

Webster Primary School Final audit findings report

Year Ended 31 August 2015

Prepared by: Mark Robertson, Audit Partner

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1. Overview

This report has been prepared for the Governors of Webster Primary School to bring attention to those charged with governance various matters arising from the audit of the Academy for the year ended 31 August 2015.

Our audit and assurance procedures, which have been designed to enable us to express an opinion on the financial statements and provide a limited assurance conclusion on regularity, have included an examination of the transactions and controls thereon of the Academy.

The work we have done was not primarily directed towards identifying weaknesses in the Academy's accounting systems, other than those that would affect our audit or assurance opinions, nor to the detection of fraud. We have, however, designed our audit and assurance procedures in such a way that we felt would increase our chance of detecting any fraud.

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

This report is to be regarded as confidential to the Governors of Webster Primary School and is intended only for use by them, and the staff of the Academy. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this report, or any part of it, is disclosed to a third party, other than to the Education Funding Agency, our written consent must be obtained.

The report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could result in material loss to the Academy or misstatement of the financial statements or other financial data.

Roles and Responsibilities

The Governors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Governors confirm that our understanding of all of the matters referred to in this report are appropriate, having regard to their knowledge of the particular circumstances.



1. Overview

Audit status and overall opinion

We set out below the current status of the audit and our timetable to completion.

We have substantially completed our work, and intend to issue an unmodified audit opinion on the financial statements, subject to the Governors approving the financial statements and any other outstanding items listed below being received and/or completed.

The follow matters are outstanding at the date of this report:

- Review and approval by you of the final financial statements;
- Finalisation by you of the Governors report;
- Post balance sheet events review to the date of signing the financial statements, including review of latest minutes and management accounts;
- Receipt of signed letters of audit representation;

Timetable to complete

The anticipated time to complete is as follows:

Audit findings meeting with Business Manager and Chair of Governors	24 November 2015
Governors meeting to approve financial statements	3 December 2015
Signing of the Academy financial statements	3 December 2015



1. Overview

Key audit and accounting issues

We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified during our audit, as described further in section 4. During our audit we found no instances of fraud or irregularity.

Recommendations

We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit, along with any other deficiencies identified. These have been summarised for discussion in Section 6.

Misstatements and adjustments to the accounts

It is considered good practice to inform you of any material misstatements within the financial statements presented for audit that have been discovered during the audit. A material misstatement is one where the auditors believe that the misstatement is such as to affect the reader's understanding of the accounts. Materiality is considered in relation to the value of the misstatement and also its context and nature. We are pleased to report that we did not identify any material misstatements during the course of our audit that have not been adjusted for.

It is generally not practicable to make accounts completely accurate because judgements need to be made and it is difficult to obtain 100% of information about all transactions. Our role is to ensure that deviations from complete accuracy are not material to the reader of the accounts. During the course of our audit we have come up with various proposed adjustments to make the accounts more accurate. We are required by Auditing Standards to inform you of any such adjustments which have not been made, other than those deemed to be clearly trivial. Details of these are given in Appendix II.

We are required to request that you review these adjustments and consider amending the financial statements accordingly, and to confirm your reasons for not making the adjustments, if this is your decision.



1. Overview

Going concern

The Governors need to give consideration to the level of reserves maintained, and consider going concern for a period at least 12 months from the approval of the accounts and ensure they agree with the assessment. The Governors have confirmed that they believe the Academy's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Academy's needs. Our review supports the going concern status of the Academy.

Other matters

We are also required to communicate the following other significant audit findings to those charged with governance:

- where we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate in the particular circumstances of the entity;
- significant difficulties, if any, encountered during the audit; or
- other matters, if any, arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.

We confirm that we have nothing to report to you in any of the above three areas.

Thanks

We would like to take this opportunity to thank the entire finance team and other staff involved in the audit for their co-operation and assistance afforded to us during the course of the audit.



2. Independence

Under current UK Ethical Standards we are required as auditors to confirm our independence to “those charged with governance” i.e. the Governors.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 August 2015.

In addition to performing the statutory audit, we also provide the following non-audit services:

1. Assistance with preparation of the statutory financial statements;
2. Assistance with preparation of the year end accounts and audit file
3. Certification of the Teachers’ Pension End of Year Certificate (“EOYC”);
4. Completion of the August Accounts Return and providing assurance thereon;
5. Provision of internal audit services;
6. Provision of general advice throughout the year as required.
7. Advice on corporation tax and VAT.



2. Independence

The following safeguards are in place to ensure our independence:

1. The preparation of the financial statements from your own draft accounts is largely a mechanical function to present the results in the necessary format required by the Annual Accounts Direction. Any adjustments required have been made following approval, and are listed in Appendix I to this report. In addition, the financial statements undergo a technical review by a member of staff not involved in the audit.
2. The audit file was planned, completed and reviewed by individuals who were not involved in preparation of the year end accounts and audit file.
3. The certification of the Teachers' Pension EOYC does not affect our audit;
4. The completion of the August Accounts Return is largely an exercise involving the extraction of the relevant numbers from the financial statements and support accounting records, and the provision of an assurance report confirming that the Return has been completed consistently with the financial statements and other supporting records is not considered to affect our audit;
5. The internal audit work is carried out by individual(s) who are not involved in the audit process, and no direct reliance is placed on this work for our audit.
6. General advice and assistance with accounting queries arising throughout the year are not considered significant.
7. UHY have a separate tax and business advisory services departments, work is carried out by individual(s) who are not involved in the audit process, and no direct reliance is placed on this work for our audit.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards, and are able to express an objective opinion on the financial statements.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.



3. Audit scope and objectives

Our statutory audit of the financial statements is carried out in accordance with International Standards on Auditing (UK and Ireland), with the aim of forming an opinion whether:

The financial statements give a true and fair view of the state of the Academy's affairs as at 31 August 2015 and of the academy's result for the year then ended.

The financial statements have been properly prepared in accordance with UK GAAP.

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and the Annual Academies Accounts Direction issued by the Education Funding Agency.

The information given in the Governors' Report for the financial year is consistent with the financial statements.

We also report on whether:

The Academy has kept adequate accounting records.

The financial statements are in agreement with the accounting records and returns.

Other information contained in the annual report is not consistent with the audited financial statements.

Certain disclosures of Governors' remuneration specified by law are not made.

We have not received all the information and explanations we require for our audit.



4. Overall audit strategy

Risk-based audit

We performed a risk-based audit, focussing our work on key audit areas. We began by developing further our understanding of the Academy's activities and the specific risks it faces. We held an initial planning meeting to ascertain management's own view of potential audit risk, and to gain an understanding of the Academy's activities. We have also developed an in depth understanding of the accounting systems and controls so that we may ensure their adequacy as a basis for the preparation of the financial statements, and that proper accounting records have been maintained.

Our planned audit procedures were then carried out, and we have ensured the presentation and disclosure in the accounts meets all the necessary requirements.

Risk-based limited assurance engagement

In addition to our audit opinion we are also required to perform a limited scope assurance engagement, reporting both to you and to the Education Funding Agency ("EFA"), considering whether the expenditure disbursed and the income received by the Academy during year ended 31 August 2015 has been applied to the purposes identified by Parliament and that the financial transactions undertaken by the Academy conform to the authorities which govern them. This latter point is concerned with looking at compliance with the requirements of the various frameworks that apply to the Academy, including your memorandum and articles, your funding agreements, the Academies Financial Handbook(s) extant for the relevant period, the Accounts Direction 2014/2015, the Charities Act 2011 and the Companies Act 2006.

Our approach was once again risk-based. We began by developing our understanding of the Academy's own approach to ensuring the proper application of funds received and to ensuring compliance with relevant legal and contractual frameworks. We developed an understanding of the Academy's governance arrangements and internal control procedures, planning our work accordingly to allow us to gain sufficient



4. Overall audit strategy

evidence to give the required limited assurance opinion. Our assurance procedures included reviewing and commenting on the Accounting Officer's Statement on Regularity, Propriety and Compliance, and the Governors' report and governance statement. We also discussed with the Accounting Officer the procedures performed so that he may sign the Regularity report.

Significant risks

As part of our audit procedures we are required to consider the significant risks that require special audit attention.

Auditing Standards require us to consider:

- Whether there is a risk of fraud;
- Risk relating to recent significant economic, accounting or other developments and, therefore, requiring specific attention;
- The complexity of transactions;
- Risk involving significant transactions with related parties;
- The degree of subjectivity in the measurement of financial information related to risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

The identified significant audit risks were communicated to you in our audit planning report issued before our main fieldwork began. We now note the work performed and conclusions drawn on the following pages:



4. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Revenue recognition	<p>As a result of the auditor’s responsibility to consider fraud in an audit of financial statements there is an assumption that revenue recognition is a fraud risk.</p> <p>Income from grants should be recognised when the conditions of recognition have been satisfied.</p> <p>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</p> <p>Management exercise judgment in determining when income from grants should be recognised.</p> <p>There is also potentially management judgement in the classification of income between restricted and unrestricted funds.</p>	<p>We documented the income systems and carried out audit procedures to gain assurance over the operation of internal financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the Governors and Academy finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed the minutes of relevant committee meetings. We have not been made aware of any significant frauds that occurred during the year.</p> <p>Our audit testing involved sampling income streams and the associated funding agreements, verifying these to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income recognition, whether relating to fraud or error.</p>



4. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Management override</p>	<p>The Governors and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Governors should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where they could potentially override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly.</p> <p>During our audit we considered the possibility of manipulation of financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>Our audit procedures have not identified any instances of management override.</p>



4. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Regularity of income and expenditure	As set out on page 10 we are required to obtain limited assurance about whether the expenditure disbursed and income received by the trust during the financial year have been applied to the purposes intended, and whether the financial transactions conform to the authorities which govern them.	In addition to the work done to address the risk in relation to revenue recognition, we tested a sample of expenditure incurred in the period to confirm it conformed with the funding agreement, proper tendering procedures had been followed and the VFM policy had been adhered to.	Nothing has come to our attention as part of our audit work to suggest income received and subsequent expenditure disbursed have not been applied for the purposes intended.



4. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Related and connected parties</p>	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the Companies Act 2006 and Academies Accounts Direction 2015. In addition, the following guidance has been extracted from the Academies Financial Handbook 2014:</p> <p><i>3.2.7 Academy trusts must ensure that any agreement with an individual or organisation referred to in section 3.2.1 to supply goods or services to the trust is properly procured through an open and fair process and is:</i></p> <ul style="list-style-type: none"> ▪ <i>supported by a statement of assurance from that individual or organisation to the trust confirming that their charges do not exceed the cost of the goods or services; and</i> ▪ <i>on the basis of an open book agreement including a requirement for the supplier to demonstrate clearly, if requested, that their charges do not exceed the cost of supply.</i> <p><i>3.2.8 For these purposes the cost will be the 'full cost' of all the resources used in supplying the goods or services. Full cost includes:</i></p> <ul style="list-style-type: none"> ▪ <i>all direct costs (the costs of any materials and labour used directly in producing the goods or services); and</i> ▪ <i>indirect costs (comprising a proportionate and reasonable share of fixed and variable overheads).</i> <p><i>3.2.9 Full cost must not include an element of profit</i></p>	<p>We discussed with management and reviewed Trustee and other senior management declarations to ensure there are no potential related party transactions which have not been disclosed.</p> <p>Internal procedures in place for the identification of related party transactions were reviewed and assessed, and any relevant information concerning any such identified transactions was reviewed.</p> <p>A Companies House search was completed for each of the Governors to identify possible related parties with which the Academy may have transacted.</p> <p>We have requested written management representations from you confirming the full disclosure of related party transactions.</p>	<p>We have not been informed of, nor has our audit work identified, any related party transactions.</p>



5. Status of audit issues raised in prior year

This section updates you on the status of the issues we brought to your attention last year, and confirms whether any further action is required.

Issue & potential consequence	Solution suggested	Follow up comment
Not applicable, no points noted in 2014.	N/A	N/A



6. Recommendations for the current year

Deficiencies in internal control

We are required to report to you, in writing, deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. As the purpose of the audit is for us to express an opinion on the Academy's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Grading structure - for each recommendation we have assigned a grading of High, Medium or Low priority depending on the importance or risk of the issue as explained below:

- High – there is a significant risk of loss to the academy through ineffective or absent controls or a highly ineffective use of the academy's resources. Urgent action is required to rectify the matter.
- Medium – there is a weakness or inefficiency which should be addressed promptly.
- Low – A possible improvement in application, efficiency or recording of control procedures has been identified for management to consider.

The following deficiencies were identified during our audit work, and we note our recommendations below, along with the response we have received from the Academy and the timescale involved in addressing the issues:



6. Recommendations for the current year

Area and Priority	Observation and potential consequence	Recommendations	Management response, timing of implementation and responsibility
Fixed assets <i>Low</i>	Items of capital expenditure are being expensed. As a result, the surplus in the SOFA and net assets were understated by £121,631.	The Academy's accounting policy to capitalise assets > £1,000 should be adhered to.	This was a one off occurrence, as Webster School contributed a % of the main school budget in support of the EFA Capital Bid roof project and paid for additional costs such as CCTV adjustments, which were recorded in a separate nominal for budgetary purposes.



7. Appendix I – Agreed accounting adjustments

The following adjustments were identified during the audit and have been reflected in the statutory accounts, following agreement with your key management:

	SOFA effect Dr/(Cr) - £	Balance sheet effect Dr/(Cr) - £
Deferred Income		5,083
Accrued income		10,885
Pupil Premium income	(15,968)	
<i>To correctly recognise Pupil Premium receivable for the year to 31 August 2015.</i>		

Accruals		(4,332)
Legal & professional fees	4,332	
<i>Accrue for late invoices received</i>		

Fixed asset additions		121,631
Repairs & maintenance	(79,500)	
Buildings maintenance	(42,121)	
<i>To reallocate fixed asset additions</i>		

Depreciation – balance sheet		(1,365)
Depreciation - SOFA	1,365	
<i>Being additional depreciation on additions</i>		

Depreciation – support costs	(26,908)	
Depreciation – direct costs	26,908	
<i>To reallocate depreciation split between costs in the SOFA</i>		

7. Appendix I – Agreed accounting adjustments

	SOFA effect Dr/(Cr) - £	Balance sheet effect Dr/(Cr) - £
Employer service cost	133,000	(133,000)
Expected return on assets	(40,000)	40,000
Interest on pension liabilities	42,000	(42,000)
Actuarial gain/losses	(312,000)	312,000
Experience gains/losses	321,000	(321,000)
Employer's contributions	(94,000)	94,000
<i>Being pension scheme deficit movement for the year to 31 August 2015</i>		

	SOFA effect Dr/(Cr) - £
<i>Impact of agreed adjustments – deficit to surplus</i>	<i>(81,902)</i>

8. Appendix II – Unadjusted audit differences

We are required to bring to your attention audit adjustments that the Governors are required to consider. In this instance there are no unadjusted errors to report.