

17 November 2014

PRIVATE & CONFIDENTIAL
The Trustees
Carre's Grammar School Academy Trust
Northgate
Sleaford
NG34 7DD

Dear Sirs

REPORT TO MANAGEMENT

1. Introduction

- 1.1. The purpose of this letter is to summarise for the Board of Trustees the issues arising from our interim audit of the Academy's financial statements for the year ended 31 August 2014.
- 1.2. The issues detailed in the Appendix have been discussed at our recent meeting and the relevant response and agreed actions have been included.
- 1.3. Accompanying this letter is a memorandum setting out matters that we consider should be brought to your attention, together with any recommendations we have for possible improvements which could be made.

2. Audit scope and status

- 2.1. We are required as external auditors to report whether the financial statements show a true and fair view and have been properly prepared in accordance with the Companies Act 2006. Our work has been carried out in accordance with the relevant legislation and auditing and accounting standards.
- 2.2. It should be noted that the matters dealt with in this letter came to our attention during the normal conduct of our interim audit and should not be relied upon to disclose all weaknesses in your system of internal control and reporting.
- 2.3. This letter is for your private use only. It has been prepared on the understanding that it will not be disclosed to any third party (other than the Education Funding Agency) without our prior consent and no responsibility is assumed by us to any other person.

3. Summary of Findings

- 3.1. We are pleased to report that there is a sensible framework of internal controls in place and that Jeremy Green is a very competent and capable Finance Director who ensures that the finance team is well organised.
- 3.2. The risks inherent with lack of segregation of duties in a small team have been acknowledged, and steps have been taken to mitigate risk by introducing a series of supervisor checks and authorisation requirements.
- 3.3. The observations in the appendix are presented for further consideration by the Board of Trustees, but represent items of a technical nature and not fundamental issues that require addressing.

4. Conclusion





- 4.1 We would like to take this opportunity to thank the Academy's staff for the help and assistance we have been given in conducting our audit.
- 4.2 If there are any matters that you would like to discuss further, please let us know.
- 4.3 A copy of this report will be provided to the Education Funding Agency as required by the provisions of the Academies Financial Handbook.

Yours faithfully




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
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Observation	Recommendation	Significance	Response / conclusion
<p>A number of IT capital additions over £10,000 had not been subject to a formal tendering process as per the Finance Policy. The reason given for this was due to the fact that the IT equipment is bespoke and therefore only a certain supplier can supply goods for the system.</p>	<p>To ensure that the Finance Policy states that an exception can be made to the tendering process where it is felt that no other alternative is available, with a list of those suppliers also being recorded and approved by the governors.</p>		<p>A signed approved suppliers list has now been obtained. The transaction in question adheres to the 'negotiated tender' terms per the finance manual and is therefore of no issue.</p>
<p>An item that has been capitalised was found to relate to a 'Gas pipe replacement' and therefore should have been recognised as a repair and renewals item.</p>	<p>To ensure that all replacement items, if they are a like for like replacements, are expensed rather than being capitalised.</p>		<p>This item has been agreed to be funded from a capital grant and therefore it is appropriate to capitalise it within the financial statements.</p>
<p>There had been two new governors in the year, however Declaration of Interest forms had not yet been completed when initially reviewed.</p>	<p>To ensure that Declaration of Interest forms are completed and shared with all necessary staff/governors as soon as possible to help identify any related parties.</p>		<p>Declaration of Interest forms have now been updated for all governors and staff members.</p>
<p>Petty Cash reconciliations were not always being signed by both the Finance Administrator and/or the Finance Director.</p>	<p>To ensure that the reconciliations are reviewed and signed as per the Finance Policy.</p>		<p>All reconciliations are now signed by both parties.</p>





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<p>There is a £5,000 authorisation limit on the use of the debit card. However it was noted that this limit was merely for internal purposes, and could therefore be easily overridden. Similarly, the card was being used on the main school account, and as a result there is the possibility that the account could be cleared if the card details were hacked or misused.</p>	<p>To set-up a new current account which has a designated debit card, and to discard the current debit card. The new bank account should then be used as an imprest system similar to the Petty Cash system in place, ensuring that the balance of the account is kept at £5,000 (card limit per the Finance Policy). This ensures that the maximum loss to the business will be £5,000 if the card details were to be obtained by a rogue third party.</p>		<p>Lloyds bank have now placed a £10,000 limit on the debit card which therefore limits any potential liability if the card was to ever be misused.</p>
<p>There are no controls detailed in the Finance Policy in relation to repayment of staff expenses. Systems in place are strong, but need to be documented.</p>	<p>Update the Finance Policy to reflect the procedures in place in relation to the repayment of staff expenses.</p>		<p>Finance Policy has been updated to show the systems and controls for the reimbursement of staff expenses.</p>
<p>Due to the fact that no Purchase Order needs to be obtained for orders being made from approved suppliers which are below £5,000 in value, the suppliers on the list should be reviewed and approved by the governors.</p>	<p>To have the chair of governors sign the approved suppliers list in order to add assurance that the governors are happy with the companies on the list.</p>		<p>The approved suppliers list has been signed by the chair of the finance and resources committee.</p>



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<p>It was noted that not all purchases being made from non-approved suppliers on the debit card had a corresponding Purchase Order, email or form of approval as requested by the finance manual.</p>	<p>To ensure that Purchase orders or approved emails/documents are raised and filed with all purchases as required by the procedures in the Finance Policy.</p>		<p>The Finance Director will not approve any purchases were a Purchase Order form has not been completed in advance of the order. Purchases will be returned if required in order to ensure that staff are taking note of the policies in place. Additional emphasis will also be placed on the need for approval prior to the debit card being distributed for use, with this approval then being filed with the corresponding invoice.</p>
<p>Income generated from other activities, including catering and the operation of Sports Facilities, is growing and plans are in place that could see this further expanded. This could expose the academy to commercial risk from the trading activities and also lead to a taxable profit being created.</p>	<p>Consideration should be given to moving this trading activity into a subsidiary company which can gift aid its profits to the academy.</p>		<p>The Finance Director has reviewed the level of taxable income in relation to the threshold limits and that he is content that these have not been breached. This is to be considered going forwards now that further trading income streams have been established.</p>
<p>Bookings that had been made prior to the yearend but subsequently cancelled after the year end had not been amended for, thus meaning that both income and debtors were overstated.</p>	<p>To ensure that any cancellations are reflected within the correct year.</p>		<p>As amounts were trivial this had not been recognised; however it will be ensured that all cancellations are adjusted for so that income is correctly shown going forwards.</p>

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<p>Related party disclosures had not been recorded on the related party's questionnaire or within the draft accounts</p>	<p>To ensure that all transactions with related parties are identified. These should then be included on the related party questionnaire.</p>		<p>The client will endeavour to include all related party transactions going forwards.</p>
<p>A capital item costing £1,599, and thus being in excess of the £1,000 capitalisation policy limit, had been included within an expense code rather than being capitalised.</p>	<p>To ensure that all assets purchased in excess of £1,000 are capitalised and subsequently depreciated.</p>		<p>This appears to be a solitary error with no other similar issues noted.</p>
<p>The academy is closing in on breaching the VAT threshold limit, especially given that additional income streams are expected in the forthcoming year due to Northgate Sports Hall and outsourced school meals.</p>	<p>The Vatable income level should be monitored on a regular basis, ensuring that registration terms, being <i>'that turnover breaches the registration limit of £81,000 in the preceding 12 months or is expected to in the forthcoming month'</i> are not met.</p>		<p>The client reviews the Vatable income and is satisfied that the academy is currently under the limits. This will continued to be reviewed moving forwards.</p>
<p>No bank reconciliation had been completed as at 31st August. When a retrospective reconciliation was obtained from Sage, it showed a variance of £1,350 which was not easily identifiable.</p>	<p>To ensure that a bank reconciliation is completed as at 31st August each year, agreeing the reconciliation back to the figures within the accounts and bank statements.</p>		<p>The client is to ensure that bank reconciliations are completed as at 31st August going forwards, and that figures are agreed back to the accounts and statements.</p>

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<p>Work costing c£23,000 was undertaken on the school kitchen. Usually work in excess of £10,000 requires a tendering process, however as £21,000 of the cost was being reimbursed by Lincolnshire County Council, the work was undertaken by suppliers of LCC's choosing.</p>	<p>As the cost exceeded the terms per the finance manual, it should have been formally approved by the governors that the transaction could be undertaken without the need to follow the guidelines in the finance manual.</p>		<p>This is a one-off transaction and the reasons for going against the finance manual appear to be legitimate, however approval should be sought from governors if similar transactions are apparent in the future.</p>
<p>It was noted during the audit that the school contribute towards the private phone bills for a small number of employees, for whom are required to use their phones for work related purposes within their job roles. Consideration needs to be paid to ensure that the contributions being paid are not deemed as being excessive, which in turn would equate to a taxable benefit being provided to these employees.</p>	<p>HMRC guidance states that if it is just the cost of the business calls being reimbursed then no benefit is apparent, however if any part of the contract fee is reimbursed over and above this level then the employee will have received a payment of earnings for their benefit and a Class 1 NIC liability will arise. Consideration needs to be paid to ensure that only the business elements are being repaid.</p> <p>As well as this, funding the use of a personal phone (therefore payments that exceed the necessary cover for business calls) can be deemed as an irregular expense due to the fact that the excess payment made and the benefit payable as a result are not directly benefitting the education of the pupils.</p>		<p>Taxable benefits had not been considered on the reimbursements being made. This would be looked into to ensure that academy was complying with the necessary laws and regulations.</p>

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



The current internal controls are not necessarily failing, but could arguably be improved upon.



The matter raised is an isolated incidence reported for completeness, or is an issue for which there has already been a change of procedure to prevent recurrence.