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CHARTERED ACCOUNTANTS
& BUSINESS ADVISERS

The Board of Governors
Raglan Primary School
Raglan Road
Bromley
Kent
BR2 9NL

Our ref: MAW / STS

12 December 2016

Dear Sirs/ Mesdames

BUSINESS REPORT

During the audit of the financial statements for the year ended 31 August 2016, 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

A handwritten signature in black ink that reads 'Wilkins Kennedy LLP'.

WILKINS KENNEDY LLP

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INTERNATIONAL LEGAL &
ACCOUNTING SOLUTIONS
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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 20 June 2016 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 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>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>

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 EFA
- 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. Governor review
3. Trusts Governance arrangements
4. Senior Executive Leader and Chief Financial Officer
5. Register of interests
6. Edubase – Notification to DfE
7. Whistleblowing procedure
8. Insurance
9. Staff severance
10. Three year budgets
11. Disclosure of governors' remuneration

1. VAT – AUDIT REVIEW

Observation

The academy is currently *not VAT registered and is reclaiming VAT via a 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 area 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 uniform. 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. Staff meals. 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.

Client Response

VAT Review was undertaken during 2014-15, a separate VAT audit is not considered necessary at this stage.

2. GOVERNOR REVIEW

Observation

The board of governors should review the composition and skills of its board on a regular basis to identify any potential gaps. These should be addressed through recruitment of new governors, and/or induction and training of existing governors. This applies for any local governing bodies in an MAT.

Issue

With Academy Trust's looking to expand or evolve as well as secure its financial future, it is important that the Board has all the necessary composite skills to run the Trust efficiently and effectively. The Academy Financial Handbook (AFH) refers to the Governance Handbook which identifies a range of training material to assist the trustee in their role. There are also links to the National Governors Association website in regards to key questions a Board should ask itself in respect of a SAT or a MAT.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535870/Academies_Financial_Handbook_2016_final.pdf

Recommendation

We recommend that the Governors review the composition of the Board and review the guidance provided by the EFA to ensure all Governors understand their role.

Client response

Recommendation accepted.

3. TRUST'S GOVERNANCE ARRANGEMENTS

Observation

The board of trustees **MUST** provide details of the trust's governance arrangements both in the annual accounts and on its website. This includes the scheme of delegation for governance functions setting out what the board has delegated to its committees and local governing bodies.

Issue

Most academy trusts have included the list of Governors and related interests on their websites however they have not provided detail in relation to scheme of delegation for governance functions.

Most financial statements now have details of this within their governance statement. The Academy needs to ensure a separate statement is included on their website showing the purpose for each committee and how this is relayed to the main Governing Board.

Recommendation

We recommend that the Governors read 1.5.15 of the AFH and ensure they are familiar with the requirements and definition.

Client Response

Recommendation accepted.

4. SENIOR EXECUTIVE LEADER AND CHIEF FINANCIAL OFFICER

Observation

The Academies Financial Handbook emphasises that all trusts **MUST** have a senior executive leader who should also be appointed as accounting officer as well as a chief financial officer. These roles must not rotate.

Issue

The individual appointed as senior executive leader must be a fit and suitable person for the role. The accounting officer should be the senior executive leader of the trust. In trusts comprising a single academy this should be the principal. In multi-academy trusts it should be the chief executive or equivalent. The role of accounting officer must not rotate. The appointment of an accounting officer does not remove the responsibility of trustees, both individually and as a board, for the proper conduct and financial operation of the trust. The role of accounting officer includes specific responsibilities for financial matters.

The chief financial officer (CFO) must be appointed by the trust's board, who is the trust's finance director, business manager or equivalent, to lead on financial matters. The CFO should play both a technical and leadership role, including ensuring sound and appropriate financial governance and risk management arrangements are in place, preparing and monitoring of budgets, and ensuring the delivery of annual accounts.

The trust's finance staff **must** be appropriately qualified and/or experienced. Trusts should assess whether the CFO, and others in the trust holding key financial posts, should have a business or accountancy qualification dependent on the risk, scale and complexity of financial operations. Whilst a formal accountancy qualification may often serve as a proxy for the necessary skills, experience and personal qualities required for this role, there is no presumption that there will always be a perfect match. EFA recognises that many CFOs combine their specific financial responsibilities with a range of other support and leadership responsibilities in which the existence of a formal accountancy qualification may be less relevant.

The CFO need not discharge all of their duties personally. The trust may decide that its needs are adequately served by employing staff or contractors with the relevant skills and knowledge at the appropriate time (e.g. when accounts are being prepared).

Recommendation

We recommend that the Governors review and select a suitable person for the senior executive leader and chief financial officer roles.

Client Response

Recommendation accepted.

5. REGISTER OF INTERESTS

Observation

The guidance within the Academies Financial Handbook on registers of interests has been updated. The register **MUST** identify any relevant material interests arising from close family relationships between the academy trust's members, trustees or local governors. It **MUST** also identify relevant material interests arising from close family relationships between those individuals and employees.

Issue

Up until this latest handbook if a related party was included on the payroll it did not require disclosure in either the financial statements or the register of interests on the website. Now if a family member of the Governors or senior leadership team is employed by the academy this must also be disclosed.

Recommendation

We recommend that the Governors ensure the Register of Business interests is up-to-date and published on the academy's website

Client Response

Recommendation accepted.

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

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.

Recommendation

We recommend that the Governors appoint an individual with responsibility for ensuring that the DFE is notified within the 14 day limit.

Client Response

Recommendation accepted.

7. WHISTLEBLOWING PROCEDURE

Observation

Academy Trusts **MUST** have a whistleblowing procedure

Issue

Previously this has been a recommendation but has been upgraded to a 'MUST'. Whistleblowing is defined as 'When an employee reports suspected wrongdoing at work and makes a disclosure in the public interest, under the protection of the Public Interest Disclosure Act 1998.'

Recommendation

We recommend that the trust review their whistleblowing policy and the policy is communicated to all staff.

Client Response

Recommendation accepted.

8. INSURANCE

Observation

The Academies Financial Handbook states that Academy Trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money

Issue

Insurance funding from the EFA is due to drop to £20 per pupil from September 2016, However some leases or dioceses do not allow for the use of RPA.

Recommendation

We recommend that the Governors should review their insurance cover to ensure it provides value for money and is sufficient for any third party who may have an interest.

Client Response

Recommendation accepted.

9. STAFF SEVERANCE

Observation

Academy trusts **MUST** satisfy the conditions in the Academies Financial Handbook when considering a staff severance payment.

Issue

When considering making a severance payment, you should review sections 3.7.4 – 3.7.6 of the AFH. You are also reminded that such payments should not be as a reward for failure and that if any payment being proposed is in excess of £50,000 the EFA prior approval **MUST** be obtained before any binding commitment is offered.

Recommendation

We recommend that the school reviews the guidance mentioned above before agreeing to any severance payments.

Client Response

Recommendation accepted.

10. THREE YEAR BUDGET

Observation

The Academy Trust must prepare and monitor financial plans to ensure ongoing financial health up to a minimum of three years in the future.

Issue

The Board of Directors/Governors **must** approve a balanced budget, and any significant changes to that budget, for the three financial years, which can draw on unspent funds bought forward from previous years. The Board must minute their approvals.

EFA's accounting officer is required to provide assurance that the bodies the EFA funds are in sound financial health. For this reason, the academy trust **must** submit to EFA a copy of the annual budget forecast in a form specified by EFA by the date notified.

The Board of Trustees, and any separate committee responsible for finance, must:

- Ensure good financial management and effective internal controls
- Comply with their funding agreement and the Academy Handbook
- Receive and consider information on financial performance at least three times a year, and take appropriate action to ensure ongoing viability.

The Board of Directors/Governors **must** notify the EFA within 14 days if it is formally proposing to set a deficit revenue budget for the current financial year which it is unable to address, after unspent funds from previous years are taken into account.

Recommendation

We recommend that the Directors/Governors review the financial information at least three times a year – ensuring that consideration is given to explanations for fluctuations between budgets and actuals in the current year, but also considering the business plan and budgets for the next three and where possible five years.

Client Response

Recommendation accepted.

11. DISCLOSURE OF GOVERNORS' REMUNERATION

Observation

Three governors of the Academy receive remuneration through their employment with the Academy. This is disclosed in note nine of the accounts and does not fully comply with the Academies Accounts Direction 2014 to 2015. 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 7.6.17 of the Academies Accounts Direction 2014 to 2015 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 EFA requires the remuneration to be presented in £5,000 bandings.

The EFA 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

Governors would like to continue with aggregation of salaries.

Appendix 2

Issues Identified in Current year Audit

None

Appendix 3

Unresolved issues from previous years

None

Appendix 4

Resolution of previous years issues

1. Gifts & hospitality policies
2. Expense claim forms

1. GIFTS & HOSPITALITY POLICIES

Observation

The results of our audit work showed that the academy does not have formal policies in place for gifts & hospitality.

Issue

The Academies Accounts Direction 14/15 states that policies should be in place for the reimbursement of expenses and for gifts and hospitality. These policies must be approved Governors.

The Academies Financial Handbook 2015 states:

Gifts

The Academy Trust should have a policy and register on the acceptance of gifts, hospitality, awards, prizes or any other benefit which might be seen to compromise their professional judgement or integrity; and should ensure that all members of staff are made aware of this. When giving gifts, the trust **must** ensure that the value of the gift is reasonable, is within the trusts scheme of delegation, the decision is fully documented, and has due regard to propriety and regularity in the use of public funds.

Without policies in place it is not possible to ensure that these requirements are being met.

Recommendation

We recommend that the board of governors approve and implement policies for these areas at their next meeting.

Client response

The Gifts and Hospitality policy will be reviewed at the Spring Term Resources meeting.

ISSUE RESOLVED

2. EXPENSE CLAIM FORMS

Observation

The results of our audit work showed that expense claim forms are not being completed when reclaiming expenses.

Issue

The academies expense policy states that an expense claim form must be completed when reclaiming expenses. The academy is currently breaching its own policy.

Recommendation

We recommend that expense claim forms are completed in line with the academies policy.

Client response

This has been implemented. Expense claims are now being completed.

ISSUE RESOLVED