# Meeting of the South Bank Academies Audit Committee

12.30 - 2.30 pm on Tuesday, 27 November 2018
in South Bank Engineering UTC - South Bank Engineering UTC, 56 Brixton Hill SW2 1QS

## Agenda

| *No.* | *Item* | *Pages* | *Presenter* |
|---|---|---|---|
| 5. | External audit findings (to review) | 175 - 224 | AK, DL |

**Date of next meeting**
**2.00 pm on Tuesday, 5 March 2019**

**Members:** Douglas Denham St Pinnock (Chair), Richard Flatman and Tony Giddings

**Apologies:**

**In attendance:** Nicole Louis, Michael Broadway, Clym Cunnington, Natalie Ferer, Anjali Kothari, Danna Lukic and Alexander Enibe

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# South Bank Academies

## Post Audit Management Report

## Year Ended 31 August 2018

## Post Audit Management Report – South Bank Academies

We have completed the audit of South Bank Academies (SBA) for the year ended 31 August 2018 and whilst we expect to issue an unqualified audit opinion on our Kingston Smith Audit report, there have been significant difficulties encountered which have been identified throughout his report.

As part of our audit work and in accordance with the reporting requirements outlined in the regularity report we have identified irregularities in relation to the maintenance of the books and records and the management information being reported to the Board. We have highlighted key areas of concern in Section 2 and Section 3 of this report, with further details outlined in the appendices. An explanation of the issues has been included in the Financial Statements by the Directors.

We understand that the Trust is in the process of bringing their accounting system up to date and a more rigorous internal control process is to be introduced once this exercise has been completed.

This report covers the findings from our audit, the scope of which was communicated to you prior to commencing the work. It includes a number of points which have been deemed to be high and medium risk which need to be resolved.

If you have any concerns or questions arising from this report, please contact Anjali Kothari.

Yours faithfully

……………………………………………………

**Kingston Smith LLP**

……………………………………………………

**Date**

# Contents



This report has been prepared for the sole use of the board of South Bank Academies and must not be shown to any third parties without our prior consent. No responsibility is accepted by Kingston Smith LLP towards any third party acting or refraining from action as a result of this report.

## Section 1: Audit Approach

As outlined in our pre-audit letter dated 5 June 2018 our audit approach is based on an assessment of the audit risk relevant to the individual financial statement areas. Areas of risk are categorised according to their susceptibility to material misstatement, whether through complexity of transactions or accounting treatment. For each area we calculated a level of testing and review sufficient to give comfort that the financial statements are free from material misstatement.

The following table lists any risks identified at the planning stage and during the course of the audit, our approach to mitigate the risk and our conclusions from completing this work. Unfortunately due to the difficulties encountered as part of the audit process as identified in section 2 and 3 of this report, and from the work that we have undertaken ourselves we believe that the conclusions we have reached have to be referenced to the detail issues raised within this report.

### Risk: Income recognition

- Income recognition – DFE funding could be recognised in the wrong period.

### Audit Approach

- We will look to gain assurance in this area by performing cut-off testing and reviewing a sample of post year end transactions to ensure income has been recognised in the correct accounting period.

### Conclusion

- We have used the paperwork provided by the Trust to identify the income that should have been received and have identified discrepancies in the recognition of capital grant income as noted in appendix 1 of this report.

# Section 1: Audit Approach



### Risk: Management override

- Management override of controls – management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records, overriding controls that otherwise appear to be operating effectively (ISA 240 para 31).

### Audit Approach

- We will review journals raised in the year for any unusual entries or patterns
- We will test a sample of journals to identify the nature of the journal and evaluate whether there is a genuine rationale for the adjustment.

### Conclusion

- Whist transactional testing did not identify any instances of management override, due to the number of errors that were identified and the lack of information to support the journals that had been processed, we have raised significant issues in the body of this report.

### Risk: Books and Records

- Mispostings, adjustments and journal entries could lead to inaccurate financial data and analysis within the primary books and records.

### Audit Approach

- We will review all control accounts to ensure that they have been reconciled properly.
- Extensive substantive testing will be undertaken to ensure the extent of any misanalysis is identified, documented and corrected.
- The use of data analytics will be used to try and identify any unusual items.

### Conclusion

- During the course of the audit we noted a number of misposted transactions which include reversals of journal entries to incorrect ledger codes. Section 2 details our significant findings from the audit.

# Section 2: Significant Findings From The Audit



We are required under International Standards on Auditing to request you to correct all misstatements identified during our audit, with the exception of those that are clearly trivial.

## Corrected material misstatements and reclassifications

As referred to in the Significant difficulties section, the original trial balance presented for audit was not reflective of the year's results.

Management were not able to correct the system on a transactional level within the time frame, but prepared reconciliations and breakdowns for balance sheet items and capital income. A manual extended trial balance was created to record all the adjustments identified from the work undertaken, in order to bring the figures to the correct year end position.

This revised trial balance was then audited, and included as Appendix 1 are the corrected misstatements identified during the course of our audit work which have been discussed and agreed with you.

## Uncorrected immaterial misstatements and reclassifications

Included as Appendix 2 are the uncorrected, immaterial misstatements and reclassifications identified during the course of our audit work.

## Observations concerning the operation of the accounting and control systems

We detail in section 3 other matters concerning the operation of the accounting and control systems that we consider should be brought to your attention. The observations have been ranked in order of potential risk to the Trust.

We look forward to receiving your responses on the points raised.

Due to the nature of an audit we may not have identified all weaknesses within the accounting and internal control systems which may exist and the contents of this section of our letter and any items disclosed in this report should not therefore be taken as a comprehensive list of such weaknesses.

## Significant difficulties

We experienced significant difficulties and delays during our audit as financial information presented to us was incomplete and did not accurately represent the underlying financial records.

The original draft accounts presented for audit were not reflective of the year's results, underlying records and a number of the key control accounts had not been reconciled or reviewed.

The answers given to some of the audit queries and requests during our audit work were inadequate and indicated a lack of understanding of the underlying issues, or are reflective of the lack of a full audit trail throughout the year.

There appears to be a communication issue between the central function and the individual academies as to who holds specific supporting documentation. Each side has assumed the other has specific supporting documentation resulting in neither side being able to produce evidence when asked.

# Section 2: Significant Findings From The Audit

Whist we appreciate there has been some progress in year in areas such as payroll, however there are a significant number of points that were raised last year that re appear as issues this year and these have been identified in Section 3.

## Significant matters

The number of significant issues noted within this report as well as the state of the financial records indicate that no adequate internal reviews had been undertaken by an independent person during the year which would have identified the issues sooner.

It also indicates the lack of systematic controls and processes that should be undertaken on a weekly/monthly basis. In light of the outcome of the prior year audit we were engaged to perform an interim audit to provide assurance over the financial records. The interim work was undertaken in July 2018 and we identified the issues needed to be resolved before the final audit was undertaken.

The unresolved issues included the purchase ledger control account which included a number of duplicate entries, year end balances, payment only entries and outstanding invoice payments where invoices had been paid directly through the bank as identified during the prior year audit. In addition, prior year journals posted directly to this account had not been reversed and resulted in the aged listings not reconciling to the trial balance. A review of the ledger and a process to reconcile it to the trial balance would have identified the discrepancies at a much earlier stage.

The extent of the issue remain significant. Whilst a number of errors have been identified and corrected, there are still areas of the accounts where although materially correct based on the information we have to date, we cannot be certain will not result in a prior year adjustment in the following year. For example we are unable to ascertain whether an accrual of £111k is an accurate charge for the light and heat used.

**Management Response (draft)**

**Following the 2016/17 audit, a number of processes were redesigned and additional control processes were put in place. This included independent review of the bank reconciliation, tighter controls around supplier payments, agreement to implement functionality available in our accounting system, formal review and approval of the payroll, implementation of a month end processing and reconciliation check list, automating the production of management accounts and agreement to move to a single bank account. However, it has been recognised this year that lack of skills and capacity within the Trust finance team has made it difficult to implement all of these new processes and procedures. A new Trust Business Manager has now been appointed and it has been agreed to change the structure and staff within the Trust function to address these issues.**

**In addition to the above, the Trust has now engaged PwC to deliver its internal audit function with the first review having taken place in September 2018. PwC have made an number of recommendations that the Trust is in the process of addressing.**

# Section 2: Significant Findings From The Audit

**There have also been changes to the management structure across the Trust following concerns around management oversight. This includes the previous CEO being replaced, appointment of a new Trust Business Manager and alignment of school management structures with the appointment of a single Executive Principal.**

## Management Representation Letter

A draft of our proposed management representation letter has been sent to you under separate cover. All of the matters included in this letter on which we seek the Trustee's formal confirmation are in respect of routine matters, except for the following:-

Point 7 – we only refer to material transactions as opposed to all transactions

Point 8 - has been expanded to refer to donated services and South Bank University

Point 9 - has been included to capture the transactions with South Bank University

Point 11 – we have sought further confirmation that we have all the information we need in respect to the notional rent for South Bank Engineering UTC

Point 14 – We have asked for confirmation on the LGPS liability associated with the MAT

Point 15 – We have asked for you to confirm the accrual of £186k for light and heat is valid based on the information available to you at the time of signing this letter.

Point 17 - We have asked you to confirm that the actuarial assumptions used by the actuaries Aon Hewitt Limited and Hymans Robertson LLP in calculating the actuarial movements, and fair values of the assets and liabilities of the local government defined benefit pension schemes are consistent with our knowledge of the trust.

Point 28 – The point has been expanded to take note of the additional wording relating to the Regularity audit report in the financial statements

Point 29 – the point has been expanded to include reference to materiality.

### USEFUL OBSERVATIONS

**Members**

We would note that the ESFA recommends a minimum of 5 members, although this is not currently a mandatory requirement. This is an area of interest to the ESFA and should be considered particularly as the trust grows in the next few years, and as the two individual members are also directors the aim of this is to ensure the members have sufficient separation from the Board so as to provide external oversight.

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## Section 2: Significant Findings From The Audit

# Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 1 | **Prior year control deficiencies** From the current year audit we note that a significant number of control deficiencies noted during the course of the prior year audit had not been resolved or rectified. | HIGH | Although the year end accounts are deemed to be materially correct based on the information provided to us, this has resulted in the accounting records not accurately reflecting the true position of the Trust. | Internal reconciliations and reviews should be carried out by a senior member of staff overseeing the finance function on a monthly basis. This will ensure that issues are picked up on a timely basis and can be resolved immediately. | Agreed. There is a month end check list which will be completed by those responsible for financial accounting within the trust but reviewed by University Finance Staff every month, with a plan put in place to resolve reconciling items and issues. also see management response on page 4 |
| 2 | **Reconciliation of reserves** It was noted that opening reserves did not reconcile to the opening trial balance by £608k. This was as a result of capital grant income and the associated depreciation on these assets being posted directly against reserves. | HIGH | This resulted in the opening reserves in the trial balance being materially incorrect. | Adjustments should not be posted to reserves. Where reserves transfers are required these should purely be reallocations between reserve balances | Agreed. Correct accounting treatment will be applied going forward |

# Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 3 | **Capital grant income**<br>Capital grant income had been accounted for within expenditure which incorrectly reduced net expenditure in the accounts by £1.16m.<br>Additionally, no record of capital grant income spent and receivable is maintained by the trust | HIGH | This resulted in understated income and expenditure and an underlying difference in reserves (as noted in point 2) | We recommend procedures are implemented to continuously monitor capital grant spend. Any spend incurred for which income has not yet been received should be accrued at the year end. | agreed. Capital funds received and spent will be reconciled as part of the month end process and reported as part of the monthly management accounts. At year end grants spent but not yet received will be accrued |
| 4 | **Use of capital grant funding**<br>On review of the assets funded via capital grant it was noted that a significant number of these assets had been capitalised within ACA, initially within the UTC expenditure nominal code and also with the fixed asset register. Evidence of approval of the use of funding across both academies could not be provided and therefore we were unable to see evidence that the funding was spent in line with the grant conditions. | HIGH | As we have not been provided with evidence to agree that the funding can be spent on UTC assets, we are lead to conclude that this may have resulted in ACA benefiting from the use of assets for which UTC has funded. | Where funding has been granted, it should be spent in line with the stipulated terms of the agreement unless prior approval has been received from the ESFA. Where prior approval has been granted we recommend that evidence of this is kept and is readily available should it be required. | TBC |

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## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 5 | **Cut off Procedures** This year we have identified £303k of fixed asset payments which should have been recognised i trade creditors and prepayments last year. These assets were funded by grant income which should have been accrued for in 2017. All transactions have been included in this years accounts | HIGH | Transactions are not being included in the correct period. | Invoices should be processed and reviewed upon arrival to ensure the correct accounting treatments have been applied. | Agreed. Going forward, correct accounting treatment will be applied. |
| 6 | **Salary Advances** Salary advances are not reconciled and not indicative of outstanding balances. The accounts are showing a debtor of £5,065 and a creditor of £15,654 where the majority of items have had no or little movement from the prior year. Salary advances have not been properly recorded on the system. | HIGH | This can result in costs not being recovered by the Trust and or challenges by staff as to the overall outstanding balance which would normally be an overall debtor in the accounts. | It is recommended that a list of all salary advances including season ticket loans is prepared and reconciled against payroll deductions on a monthly basis. | Agreed. This task will be part of the month end reconciliation process and will also be checked when checking payroll reports before payroll is approved. see also management response on p4 |

## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 7 | **Bank Mandate**<br>We were not able to see an up to date bank mandate onsite and one has had to be reordered from the bank. This shows that documents might not be filed and stored correctly. The bank mandate has also not been updated for the Trustees who have left or joined during the year. | HIGH | In the event of the main signatories not being present, the MAT could incur penalties for not making payments on time as was the case during the year when LSBU had to pay expenses on behalf of the MAT.<br><br>In addition, the existence of old signatories on the bank mandates (especially where employees have left the Trust) leads to an increased risk of fraudulent transactions taking place. | It is recommended that all important and confidential documents are filed correctly so that they can easily be retrieved. It is also recommended for the bank mandate to be kept up to date to minimise the risk of fraud. | Agreed. While it is agreed that the mandate held by Lloyds had not been updated, day to day banking is undertaken by authorised users of Lloyds online banking, therefore the Trusts ability to make payments is not impacted by an out of date mandate.<br><br>Going forward, instruction will be sent to Lloyds to update the mandate as personnel change. |

## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 8 | **Trade Creditor Reconciliations** Trade creditors listing could not be reconciled to the year end trial balance. Although the adjustments were identified and the net adjustment was immaterial (£19k) this resulted in the listing not reflecting the true year end balance. | HIGH | The MAT could potentially be paying suppliers based on incorrect data. This could also lead to the MAT being unaware of supplier invoices due to be paid. As evidenced during the audit a number of duplicate payments had been made. | Trade creditors aged listing should be reconciled to the purchase ledger control account on a monthly basis and any differences investigated. The ledgers should be reviewed for unusual balances which differ from expectation. | Agreed. The supplier accounts that make up the difference between the PL and control accounts has been identified and we have asked the software supplier for help in correcting this. The supplier has not so far been able to offer this support. Going forward, this reconciliation will be completed as part of the month end reconciliation process and any discrepancies will be investigated. See also management response on P4. |

## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 9 | **Trade Creditor Balances**<br>There are balances which are labelled 'YE PL Adjustments on the trade creditors reports. The amounts are:<br>- UAE - £39,980<br>- MAT - £-1,862.05<br>- UTC - £-585.56 | HIGH | Trade Creditors could be misstated due to the fact that we are unaware what these cost constitute and whether they actually relate to creditors at the year end. | These creditors should be reconciled to accounts so we are able to trace these creditors and ensure they are correct. | Agreed. Action in line with 8 above. See also management response on P4. |
| 10 | **Payroll Documentation**<br>Student working for the academy trust are not issued contracts of employment, therefore exact start dates can not be confirmed. This is relevant for the following members of staff<br>- Aaron Iduh<br>- Jackson Moore<br>- Andre Edwards | HIGH | Lack of clear evidenced and agreed terms and conditions can increase the risk of misunderstandings and disputes. In the event that the entity is taken to a tribunal, a clear contract will help to support the entity's position. | It is recommended that employment contracts are drafted for all student employees. | TBC – getting advise from HR as to if these workers should have an employment contract. |

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## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 11 | **Other Creditors**<br>We are unable to verify the balance of £16,830 in other creditors. They have been included in payroll deduction and control accounts but there is no documentation to support what it relates to. | HIGH | Others creditors is potentially incorrect and we are unable to identify if this is a valid payroll creditor. | A review should be conducted in regards to 'Other Creditors' and any amounts that are unable to be reconciled to relevant documentation should be written off. | Agreed. Overall payroll accounts are being reconciled including the main net pay, PAYE and pension control accounts but during the year smaller reconciling items were not addressed. Going forward all payroll control accounts will be reconciled and reconciling items investigated as part of the month end process. see also management response on Page 4.. |
| 12 | **Reversal of prior year accruals and prepayments**<br>Incorrect treatment of prior year prepayments has occurred during the year. Instead of being allocated to the correct nominal code to which they relate. They have been posted to the 'write off' account. | HIGH | This will have a knock on effect for the financial figures and budgets included in this year's accounts as prior year prepayments should have been reversed against the correct nominal account. | Where a prepayment has been identified and adjusted for, we would expect that the reversal of the prepayment should be processed back against the original nominal account that was adjusted. | Agreed. Going forward the correct accounting treatment will be applied. |

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## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 13 | **Bank reconciliation**<br>Whilst we note that the bank reconciliations were provided and a listing of transactions reconciling the trial balance to the year end bank statement were prepared, we note that the bank reconciliations included reconciling items that could not be validated. | HIGH | The bank forms the core of the financials for the year. Where reconciling items are not indicative are valid reconciling transactions this can result in a number of other areas of the financial being misstated. For example, any proposed adjustments from the bank reconciliation to other control accounts such as trade creditors would result in questions over the reliability over what has the reported within the trade creditors listing. | Bank reconciliations should be performed each month to ensure errors are easy to detect and can be rectified immediately. Bank reconciliations along with documentation of reconciling items allow for more efficient management; knowing what has cleared the bank and what hasn't will be beneficial in trade creditor and payable reconciliations. | Agreed. Bank reconciliations have been prepared by University staff since January 2018 but it has been difficult to get Trust staff to post or correct reconciling items identified.<br><br>Going forward a more robust month end process will ensure that all reconciling bank items are followed up. Also see management comment on page 4. |

## Section 3: Operation of the Accounting and Internal Control Systems



| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 14 | **Duplicate payments**<br>On review of trade creditors, it was noted that a number of suppliers had been paid twice. We believe that this is a result of the lack of controls surrounding the posting of transactions and invoices as well as the maintenance and reconciliation of the trade creditors listing. | HIGH | These duplicate payments have a negative impact of the Trusts cash flow and has resulted in trade creditors being understated. | By making full use of control accounts, e.g. trade creditor control account, it will help prevent duplicate payments. Reconciling the trade creditor control account on a monthly basis will help identify those balances which are still outstanding and those which are now cleared. Whilst this will not eradicate instances of duplicated payments being made this is one of the ways to help mitigate the risk. | Agreed. Reconciliation to control accounts is one of a few measures necessary to prevent duplicate payments. Others include consistent use of Purchase orders, preventing overriding invoice number checking functionality on the software and reconciliation of Trust records to supplier statements. See also management response on Page 4. |
| 15 | **Posting of transactions**<br>Ledgers have not been updated and maintained during the year. Invoices have been posted in the incorrect period due to lack of timely posting of invoices on receipt. The insufficient monitoring of income has also resulted in the understatement of income and income was noted as not being correctly allocated within appropriate nominal codes within the ledgers. | HIGH | This has resulted in the misstatement of a number of balances in the accounts and has also meant that the Trust will not have a clear view of any amounts outstanding, paid or received on review of the ledgers as they are not complete and have not been maintained. | We recommend that all invoices are posted to the system as soon as they are received. Monthly reconciliations of all control accounts and income should be performed. | Agreed. A required timeline for posting sales and purchase ledger items will be agreed and general ledger posting and reconciliation will be undertaken in line with the month end check list with a target of 10 working days after month end |

## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 16 | **Capital grants**<br>Capital grant income had been netted off the expenditure and therefore no complete record of income received and assets purchased was maintained during the year.<br><br>Complete records are not maintained which reconcile amounts granted against amounts spent and outstanding which resulted in income granted to the UTC for construction of their premises but paid to Trinity being excluded from the records of the school. The value of this adjustment was £14m.<br>Additionally, it was noted that the funding granted to the UTC has been purchase assets held in the UAE. Documentation could not be provided in which this has been agreed by the ESFA. | HIGH | This resulted in the material misstatement of income, fixed assets and reserves during the year. | We recommend that a full fixed asset register is maintained which shows the depreciation charges on a monthly basis by asset. This will enable depreciation to be calculated from the date of acquisition to the date of disposal and will allow for tracking of assets.<br><br>Grant income received can only be spent by the entity that it has been granted to unless this is agreed otherwise. | Agreed. A fixed asset has been maintained throughout the year and includes calculation of depreciation but does not detail opening balances or identify grant funded assets. |

## Section 3: Operation of the Accounting and Internal Control Systems





| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 17 | **Depreciation of fixed assets**<br>As a result of the fixed asset register not being maintained, the straight line depreciation is being calculated on costs brought forward. There is no full record of assets held or their associated net book values. | HIGH | By calculating the depreciation charge straight line based on cost brought forward, the Trust is unable to identify assets as they are coming to the end of their Useful economic life and therefore assets are at risk of being depreciated in excess of cost.<br><br>Fixed assets are highly material and therefore the depreciation charge associated with any assets are likely to be material and the incorrect application of the depreciation policy is therefore likely to result in material misstatement. | We recommend that a full fixed asset register is maintained which shows the depreciation charges on a monthly basis by asset. This will enable depreciation to be calculated from the date of acquisition to the date of disposal and will allow for tracking of assets. | Agreed – action same as 17 |
| 18 | **LGPS pensions**<br>We could not be provided with an LGPS actuarial report which incorporated the liability associated with staff members employed in the MAT. | MEDIUM | Whilst this related to only one employee this has resulted a understatement of the year end liability in the accounts. | We recommend that the Trust reviews the documentation received by the actuaries to resolves any issues directly. The actuarial reports should be reviewed in detail to ensure the information contained within them is consistent with the Trusts expectation and underlying records. | Agreed. It has been difficult communicating with the pensions team at southwark but going forward actuarial reports will be reviewed and reconciled to accounting and HR records |

# Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 19 | **Local Authority income**<br>We could not be provided with details on local authority income received for the Summer Term for each school. | MEDIUM | Incomplete records surrounding income can result in the misstatement of income. Additionally the lack of controls surrounding the posting of income in the ledger and reconciliations can result in the Trust having not received income that it is due. | The Trust should reconcile income against both remittances and expectation noted any amounts which may be misallocated or not yet received but due. | Agreed. The income referred to had not been claimed or received until after year end and it is agreed that the income should have been accrued.<br><br>Going forward detailed analysis of income against budget or the raising of a sales invoice will ensure that income had been properly recorded. The budget will include all expected income streams to make this variance analysis meaningful. |

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## Section 3: Operation of the Accounting and Internal Control Systems

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE |
|---|---|---|---|---|---|
| 20 | **Building occupied by UTC**<br>On review of land registry documents it was noted that the lease for the building occupied by UTC continues to be in the name of Trinity Academy London although the asset has been transferred to UTC. | MEDIUM | Although the building is occupied and in use by UTC this is not official and official arrangement and therefore UTC are not deemed to be the true occupier of the property. | We recommend that the lease and associated official documentation in place such as land registry are updated to correctly reflect the status of the arrangements between UTC and The Secretary of State. | Agreed – action TBC |
| 21 | **Accruals**<br>Some items which have been accrued for are of a trivial value, and will therefore have minimal effect on the financial statements. A significant number of these accruals were also noted as being invalid with respect to the current financial year. | LOW | It is likely that a significant amount of time is involved in the administration needed to account for numerous trivial accruals, especially with a small finance team. This has therefore resulted in accruals not being tracked and released as and when required and thus accruals which are not valid being present on the year end listing. | There should be a consideration of implementing a threshold value of which it should then be compulsory to raise an accrual. Whilst it is good practice to account for all accruals required, we would recommend that controls are put in place to ensure all larger amounts are accounted for first. | Partially agreed: Even though some accruals will have minimal effect on the financial statements, They may be important in terms of management of individual budgets. It is agreed that invalid items should not have been accrued. |

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## Section 3: Operation of the Accounting and Internal Control Systems

We have given each of our observations a risk rating as explained in the key below:-

| RISK RATING FOR MANAGEMENT REPORT POINTS | | |
|---|---|---|
| | **Risk rating** | **Explanation** |
| | Low | Issues that would, if corrected, improve the internal controls or accounting practices in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. |
| | Medium | Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. |
| | High | Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up



**Prior Year Points**

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 1 | **Roles and responsibilities** It was noted that there is a lack of clarity over individuals' roles and responsibilities within the finance team particularly in respect of the accounting system, once the former finance manager had left the Trust. | HIGH | This caused omissions of some entries such as payroll entries, and duplication of others such as purchase invoice payments, and therefore a material misstatement of the figures. This also caused journal entries to be processed without clear audit trails. | It is recommended that clear roles and responsibilities are allocated amongst staff and clear procedures are put in place for all aspects of the accounting system. Adequate training must be given to all members of staff who are responsible for maintaining the accounting records. | This continues to be an issue for the Trust. During the course of the onsite visit when requesting documentation it was not clear whether information was held by individual schools or centrally. In addition we again identified duplicate payments and postings for purchase invoices which resulted in the trade creditor's accounts not appropriately reflecting the year end position. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 2 | **Cash management**<br>Bank reconciliations were not performed during the year. This has resulted in material adjustments being required as prompted by auditors. As this work is being done long after the date of transactions, there is increased risk of misstatement and does not reflect timely bookkeeping or management. | HIGH | Conducting regular bank reconciliations is regarded as a basic financial management tool. In the absence of this basic check, the Trust is unable to prove that the accounts and the financial information is correct. | It is recommended that formal bank reconciliations are performed on a regular basis - once a month - and the bank balance as per PS Financials is reconciled to the bank balance as per the bank statements. Any issues identified should be investigated and resolved on a timely basis. | Whilst the bank reconciliations has been performed, although immaterial, a number of transactions were noted on each reconciliation that were not indicative of actual reconciling items and therefore did not accurately reflect the year end cash positon. |

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## Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 3 | **Accounting system**<br>Through discussion with management, and review of the financial data presented for audit, it is apparent that those in charge of the finance function are not fully conversant in PS Financials and inadequate training was provided. | HIGH | For example, we note that some expenditure invoices have been posted multiple times to creditors and expenditure, following payment, we note that the transaction has been between bank and expenditure; therefore overstating expenditure and leaving the MAT open to risk of overpayment. | We recommend that all appropriate staff members are formally trained on PS Financials and are trained on their function as well as other functions to ensure that there is always someone on hand with knowledge of the system to advise appropriate treatment. | This continues to be an issues for the Trust with multiple overpayments noted as being made to suppliers throughout the year. |
| 4 | **Management information**<br>It is clear from the information viewed, that full management information has not been prepared and reviewed on a regular basis during the year. | HIGH | Management have a responsibility to review regular management information and this would have identified the deficiencies in the system at an earlier point during the year. | A full set of management information should be made available and reviewed at least on a termly basis. | Whilst we have noted that management accounts are now being prepared, we believe that the management accounts are at risk of being incorrect due to the lack of timely posting of transactions.<br>Management accounts were issued most months from January 2018. (send earliest management accounts to KS) |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 5 | **Control accounts**<br>Control accounts are not being utilised properly, reviewed nor reconciled, such as net wages, PAYE/NI, pensions, trade debtors, trade creditors. | HIGH | The payroll charge is significant to the MAT - if the journals are not being processed monthly as per the payroll reports, then there is a major weakness in the controls surrounding the payroll function. There is therefore a risk of misappropriation of funds as the reporting could be manipulated and payments manipulated also as there is not a full reconciliation of the charge and the payments made. | We recommend that the payroll process is revised and a formal reconciliation of the payroll report with the postings as per the financial system are reconciled with the payments made. This should ensure that staff are paid appropriately as per approved calculations and that we reduce any misappropriation risks. | Whilst we note that the Trust now utilises the control account function and a number of reconciliations are now being performed, we have noted that these do not accurately reflect the year end positon. References to trade creditors and bank reconciliations have been noted within section 3 of this report. We also note that the PAYE/NIC control account did not correctly reflect the year end liability. |
| 6 | **Supplier transactions**<br>The supplier ledger within PS Financials is not being utilised, and management have confirmed that they do not have a complete listing of liabilities as at 31 August 2017, with the year-end position being ascertained based on post year end payment of physical invoices located. | HIGH | Given the size of the trust, the lack of a functioning supplier ledger increases the risk of duplicate payments being made as there is no complete trail of purchase invoices and payments made. | We recommend that supplier invoices and payments are properly tracked within the accounting system so that outstanding balances can be seen and historic invoices can be viewed. | During the course of the audit we noted that supplier transactions were being posted to supplier accounts. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 7 | **Land and Buildings**<br>As at 8 January 2018 a 125-year lease for the land and buildings of UAE was made available to us as the external auditors. Being dated in August 2016, this represents a material prior year adjustment to recognise the long leasehold property controlled by the Trust, and this information should have been made available to us during the prior year. | HIGH | Whilst the accounts have been adjusted for this material prior year adjustment, this is a significant item which we as auditors had not been initially informed of. | The Trust has a responsibility to ensure that there is no relevant audit information of which the external auditor is unaware. | Whilst the UAE lease has been accounted for in the ledgers, it was noted that the UTC lease was not accounted for this year. This resulted in a material adjustment being required.<br><br>An updated land and buildings valuation for UAE is not yet available and is still be sought by UAE. |
| 8 | **Unidentified provisions**<br>Upon querying the accruals balance, there is an unsupported general provision for energy costs of £111,000, and unidentified accruals of £42,325. Total energy costs recognised within expenditure for the year however only amounts to £58k. | HIGH | This indicates a lack of clarity and control over the expenditure recognised within the trust's financial statements. | We recommend that proper controls are put in place around supplier invoices which would allow clear monitoring of transactions. | Whilst we did not note any 'unidentified' accruals, we noted that a significant number of accruals related to older transactions that had not been cleared off the ledger and therefore should not have been included as a year-end accrual.<br><br>We have received a narrative confirming the basis of calculation for the current year energy cost accrual however the prior year provision has changed and is neither the same as that provided for last year or based on the information used to |

## Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| | | | | | calculate the current year provision. |
| 9 | **Related party transactions** There is not an appropriate process in place whereby related parties and pecuniary interests of key management personnel are recorded on a timely basis | HIGH | There are specific ESFA requirements that state Academies are to keep a record of related parties and pecuniary interests of all key management personnel, directors and budget holders. This is to ensure that all goods and services procured are done so at a reasonable rate, and to ensure that management are fully aware of related parties at all times. | It is recommended that a formal register of related parties and pecuniary interests is kept centrally by the finance team. It is further recommended that this is updated when new staff are appointed, and on an annual basis. This will allow for the MAT to be aware of all related parties at all times. | We note that there is a formal register of related parties maintained by the University Governance team. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 10 | **Accruals based reporting**<br>The accounting records were being maintained on a cash accounting basis instead of an accruals and prepayments basis. A number of adjustments had to be processed to recognise the appropriate accruals, creditors and accrued income. | MEDIUM | There is a risk that incorrect financial information is presented to the board. | The finance staff need to be trained to understand the difference between cash accounting and the accruals concept. This should incorporate an understanding of cut off procedures making it easier to identify the necessary adjustments for monthly, termly and year end accounts. | We note that this continues to be an issue. On review of year end prepayments and accruals we noted that these were incomplete. For example, rates prepayment had not been accounted for, pupil premium not accrued and PNA adjustments not accrued. |
| 11 | **VAT receivable**<br>Throughout the account period, we note that only 2 VAT 126 returns have been processed and submitted.<br><br>The UTC VAT balance per PS Financials is £56k overstated compared to the draft claim workings.<br><br>The VAT balances have not been reconciled during the period. | MEDIUM | There is a risk that these claims have been prepared incorrectly and/or the balance showing as receivable in the accounting system is incorrect.<br><br>The Trust is also not taking advantage of cash flow opportunities as these returns can be processed on a monthly basis. | It is firstly recommended that the financial system is brought up to date and the VAT 126 returns already processed are reviewed for appropriateness. It is further recommended that the governors of the MAT consider adopting the policy of processing these returns on a monthly basis to aid inflows. | On review of the current year VAT ledger we note that although immaterial at £20k a number of outstanding amounts were dated pre 2016.<br><br>The year end VAT control account therefore did not accurately reflect the year end liability. We also note that returns continue to not be processed on a timely basis and therefore is no reconciliation of VAT receipts against VAT 126 returns and therefore we do not believe the Trust is able to monitor what is outstanding and has/hasn't been claimed on a continuous basis. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up



| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 12 | **Fixed asset register**<br>A formal fixed asset register is not maintained | MEDIUM | The figures within the trial balance in respect of fixed assets are highly material to the MAT, we were not provided with supporting documentation by way of a fixed asset register. This therefore a risk that depreciation, capital additions and capital disposals are not processed appropriately on a timely basis. The fact that this is not being done on a timely basis means that management may not remain aware of the true position of the Academy at all times. | It is recommended that a formal fixed asset register is maintained with capital transactions and depreciation being posted on a regular basis (at least termly), when the management accounts are prepared. This will ensure that the true position of the Academy is reflected at all times. | The fixed asset registers provided for the current year included only current year additions. A full register of all assets held is not maintained and therefore we believe this matter remain an issue.<br><br>A fixed asset register is maintained but does not detail prior year balances and does not clearly identify grant funded assets. |
| 13 | **LGPS pensions**<br>We identified discrepancies between the amounts showing on the actuarial reports for employer contributions received, and the trust records of employer contributions paid to the scheme. | MEDIUM | These discrepancies indicate potential error in the information used by the actuaries in preparing the LGPS pension report figures. | We recommend that the Trust reviews the documentation received by the actuaries and reconciles contributions paid to internal records, with discrepancies investigated and resolved directly. | On reconciliation of employer contributions presented on the actuarial report to the Trusts records, we continued to note discrepancies. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up



| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 14 | **Agency staff**<br>The agency staff costs in the year of £587k is extremely high compared to other trusts, and indicates a potential staffing and budgeting issue which should be closely monitored. | MEDIUM | Having heavy reliance on agency staff is a potential issue and needs to be managed by the team. Whilst there is an obvious financial impact, it also has an impact on the day to day operations as there is inconsistency in approaches as staff change. | We recommend that the Trust reviews its staffing position and prepares an action plan in respect of this area. | Current year agency costs amounted to £576k. In addition we saw significant increases in staff wages and salaries. |
| 15 | **Members and directors**<br>It was noted that the appointed members and trustee directors of the trust were not reflected accurately and on a timely basis at the get-information-schools.service.gov.uk website (previously known as Edubase) - (the DfE's register of educational establishments). | MEDIUM | The Trust is in breach of the Academy Handbook requirement that the Trust must notify DfE of the appointment or vacating of the positions of members, directors and local governors within 14 days of that change through the governance section of DfE's Edubase. | We recommend that the Trust gets the information up to date and monitors this on a regular basis. | We are satisfied that Edubase is up to date as at the date of audit. |

# Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| 16 | **Expenditure vs budgets**<br>The budget for the year (as approved by Governors) had not been uploaded onto the PS Financials system. Therefore, the current financial position cannot be properly monitored or managed as compared to the budgets set. | LOW | Expenditure cannot be monitored against the budget without accurate reporting and there is therefore an increased risk of the Trust not adhering to the approved budget which increases the risk of excess spending. | The approved budgets are uploaded into PS Financials once finalised. It is further recommended that the budget to actuals are compared on a regular basis (perhaps termly) and any projected under / over spends can be brought to attention in a timely manner. | Unfortunately we do not believe that this has been addressed during the year. Whilst the 2017/18 budget was uploaded within PS Financials, the lack of timely postings will have resulted in inaccurate reporting of under/spends.<br><br>2017/18 budget was uploaded to PSF and reported on during the year. |
| 17 | **Payroll records**<br>As a result of the testing performed, an instance was noted where we could not locate a staff leaver's supporting documentation to confirm their leave date from UAE. | LOW | There is a risk of misappropriation of the MAT's funds here as incomplete record keeping could result in this member of staff not being removed from payroll appropriately. | It is recommended that the process of processing starters and leavers is formalised. As well as this, there should be a checklist for starters / leavers to ensure that the appropriate steps are taken and documents are processed; for example a P45 and resignation letter. | During the year we noted that a number of student workers had not bene provided with employment contracts although paid via payroll. Consequently we have raised a current year observation regarding this. |

## Section 4: Operation of the Accounting and Internal Control Systems – follow up

| | MATTER ARISING | RISK | IMPLICATION | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|---|---|
| **18** | **Central recharges**<br>Where internal bank transfers are made, there is not always supporting documentation available. | LOW | If inter academy transactions are not being consistently monitored and recorded, then the risk of entity level reporting being inaccurate is increased. | Where a financial transaction is to be processed there should be sufficient and appropriate evidence and documentation to support this. Where there are internal recharges required to be posted via journal, it is recommended that a schedule is maintained as to the basis of the recharge as well as who it has been approved by and when the posting has been made. | Central recharges were posted at the yearend via intercompany ledger transfers and therefore we did not see any physical payments with respect to these transactions.<br><br>We continued to note that supporting documentation in the form of an invoice invoice has not been available in support of the transactions.<br><br>Clarify if you are saying that the recommendation has been implemented or not? |

## Academies Useful Links

There are a number of links which the Governors and senior leadership might find useful and these are listed below:-

**Gov.uk**
https://www.gov.uk/government/collections/schools-financial-health-and-efficiency

https://www.gov.uk/guidance/schools-financial-efficiency-top-10-planning-checks-for-governors

https://www.gov.uk/academies-fianncial-assurance

https://www.gov.uk/academies-severance-payments

https://www.gov.uk/government/collections/academies-investigation-reports

**NABSM good practice Library:**
http://nasbm.co.uk/Home/Efa-Academies-Library.aspx

**FD Forum:**
www.thefdforum.co.uk

**ICAEW:**
www.icaewvolunteers.com

# Section 5: Sector Update



## Employment tax changes commencing 6 April 2018

From April 2018, the employment tax rules changed again.

**Termination payments**

From 6 April 2018 the taxation of termination payments changed. The aspect which has the most impact is that both contractual and non-contractual payments in lieu of notice (PILONs) will be taxable and subject to Class 1 NIC's whereas, before April 2018, non-contractual PILONs can be tax and NI free.

The taxable amount after April 2018 is the amount the employee would contractually have been entitled to had they worked their notice period. This includes any bonus, commission or incentive payments that they would be entitled to had they worked their notice period, as well as any sums which would accrue during the notice period. The amount calculated is treated as earnings and will not be eligible for the £30,000 Income Tax exemption.

Also changing is the calculation of termination packages which are subject to NICs. Although this has now been delayed to April 2019, payments in excess of the £30,000 exemption are subject to employer's NIC but not employee's NIC whereas before this date they were exempt NIC altogether.

## Employers will have to provide itemised payslips from April 2019

The Employment Rights Act 1996 (Itemised Pay Statement) (Amendment) Order 2018 comes into force on 6 April 2019. It aims to increase transparency of employees being paid correctly and address underpayment – whether national minimum wage, national living wage or under the employee's contract of employment. This will apply to employees with an hourly rate, not salaried employees with fixed working hours.
From April 2019, employers will be required to include on payslips the number of hours worked by an employee for which they are being paid. This will only apply where the employee's pay varies because of actual time worked.

Where the amount of wages or salary varies by reference to time worked, the total number of hours worked in respect of the variable amount of wages or salary will be shown either as:

- a single consolidated figure by showing the combined number of hours worked for which payment is being made; or
- separate figures for different types of work or different rates of pay by itemising the figures for different types of work worked and/or different rates of pay.

The new order amends section 8 of the Employment Rights Act 1996, adding to the list of particulars which must be included in the itemised pay statement which an employee has a right to be given.

# Section 5: Sector Update

Currently, an employer only has to include:

- details of the employee's gross amount of wages or salary;
- deductions from that gross amount; and
- the net amount of wages or salary received.

**What action should employers take?**

Before the order comes into force, employers should:

- Adjust their payroll processes to collect the new information required; and
- Amend the format of their payslips to include this new information, where appropriate.

Please note that the amendments only apply to periods worked after the new order comes into force in April 2019.

**What action will an employee be able to take?**

An employee will be able to see on their payslip whether the number of paid hours matches their record of how many hours they have actually worked. Employees can then:

- challenge their employer if they think their payslip is wrong;
- raise a case with the Advisory, Conciliation and Arbitration Service (ACAS); or
- raise a case with HMRC (if the national minimum wage has not been paid).

In all these cases, the employee will be able to use their payslip as evidence.

## Fraud in the Charity Sector

Fraud in the charity sector is unfortunately at an all-time high, with recent estimations being a loss of £2.3bn annually to the UK Not for Profit sector (an increase of some £400m from estimates shared in 2016). Alongside our own Kingston Smith specialists in this area, the sector is beginning to develop a suite of tools, guides and blogs which are worth a visit to ensure your Charity is aware of the key fraud considerations, potential pitfalls and suggested controls:

- The Fraud Advisory Panel (a registered charity and independent voice of the anti-fraud community) - https://www.fraudadvisorypanel.org/
- 10 questions every Trustee should ask about Fraud and suggested policies - https://www.gov.uk/guidance/protect-your-charity-from-fraud
- The National Cyber Security Centre - https://www.ncsc.gov.uk/news/advice-thwart-devastating-cyber-attacks-small-charities
- Action Fraud for reporting - https://www.actionfraud.police.uk/

This area is notoriously fast moving, with new areas of attempted fraud

## Section 5: Sector Update



arising daily, but some of the prevalent current frauds and potential controls to protect your charity from these, include:

**"Supplier mandate fraud"**
Contact is made from a "supplier" employee who is noting (either by phone or official headed notepaper) a change of bank details. The bank details are fraudulent.

*Control to mitigate the risk* – review and approval of all standing data supplier changes and calls to confirm BEFORE updates processed.

**"Batch supplier duplication"**
An example of an internal fraud – the details of a supplier are duplicated onto the system and the duplicate given the fraudulent parties bank details. "Real invoices" are paid twice, hidden in the batch run, once real and once fraudulent.

*Controls to mitigate the risk* – Approval of new suppliers and monthly management accounts reviews. The additional payment debit will need to be either to a balance sheet code or will be seen through an inflated expense code on the SOFA.

**"Fraudulent staff/temp staff costs"**
The fraudulent party continues to pay staff after they have left (using updated fraudulent bank details), enrols ghost employees for payment or processes fake invoices through "busy" nominal codes such as temp staff costs.

*Controls to mitigate the risk* - This fraud is almost always discovered through a review of management accounts vs budgets. Preventive controls would include approval of staff detail changes and "lock down" on leavers details in a timely fashion.

**"Email takeover"**
An internet based fraud that is expanding rapidly (and becoming more sophisticated). The finance team receive an email "from" the FD/CEO usually late afternoon, indicating they have forgotten to pay a key supplier and it should be paid immediately.

The email is fraudulent and so are the bank details given.

*Controls to mitigate the risk* – Communication by phone or face to face to confirm details. Do not allow payments to supplier details that do not match those saved on the standing data.

# Section 5: Sector Update

## Trustee Disqualifications

The Charities (Protection and Social Investments) Act 2016 received Royal Assent back in March of that year. This Included a number of provisions which have been implemented over the past 18 months (raising standards in fundraising, for example). One of the most written about and extensive provisions, relating to automatic disqualification of Trustees and Senior Managers, is applicable from 1 August 2018.

Whilst the sector, via the Charity Commission, already had disqualification provisions, these new requirements are far more extensive in nature and could have significant potential ramifications for your Charity:

- Those individuals who have **unspent** convictions for offences of dishonesty or deception, declared bankrupt or disqualified from being a company director are already automatically disqualified as charity trustees
- A new wide range of unspent convictions will be added to this automatic disqualification, including:
    - terrorism, money laundering and bribery
    - perverting the course of justice
    - breaching Charity Commission orders relating to finances or property
    - attempting, aiding or abetting any of the above offences.
- The provisions extend all of the above unspent convictions to not only trustees, but also "senior management" – a definition is provided in the Act which outlines those employees who are management and/or have control over money. Almost definitely, your Charity CEO and Finance Director (or equivalent) will meet the definition.

The systems and controls in place to check Trustees are eligible (both for new appointments and, now given the new requirements, those already in post) will need to be reviewed and updated. Charities can make use of official registers which record the names of people who are disqualified from acting as charity trustees. These include:

- *The Individual Insolvency Register* maintained by the Insolvency Service. https://www.gov.uk/search-bankruptcy-insolvency-register, which contains details of:
    - bankruptcies that are either current or have ended in the last 3 months
    - current individual voluntary arrangements and fast track voluntary arrangements
    - current bankruptcy restriction orders and undertakings
    - Searches of the Register can be made on the Insolvency Service website, by visiting your local Official Receiver's office, or by post or fax.

# Section 5: Sector Update

- *The register of disqualified directors maintained by Companies House*, https://www.gov.uk/government/organisations/companies-house. Searches of the register can be made on the Companies House website.

- *The register of all persons who have been removed as a charity trustee. http://apps.charitycommission.gov.uk/trusteeregister/search.aspx* either by the commission or by an Order of the High Court since 1 February 1993.

Those affected may also be able to apply for an advanced waiver from the Charity Commission (the service opened from February 2018 and must be applied for by the individual, rather than the Charity on their behalf) through https://www.gov.uk/guidance/automatic-disqualification-rules-for-charity-trustees-and-charity-senior-positions#apply-waiver

Further information can be found at https://www.gov.uk/guidance/automatic-disqualification-rules-for-charity-trustees-and-charity-senior-positions

# Appendix 1: Corrected Misstatements and Reclassifications

| | Balance Sheet | | Profit and loss account | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| **Draft net surplus** | | | | | **272,335** |
| Donations and / or Voluntary Funds | | | | 104,290 | 104,290 |
| Finance & Admin - Salaries | | | 104,290 | | - 104,290 |
| ***Being adjustment for donated salaries*** | | | | | |
| GAG Clawback | | | 19,687 | | - 19,687 |
| GAG abatement creditor | | 19,687 | | | |
| ***Being UTC PNA clawback*** | | | | | |
| Accruals | | 9,397 | 9,397 | | - 9,397 |
| Electricity | | | | | |
| ***Being accrual for electricity*** | | | | | |
| Intra-Company | | 220,953 | | | |
| Intra-Company | 220,953 | | | | |
| ***Being correction to central recharge postings*** | | | | | |
| Pupil Premium | | | | 56,412 | 56,412 |
| Prepayments | 56,412 | | | | |
| ***Being pupil premium adjustment*** | | | | | |
| Pupil Premium | | | | 10,986 | 10,986 |
| Other Govt Grants: Excluding Capital | | | 10,986 | | - 10,986 |
| ***Being pupil premium adjustment for Q1 not posted*** | | | | | |

# Appendix 1: Corrected Misstatements and Reclassifications

| | Balance Sheet | | Profit and loss account | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| Donations and / or Voluntary Funds | | | 12,642 | | - 12,642 |
| Finance & Admin - Salaries | | | | 12,642 | 12,642 |
| ***Being adjustment to donated salary*** | | | | | |
| | | | | | |
| Pupil Premium | | | 37,088 | | - 37,088 |
| Advertising | | | 190 | | - 190 |
| Write Offs | | | | 85,830 | 85,830 |
| Insurance | | | 250 | | - 250 |
| Rates | | | 36,385 | | - 36,385 |
| Equipment (Not IT) | | | 1,993 | | - 1,993 |
| IT Support Services | | | 9,924 | | - 9,924 |
| ***Being correction of PY prepayment reversals*** | | | | | |
| | | | | | |
| Prepayments | 37,406 | | | | |
| Rates | | | | 37,406 | 37,406 |
| ***Being prepayment of rates*** | | | | | |
| | | | | | |
| Other GAG | | | | 83,680 | 83,680 |
| UTC Expenditure | | | 83,680 | | - 83,680 |
| IT Equipment at Cost | | 401,670 | | | |
| IT Equipment Accum Dep'n | 156,133 | | | | |
| Restricted Funds - Other | | 15,390 | | | |
| Restricted Funds - Fixed Asset | 504,214 | | | | |
| Furniture & Equipment at Cost | | 769,411 | | | |
| Schedule 21 Expenditure | | | 181,742 | | - 181,742 |
| Furniture & Equipment Accum Dep'n | 159,904 | | | | |
| Land & Buildings Accum Dep'n | 184,526 | | | | |
| Intra-Company | | 17 | | | |
| ***Being correction to year end reserves*** | | | | | |

# Appendix 1: Corrected Misstatements and Reclassifications

| | Balance Sheet | | Profit and loss account | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| Equipment (Not IT) | | | | 9,711 | 9,711 |
| Purchase Ledger Control | 9,711 | | | | |
| ***Being reversal of duplicate invoices Scientific Lab supplies*** | | | | | |
| | | | | | |
| Accruals | | 110,066 | | | |
| Electricity | | | 110,066 | | - 110,066 |
| ***Being accrual for academy hot water supply*** | | | | | |
| | | | | | |
| Central services Cost | | | 220,953 | | - 220,953 |
| Head Office Recharge Income | | | | 220,953 | 220,953 |
| ***Being central recharge costs*** | | | | | |
| | | | | | |
| Catering Food/Drink | | | 10,424 | | - 10,424 |
| Catering Maintenance & Repairs | | | 494 | | - 494 |
| Books | | | 13 | | - 13 |
| Audit Costs | | | 1,170 | | - 1,170 |
| UTC Expenditure | | | 869 | | - 869 |
| Advertising | | | 1,572 | | - 1,572 |
| Professional Services - Non Educational | | | 6,527 | | - 6,527 |
| General Office Costs | | | 232 | | - 232 |
| Hospitality | | | 1,711 | | - 1,711 |
| Building Projects/Maintenance | | | 4,773 | | - 4,773 |
| Cleaning Contract | | | 5,105 | | - 5,105 |
| Water/Sewerage Charges | | | 660 | | - 660 |
| Gas | | | 83 | | - 83 |
| Equipment (Not IT) | | | 18,081 | | - 18,081 |
| Agency Supply Cover - Support | | | 7,521 | | - 7,521 |
| Telephone Costs | | | 469 | | - 469 |
| Purchase Ledger Control | | 59,704 | | | |
| ***Being correction to Aged Creditors*** | | | | | |

## Appendix 1: Corrected Misstatements and Reclassifications

# Appendix 1: Corrected Misstatements and Reclassifications

| | Balance Sheet | | Profit and loss account | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| Catering Maintenance & Repairs | | | | 234 | 234 |
| Books | | | | 13 | 13 |
| Audit Costs | | | | 1,170 | 1,170 |
| UTC Expenditure | | | | 869 | 869 |
| Advertising | | | | 1,572 | 1,572 |
| Professional Services - Non Educational | | | | 6,527 | 6,527 |
| General Office Costs | | | | 232 | 232 |
| Hospitality | | | | 1,711 | 1,711 |
| Building Projects/Maintenance | | | | 4,773 | 4,773 |
| Cleaning Contract | | | | 5,105 | 5,105 |
| Water/Sewerage Charges | | | | 660 | 660 |
| Gas | | | | 83 | 83 |
| Equipment (Not IT) | | | | 9,041 | 9,041 |
| Agency Supply Cover - Support | | | | 7,521 | 7,521 |
| Telephone Costs | | | | 469 | 469 |
| Purchase Ledger Control | 39,980 | | | | |
| ***Being correction to Aged Creditors (2) - Removal of Dummy Invoice*** | | | | | |
| | | | | | |
| Pre-16 School Budget Share | | | 176,601 | | - 176,601 |
| GAG Clawback | | | | 176,601 | 176,601 |
| ***Being net off of income*** | | | | | |
| 16-19 School Budget Share | | | | 11,260 | 11,260 |
| Pre-16 School Budget Share | | | | 3,740 | 3,740 |
| Insurance | | | 15,000 | | - 15,000 |
| ***Being reallocation of RPA*** | | | | | |

# Appendix 1: Corrected Misstatements and Reclassifications

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| | Balance Sheet | | Profit and loss account | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| Other GAG | | | | 1,075,024 | 1,075,024 |
| UTC Expenditure | | | 1,075,024 | | - 1,075,024 |
| ***Being reallocation of capital grant from ACA to UTC*** | | | | | |
| | | | | | |
| IT Equipment at Cost | 401,671 | | | | |
| IT Equipment Accum Dep'n | | 156,133 | | | |
| Furniture & Equipment at Cost | 769,411 | | | | |
| UTC Expenditure | | | | 989,370 | 989,370 |
| Schedule 21 Expenditure | | | | 181,743 | 181,743 |
| Furniture & Equipment Accum Dep'n | | 159,904 | | | |
| Land & Buildings Depreciation | | | 274,100 | | - 274,100 |
| Furniture & Equipment Depreciation | | | 159,904 | | - 159,904 |
| IT Equipment Depreciation | | | 66,559 | | - 66,559 |
| Land & Buildings Accum Dep'n | | 184,526 | | | |
| ***Being capitalisation of grant expenditure*** | | | | | |
| | | | | | |
| Rates Relief | | | | 106,875 | 106,875 |
| Rates | | | 106,875 | | - 106,875 |
| ***Being adjustment for rates relief*** | | | | | |
| | | | | | |
| Finance & Admin - Supn | | | 64,000 | | - 64,000 |
| LGPS Pension Deficit | | 18,000 | | | |
| finance cost LGPS | | | 1,000 | | - 1,000 |
| actuarial movement on LGPS | | | | 47,000 | 47,000 |
| ***Being year end LGPS pension*** | | | | | |
| | | | | | |
| Capital grant | | | | 164,995 | 164,995 |
| Prepayments | 164,995 | | | | |
| ***Being accrual for capital grant*** | | | | | |

# Appendix 1: Corrected Misstatements and Reclassifications

| | Balance Sheet | | Profit and loss account | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| | | | | | - |
| Capital grant | | | | 14,660,014 | 14,660,014 |
| Furniture & Equipment at Cost | 372,024 | | | | |
| Land & Buildings Depreciation | | | 114,304 | | - 114,304 |
| Furniture & Equipment Depreciation | | | 74,405 | | - 74,405 |
| Furniture & Equipment Accum Dep'n | | 74,405 | | | |
| Land & Buildings Accum Dep'n | | 114,304 | | | |
| Land & Buildings Cost B/fwd | 14,287,990 | | | | |
| ***Being accrual for UTC building*** | | | | | |
| | | | | | |
| Central services Cost | | | | 289,565 | 289,565 |
| Head Office Recharge Income | | | 289,565 | | - 289,565 |
| ***Being elimation of group balances*** | | | | | |
| | | | | | |
| **Final surplus** | | | | | **15,324,098** |

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Helping clients succeed

# Appendix 2: Uncorrected Misstatements and Reclassifications

| | Balance Sheet | | SOFA | | Effect on Net Surplus |
|---|---|---|---|---|---|
| | Dr | Cr | Dr | Cr | |
| Prepayments | 3,850 | | | | |
| Professional services | | | | 3,850 | 3,850 |
| ***Being prepayment of community services speech theraphy invoice*** | | | | | |
| Prepayments | 6,412 | | | | |
| Computer running costs | | | | 6,412 | 6,412 |
| ***Being prepayment of annual fibre fee*** | | | | | |
| Fixed asset costs | | 14,784 | | | |
| Expenditure | | | 14,784 | | (14,784) |
| ***Being duplicated posting of fixed asset invoice*** | | | | | |
| Bank current account | | 4,289 | | | |
| Purchase ledger control account | 2,271 | | | | |
| Deferred Income | | 2,140 | | | |
| Bank interest | | | | 81 | 81 |
| General office costs | | | 2,955 | | (2,955) |
| Bank charges | | | 33 | | (33) |
| Other income | | | 1,251 | | (1,251) |
| ***Being adjustments to correct bank reconciliations*** | | | | | |
| PAYE control | 2,371 | | | | |
| Payroll costs | | | | 2,371 | 2,371 |
| ***Being reconciliation of year end PAYE creditor*** | | | | | |
| **Total effect on net surplus as a result of uncorrected misstatements** | | | | | **(6,308)** |

# Appendix 3: Other Matters

## Engagement & Independence

Our engagement objective was the audit of the South Bank Academies.

We have implemented policies and procedures to meet the requirements of the Financial Reporting Council's (FRC) Ethical Standards. To this end we considered our independence and objectivity in respect of the audit for the period under review before commencing planning our audit and communicated with you on these matters in our pre-audit letter dated 9 June 2017.

No other matters have come to our attention during the audit which we are required to communicate to you and the safeguards adopted were as described in our pre-audit letter.

## Qualitative aspects of accounting practices, accounting policies and financial reporting

Based on our audit work performed, we believe that the Strategic Report, Trustee's Report and financial statements for the period under review comply with United Kingdom Accounting Standards and the Companies Act 2006.

During the course of our audit of the financial statements for the period under review we did not identify any inappropriate accounting policies or practices.

## Matters specifically required by other Auditing Standards to be communicated to those charged with governance

Other than as already explained in our Engagement Letter, Pre-Audit Letter and this Post-Audit Management Report, there are no other specific matters to communicate as a result of our audit of the financial statements under review.

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