



trust



value

strength



direction



**Audit Findings for John  
Spendluffe Technology  
College**  
31 August 2020



# CONTENTS

- 1 Introduction, coverage and audit opinion
- 2 Key issues identified at planning stage
- 3 Peripheral issues identified at planning stage
- 4 Audit, accounting and control issues identified
- 5 Report to Management
- 6 Unadjusted misstatements
- 7 Adjusted misstatements
- 8 Data analytics findings
- 9 Emerging Issues



# 1

## Introduction, coverage and audit opinion

### Introduction and coverage

This report, to those charged with governance, summarises our key findings in connection with the audit of the financial statements in respect of the year ended 31 August 2020.

A summary of adjusted and unadjusted misstatements identified during the audit is included in sections 6 and 7.

We consider that the audit approach adopted will provide the directors with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report and pending the resolution of points noted in section 4, we anticipate no modifications to our pro-forma audit report which is an unqualified report.

### Audit opinion

Based upon the work that we have conducted, coupled with discussion with senior management as to the Academy's plans and intentions, we have concluded that an unqualified audit opinion will be given.

In addition, as communicated at the planning stage, we have performed such audit work as we consider necessary in support of our opinion on the statement of regularity, propriety and compliance. Our opinion will be qualified as a result of non-compliance with the Academies Financial Handbook 2019.



## 2

## Key issues identified at planning stage

Set out below is an overview of those matters that we considered as part of our Audit Plan to be the key business and audit risks for the audit period, together with our proposed audit approach to these risks. We have provided comments as to how we have resolved the issues identified and their impact, if any, on the Trust's financial statements.

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Property assets</b></p> <p>Property represents by far the largest single asset under the academy's control. The audit therefore recognises the importance of confirming the academy holds appropriate title / tenure of its premises and that they are properly reflected in the financial statements.</p>	<p>We shall perform land registry searches to confirm the school's title to / tenure of its premises and that the financial statements properly disclose this.</p> <p>The audit will also have regard to the carrying value of the premises and whether the prevailing valuation remains appropriate.</p>	<p>The academy's tenure of its premises has been corroborated and this is appropriately disclosed in the financial statements.</p> <p>There are no material concerns over the carrying / book value of the property assets in those accounts.</p>
<p><b>Payroll</b></p> <p>Payroll costs (and incidental overheads such as pension contributions and possibly apprenticeship levy) represent the largest expense of the Trust.</p> <p>The risk is that salary and / or pension costs may be misstated or misclassified in the financial statements.</p> <p>There is also a need to identify lump sum / non-contractual payments for disclosure and ESFA regularity purposes.</p> <p>The risk that processes in place for decisions about levels of executive pay are not robust given that this is an area of increasing scrutiny.</p>	<p>The audit will reconcile stated payroll and pension costs to the payroll and FRS 102 actuarial report. We will also have regard to unusual changes in average staff numbers and average remuneration to ensure there is no concealment of irregularity.</p> <p>We will also test check individual personnel details and salaries to ensure salaries are being paid at the authorised rates, and we shall examine lump sum settlement payments or similar for evidence of irregularity or breach of delegated authorities.</p> <p>Our system testing will need to place greater emphasis on the process around executive pay and how the Trust ensures they are compliant with the AFH.</p>	<p>Payroll costs have been reconciled to the payroll, with pension costs being agreed to the payroll and (in relation to LGPS members) the Local Government actuarial report.</p> <p>Satisfactory explanations have been provided for changes in staff numbers and average remuneration.</p> <p>Lump sum / non-contractual payments were paid in line with the Academies Financial Handbook and have been correctly disclosed.</p> <p>Procedures around setting of executive pay were considered as part of our systems testing and they were considered to be appropriate.</p>



## 2

Key issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Fraudulent and erroneous revenue recognition</b></p> <p>Under auditing standards, this is presumed to be a high-risk area in which we need to ensure all material income due to the Academy is recognised in the accounts and in the correct period.</p> <p>The principal income stream is the Trust's GAG revenue. We do not consider grant recognition to be a significant risk for the Trust as there are limited incentives and opportunities to manipulate or misstate the way income is recognised. We therefore do not incorporate specific work into our audit approach over and above our standard fraud procedures.</p> <p>We shall however give attention to other material income streams where the risk of revenue cut off error may be greater.</p>	<p>Normal audit work will be performed on completeness of income (proof in total, cut off etc). However we need to be alert to any netting off of income against expenditure that may be designed to conceal irregular expenses / payments.</p> <p>We shall also be alert to confirm all material sources of grant income to ensure there has been no misappropriation or misclassification of funding that may render the Trust's actions in breach of funding agreements.</p> <p>We shall devise appropriate tests to examine non-grant income streams as we consider necessary.</p>	<p>All material sources of grant income have been confirmed to funding statements and there are no material cut off errors that remain unadjusted.</p> <p>No instances of material netting off have been identified in the accounting records.</p> <p>No material cut off or completeness errors found from non-grant income testing</p>



## 2

Key issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>FRS 102 Retirement Benefits Position</b></p> <p>The FRS 102 pension liability is a significant balance sheet item and is reliant on independent third party valuation and which is acutely sensitive to the underlying assumptions used by the actuary to evaluate the scheme deficit.</p> <p>The risk is that the Trust has not fully complied with the accounting treatment as required by FRS 102.</p> <p>The accounting balances and disclosures reported in the financial statements may not be correct. Our audit focus will be on the FRS 102 valuation and disclosures.</p>	<p>We will undertake a review to ensure that the Trust's management have checked the data and considered the assumptions used by the actuary in preparing the FRS 102 valuation.</p> <p>We will also obtain and review a copy of the FRS 102 actuarial valuation to support the disclosures in the financial statements.</p> <p>We will compare the actuarial assumption used for this Trust with those used for other Trust clients to ensure consistent.</p>	<p>The data used for the Local Government valuations appears to be materially correct and the underlying assumptions consistent with those applied to other Academies.</p> <p>The deficit attributable to the Academy has significantly increased due principally to a change in actuarial assumptions. This change has been driven by the decrease in corporate bond yields in the period up to 31 August 2020 which are used to calculate the discount rate to apply to the scheme liabilities. This decrease in discount rate has caused the present value of net scheme liabilities to increase.</p> <p>Assumptions used by the actuary are consistent with other academy clients.</p>



## 2

Key issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Management override</b></p> <p>By definition this is a risk area and the audit must recognise that the Head and possibly others in positions of control may by-pass the Trust's systems of internal control in the execution of their duties and in the spending of Trust monies.</p>	<p>We will perform test checks to ensure that expenses and payments have been made in accordance with the Trust's written procedures and that their true nature is reflected in the financial statements.</p> <p>If there are other suspected or discovered irregular payments, we will discuss with the Trust how these are to be tackled (by ourselves or the ESFA).</p>	<p>Purchase invoices, payments and expenses have been reviewed to ensure expenditure is made in accordance with the Trust's system of internal control.</p> <p>No unusual or irregular transactions were noted by our work.</p>



### 3

## Peripheral issues identified at planning stage

Set out below is an overview of those matters that we considered as part of our Audit Plan to be the peripheral business and audit risks for the audit period, together with our proposed audit approach to these risks. We have provided comments as to how we have resolved the issues identified and their impact, if any, on the Trust's financial statements.

Key area of audit focus/risk	Audit approach	Resolution
<p><b>ESFA regularity audit work</b></p> <p>The risk is that non-compliance with ESFA regularity framework requirements, or specific conditions attached to funding.</p>	<p>We will review procedures and controls and test compliance with funding and other conditions in accordance with the ESFA regularity framework.</p> <p>We shall on a test basis review the amount and nature of outgoings (salaries and expenses) incurred by the Trust in the performance of its responsibilities to ensure there are no indications of misuse of public funds, waste or extravagance.</p>	<p>The Trust's procedures and controls have been reviewed and are considered to be in accordance with the ESFA regularity framework except for items noted in Section 5.</p> <p>The Trust's funding agreements were reviewed and from our transactional testing there were no indications to suggest that conditions within these agreements were breached or that there was any misuse of public funds.</p>
<p><b>Funding</b></p> <p>Our audit risk is that the final funding received for the period is misstated in the financial statements.</p> <p>Given the prevailing uncertain funding climate, there is a further audit risk around the trust's ability to deal with falling revenues whilst suffering upward pressure on costs. This is dealt with under the going concern risk assessment below.</p>	<p>We shall review Trust minutes and correspondence with ESFA for information on the performance of the Trust against target and any possible issues with funding allocation or clawback.</p> <p>We will also review funding statements from the ESFA to confirm the sums paid in the period are completely and accurately recorded in the financial statements.</p>	<p>Correspondence has been reviewed and no issues have been highlighted which could result in a clawback.</p> <p>No cut off or completeness issues identified as result of completeness testing except for those items highlighted in Section 6 of the report.</p>





## 3

Peripheral issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Settlements</b></p> <p>The Academies Accounts Direction has placed increased emphasis on the disclosure and validation of settlement payments to staff.</p>	<p>We shall examine accounting records and payroll reconciliations for evidence of settlement payments to staff and ensure that the Trust has recognised its obligations as regards propriety and best value in making any such payments.</p>	<p>Settlement payments in the period were reviewed to ensure they were appropriately discussed and agreed in accordance with the requirements.</p> <p>The disclosure in the accounts is considered to be complete.</p>
<p><b>Capital investment and maintenance</b></p> <p>The main risks are that the financial statements do not adequately reflect the future commitments of the Trust or the recognition of the costs and associated grants of the building works and refurbishments or maintenance works in the correct financial year.</p>	<p>We will establish the current status of any building work by reviewing committee minutes, correspondence and testing of invoices from contracts.</p> <p>We will also review and test the accounting treatment of costs and associated grant to ensure that these are correctly accounted for and disclosed in accordance with the Academies Accounts Direction 2019 to 2020 and UK GAAP.</p> <p>Furthermore, we will assess the Trust's consideration to whether there is a need for an impairment review to its existing estate.</p> <p>Finally, we will assess the impact of any major building project costs on the Trust's cash flows over time to ensure that the Trust remains a going concern.</p>	<p>Capital funding schedules have been reviewed and income has been tested to ensure it is recognised in full within income in the financial statements.</p> <p>Costs associated with these grants have been tested to ensure amounts recognised are materially correct in relation to the progress of any projects and any outstanding commitments have been properly accrued or disclosed.</p> <p>Condition of existing estate was discussed, and no impairment review is considered necessary.</p> <p>Ongoing building project was discussed and are not expected to have an impact on cash flow</p>



## 3

Peripheral issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Classification discrepancies</b></p> <p>Irregularities could be concealed by the misrepresentation of transactions or balances.</p>	<p>Our standard analytical procedures will seek explanation of all significant variances between this period and last as regards income and expenses.</p> <p>We need to remain alert to the possibility that unexplained variances could signify irregular transactions, window dressing or concealment.</p>	<p>The standard analytical procedures were carried out during the audit and sufficient explanations were obtained for any significant variances. Any classification errors noted as part of these procedures were amended.</p>
<p><b>Related parties</b></p> <p>Transactions may have been entered into with related parties that may be incurred contrary to the interest of the Trust and thus contravene the requirements of the latest Academies Financial Handbook. In addition, disclosure of related party and trustee transactions is normally highly sensitive due to public interest.</p>	<p>Normal audit work background searches will be performed to identify all related parties.</p> <p>Material dealings will be examined and commerciality reviewed to ensure that all transactions with related parties are not to the detriment of the Trust, and the ESFA requirements for dealing to be on a cost basis have been complied with where necessary.</p> <p>Where related party transaction have been identified we will need to ensure these have been reported to the ESFA via the portal as required.</p>	<p>Background searches performed.</p> <p>All transactions with related parties are deemed to be in line with ESFA requirements in relation to cost basis and appropriately disclosed within the financial statements.</p> <p>Transactions with related parties have been disclosed to the ESFA as required.</p>



## 3

Peripheral issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Journals</b></p> <p>We need to be alert to the use of irregular journals that may be designed to conceal irregularity or disguise the true nature of transactions.</p>	<p>Our normal audit work will suffice in this area but added diligence will be needed to ensure any unusual entries are corroborated.</p>	<p>Large and unusual journals were reviewed as part of the normal audit procedures and no irregular journals were noted.</p>
<p><b>Financial stability / Going concern</b></p> <p>With the recent and continued unprecedented changes in the economy and public funding, there is an increased risk of insurmountable difficulty in the sector generally. In particular, academy trusts may need to restructure or explore various cost saving measures if they are unable to replace diminishing Government funding, which may impact upon educational attainment.</p> <p>Equally, trusts undergoing expansion can suffer a funding “lag” between the timing of the costs associated with such expansion and the resultant income, which is normally received in future periods.</p> <p>Whilst we have no specific concerns regarding the Trust, financial stability and the ability to remain a going concern (as demonstrated in its budgets and projections) will be an important part of our audit.</p>	<p>We shall review the Trust’s financial results, budgets, level of carried forward reserves and future cash flow forecasts and will assess whether the going concern disclosures in the financial statements are adequate and whether there is any impact upon our audit report.</p>	<p>The level of carried forward reserves and future financial information provided has been reviewed and assumptions used to prepare such information have been assessed. This information demonstrates that Trust’s is likely to have sufficient financial resources to continue in future years therefore the going concern basis is still appropriate.</p>



## 3

Peripheral issues identified at planning stage *continued*

Key area of audit focus/risk	Audit approach	Resolution
<p><b>Trading and fundraising issues</b></p> <p>As part of a broader diversification of fundraising in the Trust sector, there has been an increase in business or fundraising activities that may be deemed “trading” by HMRC.</p> <p>HMRC may take the view that this “trading” income, such as catering income or the selling of school uniforms, should be liable to corporation tax.</p>	<p>The audit team will remain vigilant to any such Trust income, ensuring that it can be easily recognisable and that costs in relation to such activity are identified to mitigate exposure to corporation tax liabilities.</p> <p>Any such findings will be discussed with the Trust, with of our tax experts being used to assist and advise as necessary.</p>	<p>Non grant income has been reviewed and potential trading income has been identified which is below the £80,000 therefore no potential corporation tax liability.</p>
<p><b>Leases</b></p> <p>There is an increasing use by Trusts of lease arrangements for the procurement or hire of assets.</p> <p>Agreements in respect of IT equipment and portable devices have proved to be particularly risky in that their terms often lead to them being interpreted as finance leases (and therefore debt) under the criteria of FRS102.</p> <p>The Academies Financial Handbook 2019 states that Trusts must obtain ESFA prior approval before taking up a finance lease on any class of asset for any duration from another party (borrowing).</p>	<p>We shall examine any material new lease agreements and compare the terms and cash flows thereunder to the criteria of FRS102 to determine if the leases are operating or finance in nature.</p>	<p>Leases have been reviewed and are correctly classified as operating leases. The operating lease disclosure in the financial statements has also been checked and agreed back to supporting documentation.</p> <p>Senior management have confirmed that all operating leases have been included in the disclosure.</p>



## 4

# Audit, accounting and control issues identified

### Audit and accounting issues identified during the audit

There are no other issues identified during the audit that were not addressed at the planning stage and highlighted in our Audit Plan that we consider should be brought to the attention of those charged with governance.

### Management letter points

Management letter points arising are set out in Section 5.

An audit is not designed to identify all matters that may be relevant to the directors. Accordingly the audit does not ordinarily identify all such matters, and this summary does not constitute a comprehensive statement of all weaknesses that may exist in internal controls or of all improvements which may be made.

### Uncertainties, risks, exposures, estimates, judgemental issues and going concern

No significant uncertainties, risks, exposures, estimates, judgemental or going concern issues were noted by the auditors for which the auditors believe it is necessary to communicate to those charged with governance.

### Consultation on difficult, ethical or contentious issues


No ethical conflicts have arisen from our work other than those identified and communicated to you at the planning stage.



## 5


## Report to Management

## Brought forward Management Points – from 2019

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance</b>			
<p>1 <u>Scheme of delegation</u> The Academy does not have a formal and up to date scheme of delegation in place.</p>	<p><b>We recommend that the Academy document a formal and approved scheme of delegation on an annual basis. This is to ensure that Section 2.4 of the Academies Financial Handbook is adhered to.</b></p>		<p><b>Explanation:</b> This was in a state of readiness to be taken to the Governors meeting of January 2020 but due to an oversight it was not viewed.</p> <p><b>Action:</b> Will be in place immediately. Will place on a publicised calendar of events for the finance office to enable further external scrutiny.</p>


## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance (continued)</b>			
<p>2 <u>Governance structure</u> As per Section 1.5 of the Academies Financial Handbook, the Department's view is that there should be a significant degree of separation between the individuals who are members and trustees. We have reviewed the governance structure of the Academy and have identified that there is only some separation between members and trustees.</p>	<p><b>In order to comply with Section 1.5 of the Academies Financial Handbook, there should be a significant degree of separation between the individuals who are members and trustees. Furthermore, Section 1.3 of the Academies Financial Handbook states the Department's strong preference is that trusts should have at least five members.</b></p> <p><b>We would recommend that the majority of members of the Academy Trust are independent and not also acting as a Trustee.</b></p>		<p><b>Explanation:</b> Our Trustees vs Member balance is under the 5 as outlined in the handbook. We have 3 members - one of which is not a Governor and need to recruit 2 members.</p> <p><b>Action:</b> There is a plan to recruit a 4<sup>th</sup> member and via our collaboration agreement with the neighbouring grammar school the potential for enhancing our numbers further.</p>

## 5



Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance (continued)</b>			
<p>3 <u>Financial information</u> We have obtained copies of the information distributed at the latest Governors meeting, and it is limited in terms of the financial information presented.</p> <p>There are no details provided of budget v actual spend/income received; no comparisons to prior year information; and no variance calculations performed with explanations provided therein.</p> <p>Furthermore, it was noted that there is currently no long term (3 to 5 years) budget in place.</p>	<p><b>We recommend that sufficient financial information is provided to Governors at each meeting that is held and in line with Section 2.21 requirements of the Academies Financial Handbook.</b></p> <p><b>It is also considered best practice that a long-term budget is prepared as this will enable the Academy to identify any financial issues which may arise beyond the following year.</b></p>		




# 5

## Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Financial planning and monitoring</b>			
<p>1 <u>Cash flow forecast</u> We noted that the academy does not produce a cash flow forecast.</p> <p>2 <u>Key performance indicators</u> We have noted from our testing that there is no regular KPI monitoring of performance</p>	<p><b>To ensure compliance with Section 2.21 of the Academies Financial Handbook, we recommend that a cash flow forecast is produced and maintained to support cash monitoring and projection.</b></p> <p><b>To ensure compliance with Section 2.22 of the Academies Financial Handbook, we recommend that KPIs are selected to measure performance on a regular basis.</b></p>	<p></p> <p></p>	<p><b>Explanation:</b> Performance Indicators were introduced within 2019-20 financial year and shared with D&amp;T on visiting recently but some that lack the signature of the Chair of Governors. These have been seen by the CoG but she had not been available in person as a result of Covid for a significant period.</p> <p><b>Action:</b> The future monthly production of these will be added to the publicised calendar and signed at that time – virtually if required.</p>

## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Internal controls</b>			
<p>1 <u>Petty cash limits</u> From review of the petty cash we identified several instances where the threshold was exceeded and authorised inappropriately.</p>	<p><b>We recommend that petty cash claims should only be authorised when they are within the petty cash threshold that is set within the Academy's Finance Policy.</b></p>		<p><b>Explanation:</b> There are a handful of claims that have exceeded £50 – in two cases these were cash advances for expenses claims which were agreed and the monies were then removed from salary. In both cases staff signed a document to ensure that this was an agreed step. In other cases these were for staff who use a local store to purchase resources cheaper than they can be bought from other providers.</p> <p><b>Action:</b> Will in future look for alternative route rather than petty cash. In real terms the limit may need to be raised to £75. This limit has not been raised for a significant period of time.</p>

## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Internal controls (continued)</b>			
<p>2 <u>Journal approvals</u> We have noted that there are months where the journal reports have not been appropriately authorised.</p>	<p><b>We recommend that the journal reports are included as part of the month end process and signed by an appropriate individual on a timely basis.</b></p>		<p><b>Explanation:</b> Some reports need to be signed by Headteacher as a result of lockdown issues. They have now been checked and signed. <b>Action:</b> Will place on a publicised calendar of events for the finance office to enable further external scrutiny.</p>
<p>3 <u>Payroll authorisation</u> We have noted that there are months where the payroll reports have not been appropriately authorised.</p>	<p><b>We recommend that the monthly payroll reports are authorised by the Head Teacher on a timely basis.</b></p>		<p><b>Explanation:</b> Signatures were missing on some reports – partly as a result of lockdown issues. This has now been resolved. <b>Action:</b> Will place on a publicised calendar of events for the finance office to enable further external scrutiny.</p>


## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Internal controls (continued)</b>			
<p>4 <u>Purchase orders</u> From a sample of testing undertaken in the year, we have identified instances of retrospective purchase orders being generated</p>	<p><b>All purchase orders should be raised prior to orders being placed with the relevant suppliers.</b></p>		<p><b>Explanation:</b> Staff members did not inform finance effectively/efficiently about invoices or involved repeat subscriptions where Purchase Orders not created ahead of the invoice being received in school. Lack of communication within departmental areas contributed to this – exacerbated by lockdown periods.</p> <p><b>Action:</b> The finance office will look back through Purchase Orders and look for expected commitments and add these to the finance office publicised calendar. This will avoid issues arising in lockdown. Where this situation arises again the member of staff will have a written response to ensure compliance with school systems. A staged response to Governing Body will then occur if difficulty continues.</p>


## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>ICT controls and procedures</b>			
<p>1 <u>Starters and leavers</u> New starters and leavers access rights are communicated to the IT team via email or telephone. Formal new starter procedures and induction processes have since been implemented, however there are no formal procedures in place for staff leavers.</p>	<p><b>We recommend a formal process is undertaken when an employee starts or leaves the Academy.</b></p> <p><b>A new starter form that provides details of the level of access rights that should be given the new staff member, and a leaver form that is signed to confirm access rights have been removed, are considered to be sufficient.</b></p>		<p><b>Explanation:</b> There is a process for the removal of staff members from platforms, emails and other IT facilities in school that is discussed with and authorised by the headteacher and goes through the Network Manager but this is not documented. All staff sign the 'Acceptable Use of ICT' protocol. There is also an e-safety policy for staff in place signed by all staff to say they have read it.</p> <p><b>Action:</b> A protocol is now in place –by end of term – to formalise the access offer to all staff joining school and to formalise the removal of all staff on leaving school. This will include role, department, drives for access, school/departmental platforms, emails and Teams areas. Agreement and link to Acceptable Use of ICT policy made clear.</p>


## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>ICT controls and procedures (continued)</b>			
<p>2 <u>Disaster recovery</u></p> <p>It was identified that there is no formal and current Disaster Recovery plan in place. We have however noted that a draft disaster recovery plan has been completed and this will be approved at the next Governors meeting in January 2020.</p>	<p><b>A formal and up-to-date Disaster Recovery plan should be produced and made available to the appropriate individuals.</b></p>		<p><b>Explanation:</b> Oversight. Policy started and given to ICT manager. Did not complete due to pressure on staff member as a result of Covid strategies for preparation of ICT platforms.</p> <p><b>Action:</b> Policy now prepared and will be in place for September with 6 monthly reviews. Will place on a publicised calendar of events for the finance office to enable further external scrutiny.</p>


## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Fixed assets</b>			
<p>1 <u>Fixed asset register</u></p> <p>There is no fixed asset register maintained by the Academy. In the absence of a sufficient fixed asset register, the controls over monitoring the existence and completeness of assets, together with impairment and residual value considerations, are not deemed to be sufficient.</p>	<p><b>As required by the Academies Financial Handbook, we recommend a fixed asset register is produced (using the disclosure headings specified in the Trust's signed financial statements) and is maintained on a monthly basis. The fixed asset register should be reconciled as part of the month end procedures, agreeing it to the trial balance every month.</b></p> <p><b>We also recommend the fixed asset register is reviewed on a timely basis for the existence and completeness of assets included therein. Furthermore, any new asset additions should have residual values taken into consideration, as well as there being an annual assessment of impairment.</b></p>		<p><b>Explanation:</b> Matrices need to be developed and then used to create this document. In order to do this we need clarity as to whether to backdate the creation or just go from another calendared point. Please advise.</p> <p><b>Action:</b> Will create once advice received – as above. Will place on a publicised calendar of events for the finance office to enable external scrutiny.</p>

## 5

Report to Management *continued*


Observation	Recommendation	Importance	Response/Conclusion
<b>Fixed assets (continued)</b>			
<p>2 <u>Fixed asset policies</u> The fixed assets policies and procedures in place are not currently documented in the Finance Policy.</p>	<p><b>We recommend that all policies and procedures relating to fixed assets are included in the Finance Policy. Examples include capitalisation limits depreciation rates the disposal of equipment.</b></p>		<p><b>Explanation:</b> Policy needs updating with this element within it. <b>Action:</b> Will be completed for the next Finance Committee. Will place on a publicised calendar of events for the finance office to enable further external scrutiny.</p>



# 5


## Report to Management *continued*

### 2020 Final Audit Management Points

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance</b>			
<p>1 <u>Governor skills</u> We note that a Governor skills audit has not been undertaken during the 2019/20 year.</p>	<p><b>Section 1.9 of the Academies Financial Handbook 2019 states that "The board should identify the skills and experience it needs, including financial knowledge, and address gaps through recruitment, and/or induction, training and other development activities."</b> We recommend that a skills audit is undertaken annually and that courses are offered and subsequently attended for any gaps identified.</p>		<p><b>Explanation:</b> Oversight as a result of Covid. <b>Action:</b> Will be completed in term 6 2020-21. Added to calendar for reminder.</p>




## 5

Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance (continued)</b>			
<p>2 <u>Governor oversight</u> Given the issues that have arisen in the Trust in the year, a number of which have been reported in the Audit Findings Report, we believe that the Governors do not appear to have effective oversight over the Trust's activities.</p>	<p><b>We recommend that Governors review the requirements of the Academies Financial Handbook and undertake appropriate training to understand their roles and responsibilities as Governors of the Trust.</b></p>		<p>Both the Chair and Vice Chair of Governors were in constant contact with the Headteacher and College Business Manager during lockdowns and in the instance of the late account submission were made aware of this in January 2021 when informed by our Headteacher. Most of our governing body have not been in school in person since March 2021 with all meetings being conducted remotely to preserve their own health, due to their age, and the health concerns of those of people who they live with or have to support. These have not been normal times for operating and therefore I would agree that there has not been as much rigorous effective oversight but this is due to external circumstances which do not appear have been taken into account.</p>



## 5


Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance (continued)</b>			
<p>3 <u>Website review – declarations of interests</u></p> <p>From our review of the Trust's website, we note that there is one declaration of interest that related to the 2019/20 financial year that has not been disclosed as required.</p>	<p><b>We recommend that all declarations of interests are disclosed on the Trust's website for all Trustees and Members that have served in the last 12 months, as specified by Section 2.48 of the Academies Financial Handbook 2019.</b></p>		<p><b>Explanation:</b> Oversight as a result of stresses from Covid pressures.</p> <p><b>Action:</b> Identified member details acquired. Added to Governance calendar.</p>
<p>4 <u>Website review – financial statements</u></p> <p>From our review of the Trust's website, we note that the latest financial statements that are filed are for the year ended 31 August 2018.</p>	<p><b>We recommend that the latest financial statements are uploaded onto the Trust's website by 31 January each year to ensure compliance with Section 4.4 of the Academies Financial Handbook 2019.</b></p>		<p><b>Explanation:</b> Oversight as a result of stresses from Covid pressures.</p> <p><b>Action:</b> Identified statements added to website immediately. Added to Governance calendar.</p>
<p>5 <u>Website review – attendance records</u></p> <p>From our review of the Trust's website, we note that the attendance records disclosed are not up-to-date.</p>	<p><b>We recommend that the attendance records for the last academic year are disclosed on the Trust's website to ensure compliance with Section 2.48 of the Academies Financial Handbook 2019.</b></p>		<p><b>Explanation:</b> Oversight as a result of stresses from Covid pressures.</p> <p><b>Action:</b> Identified statements added to website immediately. Added to Governance calendar.</p>

# 5



## Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Governance (continued)</b>			
<p>6 <u>Bank statement review</u> We note that the bank statements have not been appropriately signed each month.</p>	<p><b>Bank statements should be reviewed on a monthly basis by an appropriate individual and signed to confirm this review has arisen.</b></p>		<p><b>Explanation:</b> Oversight as a result of stresses from Covid pressures. <b>Action:</b> Scrutinised and completed immediately.</p>
<p>7 <u>Finance Policy</u> From our review of documentation provided, we note that the Finance Policy does not appear to have been updated since November 2018.</p>	<p><b>The Finance Policy should be reviewed at least annually, and updated as required, to ensure the information included is still appropriate and applicable to the Trust's ongoing operations.</b></p>		<p><b>Explanation:</b> Oversight as a result of stresses from Covid pressures. <b>Action:</b> Policy updated. Added to Governance calendar</p>

Observation	Recommendation	Importance	Response/Conclusion
<b>Financial planning and monitoring</b>			
<p>1 <u>Management accounts</u> From discussions that have been held, we have been informed that no management accounts are produced on a monthly basis.</p>	<p><b>Section 2.18 of the Academies Financial Handbook 2019 states that the Trust must prepare management accounts every month setting its financial performance and position, comprising budget variance report and cash flow forecasts with sufficient information to manage cash, debtors and creditors.</b></p>		<p>Significant issues and increased work demands during the pandemic have made it very difficult for normal interim audit work to take place. As a school we accept your point over the necessity for more regular financial monitoring but will on this occasion sight lack of time and on occasions finance staff to ensure this happens. As quoted in previous emails, the direction during lockdown one was for our staff to remain at home. Access to site was limited and strain was put on myself as being the only member of finance staff being in for 90% of the working week from March to June 2020. Since September 2020 significant chunks of time have been lost due to finance staff needing to self-isolate, with potential links to confirmed cases within local schools which has seen the absence of finance staff. For example - both Finance Assistants being off at one time, with the most senior only being in the office for one week in four during October / November 2020. The ripple effect of their absences has been huge meaning greater workload for the College Business Manager at a time when year end preparation of accounts was due to be taking place.”</p>

## 5

Report to Management *continued*



Observation	Recommendation	Importance	Response/Conclusion
<b>Financial planning and monitoring (continued)</b>			
<p>2 <u>Management accounts - sharing</u> Whilst we have seen evidence that some information is shared with Trustees, in line with the Academies Financial Handbook 2019 requirements set out in Section 2.19, given that no management accounts are produced, it is deemed that insufficient required information is shared with Trustees.</p>	<p><b>We recommend that, once management accounts are produced by the Trust, these accounts are shared with Trustees in line with the Academies Financial Handbook requirements.</b></p>		
<b>Fixed assets</b>			
<p>1 <u>Insurance cover</u> Whilst we note that the Trust use the RPA scheme for insurance cover, the motor vehicle insurance policy taken out with Zurich did not appear to go through a best value exercise.</p>	<p><b>A best value exercise should be undertaken for all insurance premiums taken out by the Trust.</b></p>		<p><b>Explanation:</b> Oversight as a result of stresses from Covid pressures. <b>Action:</b> Future insurance purchases to be made using comparisons rather than pressing current insurer for reduction in renewal costs.</p>

**5**

**Report to Management** *continued*

## 5




Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Internal controls</b>			
<p>1 <u>Opening balances</u> Opening balance adjustments were not posted onto the finance system that were provided in relation to the 31 August 2019 financial year.</p>	<p><b>Opening balance adjustments should be posted onto the finance system as soon as they become available to ensure that the information presented to Governors is accurate and reflects the signed financial statements in the prior year.</b></p>		<p><b>Explanation:</b> Oversight as a result of Covid pressures. <b>Action:</b> Reminder set to avoid in future.</p>
<p>2 <u>Internal audit</u> The Trust has not received any internal audit visits for the 2019/20 financial year.</p>	<p><b>Section 3.17 of the Academies Financial Handbook 2019 states that the Trust must deliver internal scrutiny in the way most appropriate to its circumstances. A programme of internal scrutiny work must be performed going forward.</b></p>		<p>Whilst acknowledging the fact that the ESFA did not bring a halt to Interim Audit work needing to be carried out, there has been a disregard for the challenges that have been seen within the education sector. The pace and volume of change along with the challenges faced by those working in schools has been huge. At the time when Duncan &amp; Toplis have been trying to undertake audit work remotely, we have been ordering in PPE to protect staff lives, remodel sites and plan logistically to keep students and staff safe and issue labour intensive payments to over 200 FSM families on a fortnightly basis by manual entry. Unfortunately, the interim audit work was superseded by other tasks to support our staff and school community which took priority</p>



# 5

## Report to Management *continued*

Observation	Recommendation	Importance	Response/Conclusion
<b>Internal controls</b>			
<p>3 <u>Journal adjustments – segregation of duties</u> In addition to the journal reports not being approved by an appropriate individual, we also note that the segregation of duties for journal adjustments is not appropriate given that journals have been posted and approved by the School Business Manager in the year.</p>	<p><b>Journal approvals should always be undertaken by an appropriate individual with sufficient segregation of duties being in place.</b></p>		<p><b>Explanation:</b> Missing signatures due to oversight. <b>Action:</b> Calendar of systematic, routines to include identified documents for signature</p>
<p>4 <u>Auditor recommendations</u> We note there are a number of brought forward auditor recommendations that have not been resolved in 2019/20.</p>	<p><b>Section 4.16 of the Academies Financial Handbook states the Trust "must ensure there is an appropriate, reasonable and timely response by the trust's management team to findings by auditors."</b></p>		
<p>5 <u>Late submission</u> The final accounts for August 2020 were not submitted by the ESFA's extended deadline of 31<sup>st</sup> January 2021.</p>	<p><b>Section 4.4 of the Academies Financial Handbook indicates accounts must be finalised by the specified deadline date.</b></p>		

### Other housekeeping suggestions

The following points are presented as a matter of completeness in relation to the Academy Trust:

#### Payroll – salary statements

A sample of personnel files were reviewed, and it was confirmed that there is a current record of latest salary / increment / scale and records were deemed to be appropriately authorised. However, salary statements are only maintained for teaching staff and not for support staff. From observation of procedures at other Academies we would recommend that salary statements are maintained for all staff members.

#### Trip policies

During our visit we noted that there were no formal procedures documented in the Academy Finance Policy regarding school trip and overseas trip procedures. We recommend that the Academy Finance policy is updated to include the controls and procedures for school trip and overseas trips.

Key to symbols:



The Board of Trustees should ensure this recommendation is addressed as a matter of priority as insufficient internal controls are currently in place, the Trust is exposed to risk or is non-compliant with key requirements.



The current internal controls are not necessarily failing, but there are weaknesses within these controls that we have deemed to be medium risk to the Trust, therefore improvements should be put in place where possible.



The matter raised is considered to be a low risk area to the Trust or is an issue for which there has already been a change of procedure to prevent recurrence.

## 6

## Unadjusted misstatements

The following misstatements have been noted during the audit and are immaterial to adjust:

Nature of item	Unadjusted profit and loss effect £
<b>Factual:</b> Rates reclaim accrued income Laptop donations	9,312 6,600
<b>Total unadjusted increase/(decrease) to profit</b>	<b><u>15,912</u></b>

## 7

## Adjusted misstatements

The table following shows adjustments (excluding reclassifications) that were made to the original trial balance data prior to the audit and during the course of our audit work:

Nature of item	Adjusted SOFA effect £
<b>Surplus/(Deficit) per trial balance</b>	<b>(57,418)</b>
<b>Accounts adjustments:</b>	
Prepayments and accrued income reversal	(74,122)
Payroll account adjustment	112,614
Accrued income for Coronavirus funding	21,509
Fixed asset additions re-allocation	(7,069)
Depreciation charge for the year	(250,116)
School Fund movement	4,177
Accrued income for Pupil Premium	46,170
Pension journal adjustment	(167,000)
Accruals reversal	2,476
Accrued income for CIF	30,543
<b>Audit adjustments</b>	
Increase in closing accrual based on projected fees	(3,750)
Adjustment to CIF income to agree with remittances	(2,961)
Adjustment to SEN income to agree with schedules	<u>(2,200)</u>
<b>Surplus/(Deficit) per audited accounts</b>	<b>(347,147)</b>

Changes were made to the disclosure in the financial statements to improve presentation and ensure compliance with applicable accounting standards.

# 8

## Data analytics findings

Through our audit we have utilised data analytics in several areas to assist our work in John Spendluffe Technology College. We summarise below some of the findings from this process.

### General findings

#### Transaction numbers

There were 3,822 transactions entered into Sage over the year.

#### Surplus/deficit value impact

Out of the total transactions noted above 80 items had a surplus/deficit impact of £35,000 or more. These have been reviewed and are mainly related to payroll costs and income received from the ESFA. We are satisfied that there are no issues with these transactions.

#### Large value versus average

88 transactions (2%) were of a value 10 times or more of the average value of transactions in any given nominal ledger account. These mainly occurred due to the monthly GAG income received, quarterly VAT reclaims and monthly payroll journals.

#### Seldom used accounts

20 of 65 general ledger accounts had less than a posting a month entered. This is mainly associated with quarterly VAT adjustments and monthly payroll journals.

#### Zero balance accounts

1 of 65 general ledger accounts had postings to them where the account balance at the year end was zero.

#### Suspense accounts

99 transactions were posted to suspense accounts, all associated with sales invoice adjustments.

## Changes in the new Academies Financial Handbook 2020/21

The changes from the 2019 handbook focus on internal scrutiny. The ESFA are looking to see improvements in this area and expect to see trusts with internal scrutiny processes more in-line with further education entities.

Below is an overview of the changes. Items in **bold** are considered to be of particular importance.

### Governance

- **Members of an academy trust MUST NOT be employees of the trust or occupy unpaid staff roles.**
- **Trusts MUST keep their register of interests up to date.**
- Members MUST remain informed about trust business.
- The handbook emphasises the importance that it is the trustees' responsibility to maintain the trust as a going concern.
- Trusts MUST appoint a clerk to the board.

### Executive Team

- **The handbook confirms that the accounting officer and chief financial officer (CFO) should be employees. If, in exceptional circumstance (for example where there is a sudden departure from either role and they are filled on an interim basis) they are not an employee, then the trust MUST obtain ESFA approval prior to appointment.**
- For larger trusts (more than 3,000 pupils), CFOs are encouraged to hold relevant accountancy qualifications. Therefore, this should be considered when appointing a CFO. All CFOs are expected to maintain their professional development.

### General controls and transparency

- **Employees whose benefits (gross pay, taxable benefits and termination payments) are over £100k MUST be published on the trust's website as an extract from the trust's financial statements for the preceding accounting period. Therefore, from 1 September 2020, the details of those meeting this threshold in the 2019 accounting period MUST be published until the 2020 financial statements are published. This MUST be reported in £10k bandings.**
- Trusts MUST now maintain a fixed asset register.
- Trustees should challenge pupil number projections on a termly basis.
- Trusts MUST avoid using overdrafts on any account, not just an overall position.
- Trustees are encouraged to use integrated curriculum and financial planning so that they are confident about planning the best curriculum for their pupils and delivering trust's educational priorities with the funding they have available.
- Whistleblowing procedures MUST be published on the trust website.
- Alcohol MUST NOT be purchased, although there is an exception for religious services.
- The risk register MUST be reviewed by the board (who retain overall responsibility for the register) at least annually and only receive support from the audit committee, not delegate responsibility.
- The audit committee MUST report to the board on the controls around non-financial risks as well as financial ones.

### Internal Scrutiny

- From 1 September accountancy firms can no longer offer both internal and external audit services to a trust in-line with the latest FRC ethical standard. Effectively, internal scrutiny is classified as internal audit when looking at the ethical standard.
- Trusts should also ensure that internal scrutiny considers non-financial risks. Therefore, consider appointing a specialist auditor to test non-financial risks, in addition to the testing performed on financial risks.

### Annual Accounts

- The audit committee **MUST** assess the effectiveness and resources of the external auditor to provide a basis for decisions by the trust's members about the auditor's reappointment or dismissal or retendering.

### COVID-19

COVID-19 and the related lock down will undoubtedly have had and continue to have an impact in on your Trust. Duncan & Toplis have put together a knowledge base of the help and support available from the Government and of the temporary changes to tax and other legislation. This also details how we can help you access the support required. <https://duntop.co.uk/covid-19>

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