

Strictly Private and Confidential

Katharine Lady Berkeley's School
Kingswood Road
Wotton-Under-Edge
Gloucestershire
GL12 8RB

Our ref: KLBS/ACAD/2963328
21 December 2020

Dear Sirs

KATHERINE LADY BERKELEY'S SCHOOL
Audit findings report for the year ended 31 August 2020

During the audit of the financial statements for the year ended 31 August 2020, we examined and sample tested the accounting systems that the academy trust has established to ensure that the accounting records are accurate and reliable and to ensure that its' assets are safeguarded.

We enclose a report which details weaknesses in accounting and internal controls that came to light during the course of the audit.

The report includes explanations of how the weaknesses could affect your business and our recommendations on how to improve the systems – see appendix I - IV.

We have also included in this report a schedule showing the adjusting and unadjusted journals found during the audit – please see appendix V.

Our report also includes details of recently released accounting standards and legislation, which we would like to bring to your attention – see appendix VI. This section is for information only. Appendix VII also lists all the “musts” that are included within the Academies Financial Handbook 2020.

We would like to take this opportunity to thank you and your staff for the assistance given to us during the course of the review.

If you wish to discuss any of the issues raised in the attached appendices in more detail, please do not hesitate to contact us.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.

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Please note that the report has been prepared for the use of the Trustees only.

Yours faithfully

Azets Audit Services

AZETS AUDIT SERVICES

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CONTENTS

- 1. Scope of the audit**
- 2. Independence issues**
- 3. Compliance with legal and regularity requirements**

Audit recommendations:

Appendix I – Executive Summary

Appendix II - Issues identified in current year audit

Appendix III - Unresolved issues from previous years

Appendix IV - Resolution of previous year's issues

Appendix V – Adjusting and un-adjusting journals

Appendix VI – Emerging Issues for Information Only

Appendix VII – Reminder of MUSTS as set out in the Academies Financial Handbook 2020

1. Scope of the audit

Our audit was carried out in accordance with Auditing Standards and with reference to the legal and regulatory requirements as detailed in Section 3 of this report. Our audit approach is designed to ensure that our tests are focused in those areas, where in our judgement, the risk of errors is high, and where the likely impact of such errors would be significant. More specifically, this involved:

- a. Subjecting systems, controls, transactions and balances to substantive testing, on a sample basis;
- b. Revising our audit plan for any significant financial matters arising;
- c. Subjecting the financial statements to detailed analytical review, examining key ratios, trends and other statistics, obtaining and testing explanations for any unusual or unexpected variations;
- d. Reviewing minutes of meetings;
- e. Reviewing statutory financial statements where prepared by the Academy.

It must be appreciated that the matters dealt with in this report arose from the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the financial statements of the Academy and do not necessarily involve an examination of all aspects of your internal control procedures. The responsibility for maintaining adequate financial reporting systems and systems of internal control, as well as for the prevention and detection of fraud, irregularities, and other errors, rests with Trustees.

For the above reasons, our comments cannot be regarded as a full analysis of all the weaknesses or irregularities in the systems of internal control or of all the financial trends or other performance data relevant to the Academy, which might be disclosed by a more detailed review. Since we are not specifically required to search for fraud, nor can our audit be relied upon to identify such matters. Our audit was however planned so that we would have reasonable expectation of detecting material misstatements of the financial statements.

This report has been prepared for the private use of the Trustees and its contents may not be disclosed to any third party without our express written consent. We assume no responsibility to any other persons.

2. Independence Issues

On 8 September 2020 we wrote to you identifying our perception of the principal threats to our objectivity and independence in carrying out this audit, along with the safeguards in place to mitigate those threats.

The principal threats and safeguards are repeated below:

Principal threats	Safeguards Implemented (and why they are considered effective)
We are responsible for the preparation of the financial statements in addition to carrying out the audit. The service will not involve initiating transactions. There is a threat that, as a firm, we are perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own accounting work.	It is agreed that a senior staff member, will carry out a review of the financial statements. This will mitigate the threat of being too closely aligned with management and ensure that all accounting judgements are impartial and that the service is just one of a technical nature. Please see the below comment with regard to the independent principal review of the audit, which will address the self-review risk, as all audit work will need to be clearly explained.

We consider that the safeguards in place have been sufficient to ensure our independence and objectivity have not been compromised during the course of the audit.

3. Compliance with Legal and Regulatory Requirements

In undertaking our work, we reviewed the Trust's compliance with the legal and regulatory requirements of the following:

- Relevant Academies Accounts Direction issued by the ESFA
- Applicable accounting standards (UK Generally Accepted Accounting Practice)
- Companies Act 2006
- Charities Statement of Recommended Practice (SORP) 2019

No matters came to our attention that suggested any significant breach of these requirements.

Appendix I – Executive Summary

From the review performed, the issues noted are as documented below (Significant, Important, Limited, Advisory):

Issues identified in current year audit

Issue	Recommendation	Management Response
A number of the Trustees' declaration of interest forms were incomplete and did not include details of all relevant business interests. The register of interests on the website was incomplete.	Declaration of interest forms should be completed upon appointment as Trustees with all relevant business interests disclosed and published on the Academy Trust's website in line with the Academies financial handbook.	<i>School noted that the approach to checking these has been altered by the auditors for the year ended 31/08/20, in requiring all company directorships to be declared. Previously governors had believed that only directorships that had a potential for a conflict of interest needed to be declared. It was felt that such change in approach on checking should have been communicated to school so they could have taken appropriate action to ensure full compliance. Appropriate changes will be put in place to ensure full declarations are made going forwards and the register of interests was complete.</i>
The procurement policy had not always been strictly adhered to.	Review the finance policy and update as appropriate. Where the Finance policy has not been followed explicitly, the reasons for this, and the agreement of the Trustees to the departure of the policy, should be clearly documented and retained to provide evidence that value for money has been considered by the Academy Trust when making these purchases.	<i>The school procurement process will be revised to include the provision of "sole source" purchases of goods or services where the need arises and can be justified. For each sole source procurement a "Sole Source Justification Statement" will be produced to provide background and justification to the sole source procurement, each is to be approved by the headteacher, and where also necessary the Chair of Governors, all in accordance with the stated delegations of authority as set out in the Finance Policy and retained for future reference against that purchase.</i>

Unresolved issues from previous years

Issue	Recommendation	Management Response
None	N/A	N/A

Reviewed by the Board of Trustees and signed on their behalf


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5/11/2021
.....

T Rand – Accounting Officer

Date:

Appendix II

Issues identified in current year audit

Important:

1. Declaration of interest forms/Register of Interests

Advisory:

2. Procurement policy

1. DECLARATION OF INTEREST FORMS/REGISTER OF INTERESTS

Observation

It was noted that a number of Trustees' declaration of interest forms were incomplete and did not include details of all relevant business interests.

It was noted that the register of interests on the website was incomplete.

Issue

From review of publicly available information at Companies House and the Charities Commission, additional directorships were noted as being held by 3 Trustees which had not been declared on the relevant declaration of interest forms.

Directorships held by 4 trustees were not published on the register of interests on the Academy Trust's website.

The Academies financial handbook 2019 states that relevant business and pecuniary interests of all trustees should be published on the Academy Trust's website. As a consequence of the underlying documentation being incomplete in respect of certain Trustees' declaration of interest forms, the Register of Trustees' Business and Pecuniary interests as published on the website is not wholly complete and accurate.

The Academies financial handbook 2019 details the specific requirements under sections 5.44 to 5.47. As such members and trustees should declare any individuals or organisations that are deemed to be related as per this guidance.

Recommendation

We recommend that declaration of interest forms are completed upon appointment as Trustees and any changes to these should be declared as they arise. By doing so all business interests will be disclosed and a complete list can be published on the website in line with the Academies financial handbook.

2. PROCUREMENT TESTING

Observation

During testing of procurement processes, it was noted that for certain items of capital expenditure, the finance policy was not always being adhered to.

Issue

On testing adherence to the finance policy in relation to obtaining 3 quotes for expenditure in excess of £10,000, 3 quotes had not been obtained in relation to the solar panels and professional fees for catering refurbishment.

It is reasonable that the decision-making process for certain items of expenditure may not be driven purely from a financial perspective, particularly where known, trusted suppliers may be used to provide urgent goods or services.

However, it is a requirement of the Academies finance handbook 2019 that procurement procedures should follow the Academy Trust's internal Finance Policy and therefore there is a risk that by not doing so, the Academy Trust may be seen to be operating outside of the terms of its Funding Agreement.

Recommendation

The Trustees and Finance Director should review the Finance Policy and consider whether some minor amendments may be required to ensure that it remains fit for purpose. Caveats could be added to allow for exclusions to the requirement for a number of estimates to be obtained where, for example, known, trusted suppliers are used, or where no realistic alternative providers can be sourced.

Where the Finance Policy has not been followed explicitly, the reasons for this, and the agreement of the Trustees to the departure from the policy, should be clearly documented and retained to provide evidence that value for money has been considered by the Academy Trust when making these purchases.

Appendix III

Unresolved issues from previous years

All issues from previous years have been resolved.

Appendix IV

Resolution of previous years issues

1. Gifts and hospitality register
2. Budget Forecast Return Outturn and school funds

1. GIFT AND HOSPITALITY REGISTER

Observation

The results of our audit work showed that the academy does not have formal policies in place for gifts & hospitality given out to staff. There were no payments for gifts and hospitality noted during this period.

Issue

The Academies Accounts Direction states that policies should be in place for gifts and hospitality for both receiving and giving. These policies must be approved by trustees.

The Academies Accounts Direction 2018 states:

Gifts

An academy trust should have a policy and register on the acceptance of gifts, awards, prizes or any other benefit that might be seen to compromise their judgement and integrity, and should ensure all staff are aware of it. When making gifts, the trust must ensure the value is reasonable, is within its scheme of delegation of financial powers, the decision is documented, and has due regard to propriety and regularity in the use of public funds.

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

Recommendation

We recommend that a Gifts and Hospitality Policy is documented and a Register maintained. All staff will need to be made aware of this policy and the method chosen for ensuring staff awareness can be included as part of the policy. We recommend that the board of trustees approve and implement policies for this area at their next meeting.

ISSUE RESOLVED

2. BUDGET FORECAST RETURN OUTTURN AND SCHOOL FUNDS

Observation

Budget Forecast Return Outturn submitted does not include school fund income and expenditure.

Issue

Movements in the school fund account are included as a year-end audit adjustment. The income and expenditure relating to this account have been omitted from the budget forecast return. Academy trusts are required by their funding agreement to submit financial returns to the Education and Skills Funding Agency (ESFA) and must ensure they are compiled accurately.

Recommendation

We recommend that income and expenditure relating to the school fund account is included in the Budget Forecast Return Outturn ensuring accurate information is presented to the Education and Skills Funding Agency.

ISSUE RESOLVED

Appendix V

Correcting and uncorrected misstatements

We are required to inform you of any significant misstatements within the financial statements presented for audit, that have been discovered during the course of our audit. Details of items corrected following discussions with you and your team are as below:

Corrected misstatements

No	Detail	SOFA		Balance Sheet		Effect on surplus/(deficit)
		Dr £	Cr £	Dr £	Cr £	
	Surplus/(deficit) as presented for audit					(501,378)
	Adjustments made by auditor:					
1	School fund movements	-	36,778	36,778	-	36,778
2	LGPS actuarial adjustment	471,000	-	-	471,000	(471,000)
3	Reverse deferred CIF income	-	60,105	60,105	-	60,105
4	Recognise prepayment and trade creditor	-	-	31,486	31,486	-
5	Recognise trips refunds	31,195	-	-	31,195	(31,195)
6	Reverse debit balance within trade creditors	-	-	13,260	13,260	-
	Surplus/(deficit) per final accounts					(906,690)

Uncorrected misstatements

A number of non-trivial uncorrected misstatements were discovered during the course of our audit and these are summarised below.

No	Detail	Income and Expenditure		Balance Sheet		Effect on surplus/(deficit)
		Dr £	Cr £	Dr £	Cr £	
	Surplus/(deficit) per final accounts					(906,690)
1	Recognise parent funds in school funds	24,716	-	-	24,716	(24,716)
2	Reallocate pre year end invoices included in accruals to trade creditors	-	-	39,674	39,674	-
3	Increase depreciation for incorrect rates used	5,224	-	-	5,224	(5,224)
4	Holiday pay accrual	11,435	-	-	11,435	(11,435)
5	Recognise prepayment and trade creditor	-	-	11,254	11,254	-
6	Capitalise items in minor works	-	18,758	18,758	-	18,758
	Potential adjusted surplus/(deficit)					(929,307)

Appendix VI

Emerging Issues for Information Only

Governance

1. Going Concern Responsibility
2. Members
3. Clerk
4. Register of interests

Executive Team

5. Setting pay
6. Accounting Officer and CFO

General Controls and Transparency

7. Fixed asset register
8. Pupil Number projections
9. Integrated Curriculum and financial planning
10. Overdrafts
11. Website disclosures
12. Alcohol
13. Risk Management
14. School Resource management self assessment tool

Other

15. Audit and Risk Committee, and Internal scrutiny
16. ESFA Good Practice Guidance
17. VAT

GOVERNANCE

1 GOING CONCERN RESPONSIBILITY

Definition

An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Assessing an entity's ability to continue to adopt the going concern basis of accounting involves considering a period of at least 12 months from the date the annual accounts are authorised.

Trustee Responsibility

The trustees **must** take ownership of the trust's financial sustainability and its ability to operate as a going concern.

The board of trustees **must**:

- ensure that financial plans are prepared and monitored, satisfying itself that the trust remains a going concern and financially sustainable
- take a longer term view of the trust's financial plans consistent with the requirement to submit three-year budget forecasts to ESFA
- as part of its management of the trust's funds, explain its policy for holding reserves in its annual report.

GOVERNANCE – continued

2 MEMBERS

Numbers

The academy trust **must** have at least three members, although the Department's strong preference is that trusts should have at least five members. Having more members:

- provides for a more diverse range of perspectives
- ensures members can take decisions via special resolution without requiring unanimity.

Employees

Members **must not** be employees of the trust, nor occupy staff establishment roles on an unpaid voluntary basis. This requirement is effective from **1 March 2021**.

Trustees and members

There should be significant separation between the individuals who are members and those who are trustees. If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's strong preference is for a majority of members to be independent of the board of trustees.

Responsibilities

As responsibility to conduct the trust's business sits with the trustees, members should be 'eyes on and hands off' and avoid compromising the board's discretion.

However if the governance of the trust by the board of trustees becomes dysfunctional the members will have a strong interest in ensuring the board has plans to address the issues or otherwise to remove the board or individual trustees and re-appoint trustees with the skills necessary for effective governance.

It is important, therefore, for members to be kept informed about trust business so they can be assured that the board is exercising effective governance. This **must** include providing the members with the trust's audited annual report and accounts.

3 CLERK

The academy trust **must** appoint a clerk to support the board of trustees who is someone other than a trustee, principal or chief executive of the trust. A clerk can help the efficient functioning of the board by providing:

- guidance to ensure the board works in compliance with the appropriate legal and regulatory framework, and understands the potential consequences of non-compliance
- advice on procedural matters relating to operation of the board
- administrative and organisational support.

For non-executive trustees a knowledgeable clerk to the board (or company secretary) is an essential part of their tool kit.

GOVERNANCE – continued

4 REGISTER OF INTERESTS

All members, trustees, local governors of academies and senior employees must complete the register of interests.

The academy trust's register of interests **must** capture relevant business and pecuniary interests of members, trustees, local governors and senior employees, including:

- directorships, partnerships and employments with businesses
- trusteeships and governorships at other educational institutions and charities
- for each interest: the name and nature of the business, the nature of the interest and the date the interest began.

The register **must** identify relevant material interests from close family relationships between the academy trust's members, trustees or local governors. It **must** also identify relevant material interests arising from close family relationships between those individuals and employees. 'Close family relationships' is defined as a close member of the family, or member of the same household, who may be expected to influence, or be influenced by, the person. This includes, but is not limited to, a child, parent, spouse or civil partner.

Trusts should consider whether other interests should be registered, and if in doubt should do so. Boards of trustees **must** keep their register of interests up-to-date at all times.

Trusts **must** publish on their websites relevant business and pecuniary interests of members, trustees, local governors and accounting officers. Trusts have discretion over the publication of interests of other individuals named on the register.

EXECUTIVE TEAM

5 SETTING PAY

The board of trustees **must** ensure its decisions about levels of executive pay (including salary and any other benefits) follow a robust evidence-based process and are a reasonable and defensible reflection of the individual's role and responsibilities. No individual can be involved in deciding their remuneration.

The board **must** discharge its responsibilities effectively, ensuring its approach to pay and benefits is transparent, proportionate and justifiable, including:

- process – that the procedure for determining executive pay and benefits, and keeping them proportionate, is agreed by the board in advance and documented
- independence – decisions about executive pay and benefits reflect independent and objective scrutiny by the board and that conflicts of interest are avoided
- robust decision-making – factors in determining pay and benefits are clear, including whether educational and financial performance considerations, and the degree of challenge in the role, have been taken into account
- proportionality – pay and benefits represent good value for money and are defensible relative to the public sector market
- commercial interests – ensuring the board is sighted on broader business interests held by senior executives, and is satisfied that any payments made by the trust to executives in relation to such interests do not undermine the transparency requirements for disclosing pay in accordance with the Academies Accounts Direction
- documentation – the rationale behind the decision-making process, including whether the level of pay and benefits reflects value for money, is recorded and retained
- a basic presumption that executive pay and benefits should not increase at a faster rate than that of teachers, in individual years and over the longer term
- understanding that inappropriate pay and benefits can be challenged by ESFA, particularly in instances of poor financial management of the trust.

EXECUTIVE TEAM – continued

6 ACCOUNTING OFFICER AND CFO

Both the accounting officer and chief financial officer (CFO) should be employees, and there is a requirement for ESFA approval if, exceptionally, they are not.

Accounting Officer definition

The academy trust's senior executive leader, accountable for value for money, regularity and propriety. In SATs, this should be the principal. In trusts with multiple academies, it should be the chief executive or equivalent.

Accounting Officer Role and Responsibility

The accounting officer role includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament, and to ESFA's accounting officer, for the trust's financial resources.

Accounting officers must be able to assure Parliament, and the public, of high standards of probity in the management of public funds, particularly regularity, propriety and value for money.

The accounting officer must have oversight of financial transactions, by:

- ensuring the academy trust's property and assets are under the trustees' control, and measures exist to prevent losses or misuse
- ensuring bank accounts, financial systems and financial records are operated by more than one person
- keeping full and accurate accounting records to support their annual accounts.

Chief Financial Officer (CFO) definition

The individual leading the finance department: e.g. finance director, business manager or equivalent.

CFO Skills and experience

The CFO and their finance staff must be appropriately qualified and/or experienced. Trusts must assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations. ESFA encourages larger trusts (for example over 3000 pupils) to consider the range of accountancy qualifications available from professional bodies such as the ICAEW, ACCA, CIMA or CIPFA (including CIPFA qualifications developed in partnership with ISBL) and take this into account when filling CFO vacancies.

CFOs should maintain continuing professional development and undertake relevant ongoing training.

The CFO need not discharge all their duties personally. The trust may employ additional staff or contractors with the relevant skills and knowledge at the appropriate time.

GENERAL CONTROLS AND TRANSPARENCY

7 FIXED ASSET REGISTER

The Academies financial Handbook states that Trusts **must** manage and oversee assets and maintain a fixed asset register

An asset register is a list of the assets owned by a business. It contains pertinent details about each fixed asset to track their value and physical location. The register shows the quantity and value of things like office equipment, motor vehicles, furniture, computers, communications systems and equipment.

Typical information captured on a fixed asset register includes a unique identifier code, asset name, description, purchase and capitalisation dates, purchase cost, department, residual value and asset life and depreciation rule.

The asset register must reflect the balances as shown within the Trusts financial statements (Tangible fixed asset note).

8 PUPIL NUMBER PROJECTIONS

The board of trustees, and any separate committee responsible for finance, must ensure rigour and scrutiny in budget management. The Board of Trustees should challenge pupil number estimates as these underpin revenue projections, and review these termly.

Oversight must ensure information submitted to DfE and ESFA that affects funding, including pupil number returns and funding claims (for both revenue and capital grants) completed by the trust and (for trusts with multiple academies) by constituent academies, is accurate and in compliance with funding criteria.

GENERAL CONTROLS AND TRANSPARENCY - continued

9 INTEGRATED CURRICULUM AND FINANCIAL PLANNING

Boards are encouraged to take an integrated approach to curriculum and financial planning so that they are confident about planning the best curriculum for their pupils and delivering the trust's educational priorities with the funding they have available.

Integrated curriculum and financial planning (ICFP) is a management process that helps schools plan the best curriculum for their pupils with the funding they have available. It can be used at any phase or type of school.

ICFP involves measuring your current curriculum, staffing structure and finances, and using the data to create a 3 to 5 year plan

There is no one way to do ICFP, but it should include analysing:

- teacher deployment
- use of support staff
- non-staffing costs
- balance of income and costs

The more variables the Trust measures, the more accurately the Trust will be able to predict the resources it can afford in the future.

The Trust will need to make some assumptions about how things might change over the next few years. Starting before planning for the next academic year will give the Trust time to recruit any new teachers needed.

ICFP is most effective when it is a normal part of planning activity and involves senior teams, including business managers and governors.

The ESFA has released a guide for ICFP and this can be found at:

<https://www.gov.uk/guidance/integrated-curriculum-and-financial-planning-icfp>

10 OVERDRAFTS

The trust **must** manage its cash position robustly. It **must** avoid becoming overdrawn on any of its bank accounts so that it does not breach restrictions on borrowing. It may be required to report on its cash position to ESFA where there are concerns about financial management.

GENERAL CONTROLS AND TRANSPARENCY - continued

11 WEBSITE DISCLOSURES

The following is a list of what must be published on your website as a must in the Academies Financial Handbook:

The number of employees whose benefits exceeded £100k, in £10k bandings, as an extract from the disclosure in its financial statements for the previous year ended 31 August

For organisations with 250 or more employees to publish information about the gender pay gap in their organisation.

Whistleblowing procedure

Up-to-date details of its governance arrangements in a readily accessible format, including:

- the structure and remit of the trust's members, board of trustees, committees and local governing bodies (the trust's scheme of delegation for governance functions), and the full names of the chair of each
- for each of the trust's members serving at any point over the past 12 months, their full names, date of appointment, date they stepped down (where applicable), and relevant business and pecuniary interests including governance roles in other educational institutions
- for each trustee and local governor serving at any point over the past 12 months, their full names, date of appointment, term of office, date they stepped down (where applicable), who appointed them, and relevant business and pecuniary interests including governance roles in other educational institutions. If the accounting officer is not a trustee their business and pecuniary interests must still be published
- for each trustee, their attendance records at board and committee meetings over the last academic year
- for each local governor, their attendance records at local governing body meetings over the last academic year.

Audited report and accounts (must be on website by 31 January – this has been extended to 28 February 2021 for 19/20)

Relevant business and pecuniary interests of members, trustees, local governors and accounting officers. (Trusts have discretion over the publication of interests of other individuals named on the register.)

Where a trust is subject to an FNtI, it must publish the FNtI on its website within 14 days of it being issued, and retain it on the website until the FNtI is lifted by ESFA.

12 ALCOHOL

Just a reminder:

The trust's funds **must not** be used to purchase alcohol for consumption, except where it is to be used in religious services.

GENERAL CONTROLS AND TRANSPARENCY - continued

13 RISK MANAGEMENT

The trust must manage risks to ensure its effective operation and must maintain a risk register:

- Overall responsibility for risk management, including ultimate oversight of the risk register, must be retained by the board of trustees, drawing on advice provided to it by the audit and risk committee.
- Other committees may also input into the management of risk at the discretion of the board.
- Aside from any review by individual committees, the board itself must review the risk register at least annually.
- Risks management covers the full operations and activities of the trust, not only financial risks.

The trust's management of risks must include contingency and business continuity planning.

Risk management involves the identification, measurement, management, monitoring and reporting of threats to an organisation's business objectives. Such threats could arise from a wide variety of sources, including financial uncertainty, IT security, management errors, accidents, natural disasters, and so on.

Once risks have been identified, assessed, evaluated and ranked, academy trusts will need to ensure there are appropriate plans to manage them. These plans include preventative controls, mitigation processes and contingency plans in the event that risks materialise.

Once the academy trust has established its risk tolerance and capacity, it can move onto developing a risk control strategy. Again, there are various ways to do this and no one way is "right", but one easy-to-follow approach is to consider the **"4 T's"**

- **Tolerate**
- **Treat**
- **Transfer**
- **Terminate**

The board (including any relevant sub-committee such as the finance or audit committee) should set out how and when it wants to receive information about risks. This reporting should provide reliable, current, complete and timely information, reflecting different risk types as well as emerging issues.

GENERAL CONTROLS AND TRANSPARENCY - continued

14 SCHOOL RESOURCE MANAGEMENT SELF ASSESSMENT TOOL

It is compulsory for all academy trusts to complete and submit the self-assessment tool.

The tool helps assure governing bodies and trust boards that they are meeting the right standards to achieve a good level of financial health and resource management.

It can be used to identify areas for change to make sure resources are used to support high-quality teaching and the best education outcomes for pupils.

The tool consists of a checklist and a dashboard.

The checklist asks questions of governing bodies and trust boards in 6 areas of resource management.

The dashboard shows how a school's data compares to thresholds on a range of statistics that have been identified by the Department for Education (DfE) as indicators of good resource management and outcomes

The weblink to access the tool is:

<https://www.gov.uk/government/publications/school-resource-management-self-assessment-tool>

OTHER

15 AUDIT AND RISK COMMITTEE AND INTERNAL SCRUTINY

Requirement for a committee

The academy trust must establish an audit and risk committee, appointed by the board.

- Trusts with an annual income over £50 million must have a dedicated audit and risk committee.
- Other trusts must either have a dedicated audit and risk committee or can combine it with another committee, such as finance.

The audit and risk committee should meet at least three times a year.

Remit of the committee in relation to internal scrutiny

The audit and risk committee must:

- direct the trust's programme of internal scrutiny
- ensure that risks are being addressed appropriately through internal scrutiny
- report to the board on the adequacy of the trust's internal control framework, including financial and non-financial controls and management of risks.

Membership of the committee

Employees of the trust should not be audit and risk committee members, but the accounting officer and chief financial officer should attend to provide information and participate in discussions.

The chair of trustees should not be chair of the audit and risk committee.

Where the audit and risk committee is combined with another committee, employees should not participate as members when audit matters are discussed.

Operating the committee

The committee must:

- have written terms of reference describing its remit
- agree a programme of work annually to deliver internal scrutiny that provides coverage across the year
- review the ratings and responses on the risk register to inform the programme of work, ensuring checks are modified as appropriate each year
- agree who will perform the work
- consider reports at each meeting from those carrying out the programme of work
- consider progress in addressing recommendations
- consider outputs from other assurance activities by third parties including ESFA financial management and governance reviews, funding audits and investigations
- have access to the external auditor as well as those carrying out internal scrutiny, and consider their quality.

In trusts with multiple academies, the committee's oversight must extend to the financial and non-financial controls and risks at constituent academies.

OTHER – continued

Internal Scrutiny

Delivering internal scrutiny

Internal scrutiny must:

- be independent and objective – for example it must not be performed by the trust's own accounting officer, chief financial officer or other members of the finance team
- be conducted by someone suitably qualified and experienced and able to draw on technical expertise as required
- be covered by a scheme of work, driven and agreed by the audit and risk committee, and informed by risk
- be timely, with the programme of work spread appropriately over the year so higher risk areas are reviewed in good time
- include regular updates to the audit and risk committee by the person(s) or organisation(s) carrying out the programme of work, incorporating:
- a report of the work to each audit and risk committee meeting, including recommendations where appropriate to enhance financial and non-financial controls and risk management
- an annual summary report to the audit and risk committee for each year ended 31 August outlining the areas reviewed, key findings, recommendations and conclusions, to help the committee consider actions and assess year on year progress.

Whilst the audit and risk committee is responsible for directing the internal scrutiny, the findings must also be made available to all trustees promptly.

To ensure those carrying out the programme of internal scrutiny work are suitably qualified and/or experienced:

- auditors should be members of a relevant professional body
- trustees and peer reviewers performing the work should have qualifications in finance, accounting or audit, and appropriate internal audit experience. Trusts should work towards this position where it is not already the case.

The trust **must** keep its approach to internal scrutiny under review. If it changes in size, complexity or risk profile, it should consider whether its approach remains suitable.

Approach

Internal scrutiny must focus on:

- evaluating the suitability of, and level of compliance with, financial and non-financial controls. This includes assessing whether procedures are designed effectively and efficiently, and checking whether agreed procedures have been followed
- offering advice and insight to the board on how to address weaknesses in financial and non-financial controls, acting as a catalyst for improvement, but without diluting management's responsibility for day to day running of the trust
- ensuring all categories of risk are being adequately identified, reported and managed.

The trust must identify on a risk-basis (with reference to its risk register) the areas it will review each year, modifying its checks accordingly. For example, this may involve greater scrutiny where procedures or systems have changed.

OTHER – continued

16 ESFA GOOD PRACTICE GUIDANCE

The ESFA have issued a number of good practice guides. They do not replace or modify any requirements set out in the Academies Financial Handbook and the Academies Accounts Direction. They aim to provide suggestions about good practice.

Currently the following is available as a good practice guide:

- Streamlined Energy and Carbon reporting
- Operating an academy trust as a going concern
- Choosing an external auditor for an academy trust
- Academy trust deficit recovery
- Academy trust risk management
- Leasing guidance for academy trusts
- Academy trust management accounting
- Internal scrutiny in academy trusts
- Academy trust management letters
- External audit preparation checklist for academy trust guidance
- External audit preparation checklist

OTHER – continued

17 VAT – AUDIT REVIEW

Observation

The academy is currently not VAT registered and reclaiming VAT via the Form 126.

Issue

Our audit does not examine VAT in detail and our audit procedures are not designed to detect immaterial fraud or error. Therefore, we have not reviewed individual streams of income to:

- a. Assess whether the academy is over the VAT registration threshold
- b. Ascertain whether the VAT reclaimed is correct

There are a number of income streams that may be liable to VAT, we have provided some common area below, but please note this is not an exhaustive list:

1. Contracts whereby you receive commission or the net of income/costs for items such as uniform. The contract may be worded in such a way that you are actually the primary supplier and not an agent, if this is the case then you may be liable to register and charge VAT on these items.
2. The sale of meals to staff is a supply liable to VAT. The VAT treatment of outsourced catering contracts means that an Academy will act as principal in the sale of all meals. The sale of a meal to a member of staff (not a duty meal) will count towards the VAT registration limit.
3. Certain supplies under salary sacrifice schemes can have a VAT implication either as the amounts count towards the VAT registration limit or VAT on expenses could be restricted.
4. Although the majority of income from letting the premises will be exempt depending on the exact nature of the "let" and to whom the let could be "taxable". If additional services are supplied as a separate cost they would be seen as taxable. Any charges for parking would be taxable.

Recommendation

We recommend that a separate VAT audit is undertaken if required.

Appendix VII

MUSTS as set out in the Academies Financial Handbook 2020

The requirements in the handbook brought together into one list: the 'musts'. It abbreviates these requirements and so cannot be used as a substitute for the full handbook. Links to the relevant sections are included, which must be read in full.

Top 10 'musts' for chairs and other trustees

Personal responsibilities

- Apply highest standards of conduct and ensure robust governance, comply with charitable objects, with duties as company directors, with charity law and the funding agreement [1.12 and 1.13]

Structures

- Ensure the board of trustees meets at least three times a year, and conducts business only when quorate [2.3]
- Approve a written scheme of delegation of financial powers [2.4]

Relationships

- Manage conflicts of interest, be even-handed with related parties, and ensure goods or services provided by them are at no more than cost, beyond the limits in this handbook [5.34 to 5.58]

Money and oversight

- Ensure the board approves a balanced budget for the financial year and minutes their approval [2.10]
- Share management accounts with the chair of trustees monthly, with the other trustees six times a year, and consider when the board meets, taking action to maintain financial viability [2.19 and 2.20]
- Ensure decisions about executive pay follow a robust evidence-based process reflecting the individual's role and responsibilities, and that the approach to pay is transparent, proportionate and justifiable [2.30 and 2.31]
- Appoint an audit and risk committee (either dedicated or combined with another committee) to advise on the adequacy of the trust's controls and risks [1.17 and 3.6 to 3.14]

Accountability and audit

- Submit audited accounts to ESFA by 31 December [4.4]
- Ensure an appropriate, reasonable and timely response to findings by auditors, taking opportunities to strengthen financial management and control [4.16]

Roles and responsibilities

- Adhere to The 7 principles of public life
- Have the skills, knowledge and experience to run the trust [1.1]
- Have at least three members, although the Department's strong preference is for five [1.3]
- Not have members as employees, nor have members occupy staff roles on an unpaid voluntary basis [1.4]
- Ensure regularity, propriety and value for money [1.14, 1.28 and 2.7]
- Trustees to take ownership of financial sustainability and ability to operate as a going concern [1.14]
- Ensure committees contain a majority of trustees [1.18]
- Not have de facto trustees or shadow directors [1.19]
- Include a review of the trust's governance structure and board composition in the governance statement when producing audited accounts for the first time [1.21]
- Appoint a senior executive leader (should be principal or chief executive) [1.25]
- Appoint an accounting officer (the senior executive leader) with responsibility for regularity, propriety and value for money and for assuring the board about compliance with the funding agreement and handbook [1.26 to 1.35]
- Demonstrate in the governance statement how the trust has secured value for money [1.32]
- Include a statement on regularity, propriety and compliance, signed by the accounting officer, in the audited accounts [1.32 and 4.13]
- Appoint a chief financial officer to lead the finance department [1.36]
- Have appropriately qualified and/or experienced finance staff [1.37]
- Appoint a clerk to the board [1.40]

Main financial requirements

- Maintain robust oversight of the trust [2.1]
- Take responsibility for financial affairs, stewardship of assets and use resources efficiently [2.2]
- Describe in the governance statement how the board has maintained effective oversight if meeting less than six times a year [2.3]
- Have sound internal control, risk management and assurance processes [2.6]
- Establish a control framework that includes:
 - ensuring delegated financial authorities are complied with, and segregation of duties maintained
 - co-ordinating the planning and budgeting process
 - discipline in financial management, including managing debtors, creditors, cash flow and monthly bank reconciliations
 - planning and oversight of capital projects
 - management and oversight of assets including maintenance of a fixed asset register
 - regularity, propriety and value for money
 - reducing fraud and theft
 - independent checking of controls, systems, transactions and risks
 - a competitive tendering policy [2.7 and 2.28]
- Prepare and monitor financial plans to ensure the trust remains a going concern and ensure rigour and scrutiny in budget management [2.8 and 2.9]
- Ensure budget forecasts are accurate, based on realistic assumptions and reflective of lessons learned from previous years [2.11]
- Submit a budget forecast return outturn and 3-year budget forecast return to ESFA [2.15 and 2.16]

- Notify ESFA within 14 days if proposing a deficit revenue budget for the current financial year which it cannot address after taking into account unspent funds from previous years, as this would be non-compliant with the funding agreement and this handbook [2.17]
- Prepare management accounts every month and take appropriate action. Measure key financial performance indicators regularly and analyse in annual trustees' report [2.18, 2.21 and 2.22]
- Manage cash position robustly and avoid becoming overdrawn [2.24]
- Have a cautious approach to investments in line with the handbook principles [2.25]
- Show that public funds have been used as intended by Parliament [2.27]
- Publish on trust's website the number of employees whose benefits exceeded £100k, in £10k bandings [2.32]
- Ensure senior employees' payroll arrangements meet HM Treasury's tax requirements [2.34]
- Not use trust's funds to purchase alcohol for consumption, except where it is to be used in religious services [2.35]
- Charge for boarding provision in line with this handbook [2.37]
- Manage risks, including contingency and business continuity planning and maintain a risk register. Board to retain oversight of risk and review risk register at least annually. [2.38 and 2.39]
- Have adequate insurance or be a member of DfE's risk protection arrangement [2.40]
- Implement reasonable risk management audit recommendations [2.42]
- Have published procedures for whistleblowing and respond properly and fairly [2.43 to 2.48]
- Be transparent with governance arrangements [2.49]
- Publish the trust's governance arrangements in its governance statement and in a readily accessible form on its website [2.50]
- Provide ESFA or its agents with information of sufficient quality to meet funding requirements [2.51]
- Notify DfE via Get information about schools within 14 days of changes in information about members, trustees, local governors, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer [2.53 to 2.57]

Internal scrutiny

- Check financial and non-financial controls and risks [3.1 to 3.5]
- Oversee controls and risks at constituent academies [3.13]
- Ensure information submitted to DfE and ESFA affecting funding is accurate and compliant [3.14]
- Ensure checks are conducted by someone independent, suitably qualified and experienced [3.15 to 3.21]
- Provide internal scrutiny reports to the audit and risk committee and make the findings available to all trustees promptly [3.15 and 3.16]
- Confirm in the governance statement which internal scrutiny option has been applied and why [3.22]
- Provide annual summary of internal scrutiny to ESFA by 31 December, and provide other internal scrutiny reports on request [3.23]

Annual accounts and external audit

- Produce audited accounts, publish on the trust's website by 31 January and file with Companies House [4.1 to 4.4]
- Appoint an external auditor in writing, for the annual accounts [4.5 and 4.6]
- Put any additional services from the external auditor in a separate letter of engagement [4.6]
- Provide in the audit contract for the removal of external auditors [4.7]
- Notify ESFA immediately of the removal or resignation of external auditors, and the reasons [4.8]

- Prepare information, at DfE's request, for the sector annual report and accounts [4.9 and 4.10]
- Include a review of the accounting officer's statement on regularity, propriety and compliance within the external auditor's remit, and address the auditor's conclusions on regularity jointly to the trust and ESFA [4.15] Audit and risk committee to review the external auditor's plan, annual accounts, audit findings, management response and effectiveness of the external auditor and produce annual report of conclusions [4.17]

Delegated authorities

- Obtain ESFA's prior approval for transactions beyond the trust's delegated limits [5.1]
- Make financial disclosures in the annual accounts in line with this handbook [5.2 and 5.3]
- Refer novel, contentious and/or repercussive transactions to ESFA for approval [5.5]
- For staff severance payments, consider the following before committing:
 - whether the proposed payment is in the trust's interests
 - whether payment is justified and value for money, based on a legal assessment
 - review the level of settlement, which must be less than the legal assessment of what the relevant body (e.g. employment tribunal) is likely to award [5.8]
- Obtain ESFA's approval for the non-contractual/non-statutory element of a staff severance payment of £50,000 or more (gross, before deductions) [5.10]
- Not accept a settlement for a staff severance payment unless satisfying the conditions in this handbook [5.11]
- Ensure confidentiality clauses do not prevent an individual's right to make disclosures in the public interest [5.12]
- For compensation payments, base on appraisal, including legal advice, ensuring value for money [5.13]
- Obtain ESFA's approval for non-contractual/non-statutory compensation payments of £50,000 or more [5.14]
- Obtain ESFA's approval for ex gratia payments [5.17]
- Obtain ESFA's approval for writing off debts and losses, guarantees, letters of comfort and indemnities beyond limits in this handbook [5.18 and 5.19]
- Obtain ESFA's approval, before acquiring and disposing of fixed assets beyond limits in this handbook and ensure disposal achieves best price [5.22 and 5.23]
- Obtain ESFA's approval for leases beyond limits in this handbook [5.25 to 5.27]
- Not pool PFI funding across a trust with multiple academies [5.29]
- Consider the funding needs of individual academies if pooling GAG, and have an appeals mechanism [5.30]
- Ensure gifts by the trust have the decision documented, and have regard to propriety and regularity [5.31]
- Obtain ESFA's approval before borrowing, including finance leases and overdrafts, and only use credit cards for business expenditure [5.32]
- Ensure no member, trustee, local governor, employee or related individual or organisation uses their connection to the trust for personal gain [5.35]
- Ensure no payments to trustees unless permitted by the articles and comply with the terms of any agreement with the Secretary of State [5.35]
- Obtain Charity Commission approval for paying a trustee for acting as a trustee [5.35]
- Ensure the board chair and the accounting officer manage their relationships with related parties to avoid real and perceived conflicts of interest [5.37]

- Recognise that related party transactions may attract public scrutiny and require sufficient disclosure in annual accounts to support accountability and transparency [5.38 and 5.39]
- Report all contracts and other agreements with related parties to ESFA in advance [5.40]
- Obtain ESFA approval for contracts and other agreements with related parties beyond limits in this handbook [5.41 to 5.43]
- Capture in an up to date register of interests the relevant business and pecuniary interests of members, trustees, local governors and senior employees [5.44] and interests of other individuals as described in 5.45
- Publish relevant business and pecuniary interests of members, trustees, local governors and accounting officers [2.50 and 5.47]

The regulator and intervention

- Arrange for letters to trusts' accounting officers from ESFA's accounting officer about the accountability framework to be discussed by the board and, where appropriate, strengthen the trust's systems [6.2]
- Provide ESFA with access to books, records, information, explanations, assets, premises and staff to assist with its audits [6.4]
- Retain records for at least six years after the period to which funding relates [6.5]
- Send ESFA a financial management and governance self-assessment for new academy trusts, or constituent academies joining an existing trust [6.6]
- Submit school resource management self-assessment tool to ESFA annually [6.8]
- Be aware of the risk of fraud, theft and irregularity and address with proportionate controls and appropriate action [6.10]
- Notify ESFA of fraud or theft over £5,000, individually or cumulatively, or of any value where unusual or systematic [6.11]
- Comply with a Financial Notice to Improve [6.15 and 6.17]
- Publish the FNTI on the trust's website until it is lifted [6.16]
- Waive delegated authorities and obtain ESFA approval of certain transactions described in this handbook if the trust has an FNTI [6.18]
- Cooperate with NAO and provide help, information

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