant staff and being followed.

As part of this review, organisations that collect credit or debit card information from purchasers of goods, donations or memberships fees etc., should also be aware of the strict requirements over storage of information and the need for compliance with the Payment Card Industry's Data Security Standard (PCI-DSS). This legislation covers situations where you store, process and transmit payment card information. Penalties for breaching the regulations are severe. Again, we recommend a review and report to trustees annually to provide comfort over adherence to these regulations.

If you require further information in either of these areas, do contact us.