

# Bungay High School

Year ended 31 August 2013

Audit Findings Report

The Governors  
C/o Lynn Eldrett  
Bungay High School  
Queens Road  
Bungay  
Suffolk  
NR35 1RW

Dear Sirs

### **Audit for the year ended 31 August 2013**

Following the completion of our audit fieldwork on the financial statements of Bungay High School for the year ended 31 August 2013 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audit and of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with Lynn Eldrett and the management during our audit of the financial statements and at our closing meeting on 01 November 2013. We have incorporated their comments where relevant.

### **Matters from our audit**

We have set out in Section 2 of this report comments on the matters arising from our audit work which we wish to bring to your attention. The majority of these comments highlight specific matters judgements / estimates that have been made in the preparation of the draft statutory financial statements as well as certain comments on the overall audit process.

### **Systems and controls**

During our audit fieldwork, as required by International Standards on Auditing (UK & Ireland), we considered your systems of internal financial control as well as the accounting procedures and other aspects of your business processes relevant to our audit. We are able to report that no major issues came to our attention from our review of your relevant systems and controls. However, we have included further comments later in this report where we have identified potential improvements during our audit work which we believe we should bring to your attention. You should note that our evaluation of the systems of control was carried out for the purposes of our audit only and accordingly it is not intended to be a comprehensive review of your business processes.

### **Financial statements**

The Governors of Bungay High School are responsible for the preparation of the financial statements on a going concern basis (unless this basis is inappropriate). The Governors are also responsible for ensuring that the financial statements give a true and fair view, that the process management goes through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

### **Acknowledgements**

We would like to express our appreciation for the assistance provided to us by Lynn Eldrett the finance team during our audit.

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### **Use of this report**

This report has been prepared for the private use of the Bungay High School and its contents should not be disclosed to third parties without our prior written consent. We assume no duty, responsibility or liability to any other person who has access to this report.

### **Crowe Clark Whitehill LLP**

**Carrick House  
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## 1. Introduction and audit approach

We have pleasure in setting out in this document our report to the Governors of Bungay High School for the year ended 31 August 2013.

### Matters from our audit

We are required by International Standards on Auditing (UK and Ireland) (“ISAs”) to communicate to you our views about any significant qualitative aspects of the accounting practices of Bungay High School, including accounting policies, accounting estimates and financial statement disclosures, as well as any difficulties encountered during the audit, the written representations we are requesting and any other matters which we believe are significant to your oversight of the financial reporting process.

We are also required to communicate to you if relevant matters arise during the audit in connection with the entity's related parties, matters involving non-compliance with laws and regulations that come to our attention and if we have identified or suspect fraud involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement in the financial statements.

All matters arising from our audit which we wish to bring to your attention are set out in the following sections of this report.

### Audit procedures

Our audit procedures, which are designed primarily to enable us to form an opinion on your financial statements, were carried out in accordance with International Standards on Auditing (UK and Ireland) (“ISAs”). Our work continues to combine substantive procedures involving direct verification of balances and transactions, including obtaining confirmations from third parties where we considered this to be necessary, with a review of certain of your financial systems and controls. We also considered as a part of our audit the overall neutrality, consistency and clarity of the disclosures in your financial statements.

We summarised in our audit planning letter the range of risks from our understanding of Bungay High School, its people and environment, and the system of internal control which we have taken into account in planning our audit work so as to reduce the risk of material misstatement to an

acceptable level. We also noted certain risks which we assessed as requiring special audit attention (“significant risks” or “specific risks”) as well as other transactions and balances which we identified for our audit focus.

Based on the audit work we have carried out we have not identified any changes to our initial assessment of risk. We have been able to carry out the audit tests on the specific areas of risk as set out in our audit planning letter and, where appropriate, have commented further on these in this report.

We have been able to undertake our work as set out in our engagement letter dated 21 November 2012 and our audit planning letter dated 28 August 2013 addressed to the Governors. No restrictions were placed on our audit.

### Audit materiality

As we explained in our audit planning letter, we do not seek to certify that the financial statements are 100% correct; rather we use the concept of “materiality” to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment.

The assessment of materiality is a matter of professional judgment but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements. Whether adjustments are material to the “true and fair” view can only be judged in the particular circumstances of the items and their impact on the financial statements to which they relate.

Materiality has been considered having regard to the overall financial statement totals, the relevant individual balance, the type of transaction and the disclosures.

### Legal and regulatory requirements

In undertaking our audit work we considered compliance with the following legal and regulatory requirements, where relevant.

Companies Act 2006

Charities Act 2011

The Charities (Accounts and Reports) Regulations 2008

Academies Accounts Direction 2013

Academies Financial Handbook

Statement of Recommended Practice, Accounting and Reporting by Charities (issued in 2005)

Applicable accounting standards

### Governors' responsibilities

Under the provisions of the Companies Act, the Governors' Report is required to include a statement confirming for each director who was a director at the time of the approval of the financial statements that:

they have each taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information; and

so far as they are aware there is no relevant audit information of which the company's auditors are unaware.

These statements have been included as required and are also referred to in our representation letter.

### Journal entries

The processing of journal entries and other adjustments may involve both manual and automated procedures and controls. The manipulation of journal entries can be used to mask fraud.

During the audit we updated our knowledge on the processes for journals and the control over journals entries with regard to fraud and or error. We ensured that we understood the authorisation process and sampled a

selection of journals at the year-end to ensure that this process had been followed.

No issues came to our attention during the audit.

### Going Concern

As noted last year, in the present financial climate, ever greater emphasis is being placed on ensuring the validity of the going concern assumption in the preparation of period end accounts. It is therefore very important that the current period's going concern assessment is even more substantial than that for recent periods.

### Corporate governance and fraud

As auditors, we are required to document an understanding of how "those charged with governance" exercise oversight of management's processes for identifying and responding to the risks of fraud Bungay High School and the internal controls that management has established to mitigate these risks.

We have not been made aware of any significant matters which would affect our assessment of audit risk during our audit work although this will need to be confirmed by the Governors up to the date of approval of the financial statements.

### Independence and ethics

We are required by the Ethical Standards issued by the Auditing Practices Board to inform you of any matters that bear upon our objectivity and independence.

Crowe Clark Whitehill LLP has procedures in place to ensure that its partners and professional staff comply with both the APB's Ethical Standards and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As we previously reported in our audit planning letter, we are not aware of any relationships between Crowe Clark Whitehill LLP and Bungay High School that would threaten the firm's audit independence or the objectivity of the audit partner and audit staff. In our professional judgement Crowe Clark Whitehill LLP is independent within the meaning of APB Ethical Standards and we

have not identified any further issues with regard to our integrity, objectivity or independence since the date of our audit planning letter.

**Audit completion**

We have substantially completed the audit subject to the satisfactory completion of the following matters.

Completion of the post-Balance Sheet events review.

Receipt of the signed letter of representation.

On satisfactory completion of these outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements of Bungay High School. These items would normally be completed just prior to us signing our report.

## 2. Response to risks identified at the planning stage

Income other than GAG income is understated in the financial statements – under International Standards on Auditing we must presume this is a significant risk.

The accounting for the pension scheme deficit.

North Suffolk Skills Academy (NSSA) – As part of our audit work we will review the accounting treatment for NSSA to ensure it is in line with relevant Financial Reporting Standards.

Management override of controls - under International Standards on Auditing we must presume this is a significant risk.

Our testing in these areas included the following:

Agreement of General Annual Grant through to EFA funding letter and receipts into the nominal and the bank.

Agreement of other grant income to documentation to ensure correctly recorded and that any restrictions are adhered to.

Review of the pension scheme valuation and entries into the accounting system.

Agreement of income and expenditure in the NSSA to supporting documentation to ensure recorded correctly.

We are pleased to report that no significant issues have arisen as a result of our work on the above areas. Any areas for improvement which we have identified are commented on in the subsequent sections to this report.

## Regularity Reporting

### What is Regularity

As in the previous year this requires a separate report from us as auditors and also requires the Accounting Officer (the Headteacher) to sign a statement that confirms formally that their responsibilities for ensuring the regular and proper use of the Academy's funds have been met.

Regularity derives from a concern that public money is used only for purposes approved by Parliament, and can be defined as the requirement that a financial transaction is in accordance with indications of Parliament's intention such as funding agreements, specific statutory requirements, and direction issued by government bodies.

Propriety is a related concept, concerned more with standards of conduct, behaviour and corporate governance. It includes matters such as fairness, integrity, the avoidance of personal profit from public business, even-handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance.

Obligations in respect of regularity and propriety typically cascade through layers of public sector. Academies are classified as public sector bodies, and considered part of central government. Funds are voted by Parliament for schools; the academies portion of this is passed to the EFA; and the EFA allocates this to individual academies. The standards of regularity and propriety required by the academy trust funding agreement and Academies Financial Handbook (September 2006) sit alongside other relevant authorities including charity law (as academies are also exempt charities) and company law (as academies are companies limited by guarantee incorporated under the Companies Act 2006).

Public funds, for central government bodies such as academy trusts, include both grant funding and monies raised by other means which become public money once received and applied by the academy trust – it is not just GAG income that this applies to.

### Scope of our work and our findings

The types of procedure applied to obtain sufficient appropriate evidence to support the conclusion on the regularity of transactions in the financial statements of an entity are the same as those applied to provide assurance over any other financial statement assertion. However the level of work required to support a limited assurance conclusion may be less than that required to support a reasonable assurance conclusion.

The analysis needed to inform the regularity opinion goes beyond that required to support statutory audit work, but may involve normal sources of audit evidence as the evidence base is the same. In many areas, dual testing of the same sample could provide evidence to support both engagements.

An integrated approach is likely to bring efficiencies and enable a rounded picture of the school's activities and this is the approach we have taken.

We are pleased to report that no significant issues have come to our attention during the course of the audit.

### 3. Key audit and accounting matters

Our work has been carried out in accordance with the audit plan presented to you. Our audit processes include reviewing the accounting practices of Bungay High School and the disclosures made in the statutory financial statements and the annual report of the Governors. Unadjusted audit differences have been noted in Appendix 2 to this report.

#### Issues and implications

##### 3.1 Donated assets from the LA

During our audit of fixed assets we noted that donated assets of £32,800 of Furniture & Equipment and £25,375 of Computer Equipment and Software were incorrectly accounted for in the additions rather than transfers from the LA.

We discussed the disclosures with management noting that the correct treatment would be to include the assets donated in the 'Transferred from the LA' column of the Tangible Fixed Assets note and as income in the Statement of financial activity.

We are pleased to note that this has been adjusted for in the financial statements and due to its one off nature there should be no future implications stemming from this.

##### 3.2 Component accounting

As detailed in our Audit Findings report for 2012 and as part of our audit for the year ended 31 August 2013, we have again reviewed the new buildings, previously the Middle School that have been refurbished and came into use in September 2012. Financial Reporting Standard 15, "tangible fixed assets" states: where tangible fixed assets comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual economic life.

It goes on to state that;

*"Some tangible fixed assets require, in addition to routine repairs and maintenance substantial expenditure every few years for major refits or refurbishment or the replacement or restoration of major components..., for depreciation purposes an entity accounts separately for major components... that have substantially different useful economic life, so that the depreciation profile of the whole asset more accurately reflects the actual consumption of the asset's economic benefits. Subsequent expenditure incurred in replacing or renewing the component is accounted for as an addition to the tangible fixed*

#### Management's comments

This has been altered from draft accounts on auditors advice.

We have taken auditor's advice on this for the year ending August 2013 and will show any future depreciation as a separate asset class next year.

### Issues and implications

*asset and the carrying amount of the replaced component is removed from the balance sheet...”.*

We have again discussed this with management and understand that any assets transferred with the old Middle School had a nil net book value and as such have no impact on the financial statements. However we continue to have recommended, that for further capital expenditure on the buildings, now the 6<sup>th</sup> Form Centre, and any future buildings projects, a review be undertaken at the outset to identify the components, so they can be held under a separate asset class and depreciated over a period that better represents their useful economic lives. The component parts could include roofs, boilers, kitchens, teaching equipment and sports facilities. Such an exercise classes the different components more accurately in a fixed asset register will aid the budgeting process and the fixed assets replacement process.

### 3.3 North Suffolk Skills Academy

The North Suffolk Skills Academy Limited (NSSA) was established in July 2013. It is a 100% owned subsidiary company of Bungay High School. As detailed in the Articles of Association, as a 100% owned subsidiary company, it is deemed to be a charitable company under the Master Funding Agreement between Bungay High School and the Department for Education.

NSSA will draw up its first set of financial statements for the period to 31 August 2014, this is because under Companies Act 2006, companies are able to have a period of account not shorter than 6 months and not longer than 18 months after incorporation. As a result, and because the transactions in the NSSA for its first month of trading are immaterial, consolidated accounts have not been produced. The first set of consolidated statements will therefore be to 31 August 2014.

We have been in discussion with management over the course of the year, and during the audit process in relation to the setup of NSSA and the control of its finance function. Whilst we appreciate that the company is being managed by its two Directors and is a separate entity to Bungay High School, we have recommended that financial control be overseen by the Bungay High School finance team.

Financial control should include ;

- NSSA should use the same accounting system under a separate company
- NSSA should be subject to the same financial systems and controls as Bungay High School
- Bungay High School finance team should carry out bank reconciliations and other key monthly

### Management's comments

Auditors guidance will be shared with Directors of the NSSA and the financial controls and policies will be practiced over the accounting period to 31 August 2014 in the same way as Bungay High School handles its main accounts. Bungay High School Finance Team have set up a separate management information system to account for NSSA, and process income and expenditure. We will report to NSSA Directors monthly using the same format as the main school accounts. Accounts will be consolidated at the end of the next period.

Bungay High School Finance Team will advise Directors of the NSSA regarding procurement, and review the current system to ensure it is in line with Charities SOPR and EFA guidance.

Bungay High School Finance Committee and Governors will review Outturn statements and Budgets for the NSSA at least termly.

### Issues and implications

reconciliations

- NSSC tendering and contracts with businesses operating in the Centre should be reviewed by Bungay High School finance team and Governors where appropriate.
- A mechanism for assurance should be sought by the Accounting officer of Bungay High School to ensure that the control environment is operating as expected and in line with Bungay High School.
- NSSC budgets should be subject to review by Bungay High School Governors.

As a separate legal entity, NSSC will be subject to audit for the period to 31 August 2014. You will therefore need to appoint auditors to the company. If appointed, we would, as part of the planning process identify the key audit risks and report those to you and our work to manage those risks. We would then report back to you our findings in our Audit Findings report for 2014.

We will of course continue to work with you to ensure that the NSSC is properly accounted for and that the control environment is in line with best practice particularly during its first period of operation.

### Management's comments

## 4. Systems and controls issues

We have set out below certain potential improvements to the charity's processes and controls which we noted during our audit work and which we believe merit being reported to you.

Our evaluation of the systems of control was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

### Issues and implications

#### 4.1 Controls around the suppliers ledger

Often suppliers the Academy uses will become active and inactive over a number of years. Payments may only be required once a year for some suppliers, so never truly inactive. However, having reviewed the purchase ledger as part of our audit work, we would note that there are a number of old-inactive suppliers on the purchase ledger.

The risk to the Academy is that these suppliers can be changed to be active once more, by any person with access to accounting system, although the system does evidence who has made the change. There is a risk here that an old supplier account could be fraudulently reactivated and payment made to that account.

To manage this risk effectively, we recommend that the purchase ledger is reviewed periodically for inactive suppliers, which are then physically removed from the system. This would ensure that the opportunity for potential frauds to be committed is reduced.

To conclude, we note that the Academy does demonstrate good control over the change of supplier bank details. This is a particular area of concern given the number of attempted frauds over the past 12 months in Academies and something we would stress again for staff to remain vigilant over.

### Management's comments

We currently change the system to show old suppliers as "not in use" but will change the system to deleting these on termly review with immediate effect.

## 5. Reporting audit adjustments

International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires that we report to you all misstatements which we identified as a result of the audit process and which were not adjusted, unless those matters are clearly trivial in size or nature.

Our audit approach is based on consideration of audit materiality as explained in section 1 of this report. We determine materiality for the purposes of the Academy's statutory reporting by our judgement as to what adjustments would influence the readers' perceptions of the financial statements. We do not therefore seek to review all immaterial amounts.

For the purpose of reporting non-trivial items identified as a result of our audit work which have not been adjusted in the financial statements we set out in our audit plan that we would report unadjusted misstatements greater than £5,000 unless they are qualitatively material at a lower amount.

We are pleased to report that there are no adjusted and unadjusted differences found during our audit that we need to report to you.

## 6. Matters from last year

We have set out below the issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2012 financial statements.

Although several of the points raised last year have not been actioned, we appreciate that there has been a change of finance team in the year and that instigating new systems under such circumstances may be difficult. We therefore recommend a thorough review of the points below and that consideration is given to systems during the current financial year.

Recommendation fully implemented or no longer relevant	
Recommendation partially implemented	
No progress on recommendation	

Observations in 2012		Update 2013
<p><b>6.4 Non charitable trading</b></p> <p>During our audit of the income streams of Bungay High School, we noted that the academy undertakes a number of income generating activities, including the letting of the sports facilities. Whilst the income generated during the period to 31 August 2012 totalled £16,065, we understand from management that further lettings and income generating activities are planned now the Academy has the advantage of additional buildings. It is our experience of working with the not for profit sector that whilst there are considerable opportunities to raise funds for Bungay High School through its assets, those entities that enter into such income generating activities do run the risk of undertaking non primary purpose trading which could, in turn, lead to a corporation taxation liability to the Foundation.</p> <p>HMRC currently sets a de minimus of £50,000 for charity non-primary purpose trading income in any one year before the charity becomes liable to corporation tax. Non primary trading could include, for example, the letting of charitable assets to a commercial business or the letting of sports facilities to private clubs. We have discussed the taxation risks associated with non-primary purpose trading with management and whilst we understand that the income is not likely to exceed £50,000 within the next year we have recommended that that management keep under review the income generating activities undertaken by the Academy to ensure that a trading subsidiary can be established in good time.</p>		<p>We still recommend that that management keep under review the income generating activities undertaken by the Academy.</p> <p>See 3.3 for further comment on the NSSC.</p>

Observations in 2012		Update 2013
<p>Further we have had a brief, high level, discussion with the Principle, Finance Director and a Governor re the potential partnership with Lowestoft College to establish a “Skills Academy”. It is intended, we understand, to set the Skills Academy up as a 100% owned subsidiary company of Bungay High School. We have highlighted some initial thoughts and have recommended that a round table discussion be set up to evaluate the impact, risks and opportunities to Bungay should the Skills Academy go ahead. One of the key areas of risk is VAT and the impact on the project and Bungay. We have offered to be part of the round table discussions and would propose that in addition to the audit partner and our VAT expert be present. We look forward to being invited to the discussion.</p>		
<p><b>6.5 Bank accounts held off balance sheet</b></p> <p>We have become aware of a number of frauds in the not for profit sector in relation to off balance sheet bank accounts. We have therefore included in our audit work for this period, discussion around bank accounts that are held outside of the finance department.</p> <p>We have discussed the above with management and understand that there are no known bank accounts in operation that are not under the control of finance and are not included within the financial statements of Bungay. We have asked management to undertake an investigation into what bank accounts are in use, but not under their control. We recommend that, if any are identified and at the very least, finance undertakes a spot check and reconciliations on any identified bank account. These checks will minimise the risk of misappropriation of cash and where there are any issues these can be identified. If possible we would recommend that the bank account be closed.</p> <p>Whilst this does manage the risk of fraud against known off balance sheet bank accounts the risk remains that there are bank accounts operating in the Academy's name that are unknown. We therefore recommended that management keeps the use of bank accounts under close review and that staff handbooks etc. make it quite clear that no bank accounts should be opened/used which operate outside of Finance's control.</p>		<p>We are pleased to note that you have a robust controls system and relating finance policy in place to illuminate where possible risk of fraud due to off balance sheet accounts.</p>

Observations in 2012		Update 2013
<p><b>6.6 Cash</b></p> <p>During our audit of systems and controls we reviewed the areas where the academy receives “cash”. This is in the light of the increasing number of minor cash frauds we are aware of in schools. Areas we reviewed included the canteen which takes around £1,200 a day in cash, petty cash and trip income. We are pleased to note that whilst we did not note any issues during our audit work, we did note that the canteen cash is counted by canteen staff and then passed to finance for banking. We would therefore recommend that to enhance the control and to manage the risk to the Academy and to the staff an additional control be added that requires a member of the finance team to do a spot check of the canteen cash taking. This spot check should be on a “surprise” basis. Further, whilst cash income at Bungay is financially immaterial, it is in the £000's, cash is always a fraud risk.</p> <p>We therefore recommended that management undertake a review of the above to consider whether the fraud risks are suitably mitigated and also keep under close review all cash levels and transactions to consider whether non-cash options for payment may be applicable.</p>		<p>We are pleased to note that the cyclical spot checks on cash catering income are performed.</p>
<p><b>6.7 New suppliers</b></p> <p>We have become aware that there have been many recent instances of fraud in respect of changes in supplier bank account details within the education sector. This has related to correspondence (by letter or e-mail) supposedly received from a supplier, and therefore appearing to be authentic, requesting that all future payments are made to a different bank account. The bank account, in these cases, then turned out to not be for the supplier, and, in some cases, to be a senior staff member, disgruntled ex-staff member at the supplier and even enterprising members of the public!</p> <p>As this has happened on a number of occasions, and as the sums involved were in some cases substantial, we discussed with the Finance team the procedures that the Academy has in place in respect of changes in supplier bank account details. Whilst we are pleased to note that checks are made when a new supplier is added to the purchase ledger, but when changes are requested by the supplier, we recommended that the documented procedure should include that the changes are checked by contacting the supplier using contact details previously provided on original letterhead etc.</p>		<p>This is an on-going recommendation to check change of supplier details with the suppliers using their original contact details. See 4.1</p> <p>We are pleased to note a system to this effect is in place.</p>

Observations in 2012		Update 2013
<p><b>6.8 Journals</b></p> <p>During our audit of journals we noted that a significant number of journals are posted through the accounting system. Journals are filed but are not evidenced as authorised.</p> <p>In our experience, if journals are not well controlled with adequate systems and procedures in place the academy will increase the risk that any financial fraud may be covered up by way of a journal.</p> <p>We would recommend that a procedure be introduced that requires all journals to be evidenced as authorised and that they continue to be printed off and filed.</p>		<p>We are pleased to note that now all journals are physically authorised by a different member of staff who has not posted them.</p>

## 7. Fraud and error

In our audit planning letter, we explained that the responsibility for safeguarding the assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the Governors of Bungay High School.

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including any material misstatements resulting from fraud, error or non-compliance with law or regulations).

However, no internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

As part of our audit procedures we made enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory accounts usually provides little financial benefit, as compared to say a plc where showing a higher profit could lead to artificial share prices or unearned bonuses. However falsifying accounts can be used to permit a fraud or to avoid detection. As a generality charities represented by its management and its trustees do not actively try to falsify accounts as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

We have reviewed and discussed the accounting and internal controls systems management has put in place to address these risks and to prevent and detect error. However, we emphasise that the Governors and management should ensure that these matters are considered and reviewed on a regular basis.

We have included the following statements in the letter of representation which we require from the Governors when the financial statements are approved.

The Governors acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.

The Governors have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.

The Governors are not aware of any fraud or suspected fraud affecting the charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.

The Governors are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the charity's financial statements.

We draw your attention to bullet point 3 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2013 financial statements, or the period since the 2013 year end.

We emphasise that this section is provided to explain our approach to fraud and error, but the responsibility to make and consider your own assessment rests with yourselves.

### Management override of controls

In addition to the procedures above, we are required to design and perform audit procedures to respond to the risk of management's override of controls.

No instances of management override have come to our attention as a result of this work. However, we continue to recommend that, as journals can be processed without review, that checks on these should be conducted on a regular basis.

The following provides further information on the three kinds of fraud that charities such as yourself should consider.

#### **Frauds of diversion**

This is where income or other assets due to Bungay High School are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very difficult to establish that it is all there. Therefore ensuring the completeness of income provided to a charity becomes difficult.

#### **Frauds of extraction**

This is where funds or assets in possession of Bungay High School are misappropriated. Such frauds can involve own staff, intermediaries or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area.

#### **Backhanders and inducements**

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures. We understand that major

spend decisions are not taken by one person and therefore this risk is reduced. Internal audit considers this as part of its review process.

## Appendix 1 - External developments

We have summarised below the changes in the charity sector over the recent period and other developments which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.

We issue a regular technical briefing for charities by email. If you would like to receive this please email your details to [nonprofits@crowecw.co.uk](mailto:nonprofits@crowecw.co.uk). Alternatively, these briefings are available on [our website](#).

### The latest release of the academies financial handbook

The Academies Financial Handbook 2013 released on the 1 July will be effective from 1 September 2013.

A summary of the most pertinent points have been listed below.

#### Controls surrounding finance

- The following controls have been clarified and relaxed:
  - Limits for trusts to dispose of fixed assets.
  - Limits for trusts to take up and grant leases. In particular the limit for 3 year operating leases has been removed.
- There has been clarification for trusts to self-approve staff severance and compensation payments provided the non-statutory element is less than £50,000.
- Information surrounding possible reasons and consequences of issuing a Financial Notice to Improve (FNtI).
- Reinforcement of trust responsibilities surrounding trustee, governor, employee and related party remuneration.
- EFA contact information has been provided for the approval of financial transactions that fall outside of the trust's authority.
- The trusts duties surrounding services provided by sponsors have been clarified to ensure they represent value for money and are properly procured with no element of profit.
- There has been focus on the trust's duties to the tax arrangements of senior employees to ensure that they fully comply with HMRC

requirements in line with the requirements in place for Public Sector Appointees.

#### Audit and Governance

- A 'responsible officer' is not a mandatory requirement but is an option within a list of recommended practices for the trust's review of financial controls.
- Subject to the size (previously focus was on the type) of the trust, the audit committee's remit can form part of the finance committee's remit.
- Definitions have been provided for 'regularity', 'propriety' and 'value for money' surrounding the accounting officers role.
- The delivery of detailed accounting processes will be delegated to the Principle Finance Officer (Finance Director, Business Manager or equivalent) whilst the accounting officer is accountable for the trust's financial affairs.

Whilst the above points address the more significant issues in the latest edition of the academies handbook, we recommend that academy trustees, Accounting Officers and Principal Finance Officers read the handbook in full to ensure they are fully aware of the changes.

#### Changes to GAG Limits

The 2013 Academies Accounts Direction has now removed the requirement for academies to include a detailed GAG note showing any breaches where the funding agreement has the restriction of a carry forward limit. For those

funding agreements that still contain a limit then the note required in 2012 will continue to apply but disclosure will be reduced to reporting whether there has or hasn't been a breach in the year.

Due to these changes we suggest academies review their funding agreements under the section 'Financial and Accounting Requirements'. If your funding agreement contains the following paragraph and you wanted to remove these limits for the 2013 year end then an application to the Secretary of State should have been made prior to 31 August 2013.

"At the beginning of any Academy Financial Year the Academy Trust may hold unspent GAG from previous Academy Financial Years amounting to 12% of the total GAG payable for the Academy in the Academy Financial Year just ended or such higher amount as may from time to time be arranged. This carried forward amount may be used as follows:

- a) equivalent to 2% of the total GAG payable in the Academy Financial Year just ended may be used by the Academy Trust for any of the purposes for which GAG is paid;
- b) equivalent to 12% of the total GAG payable in the Academy Financial Year just ended, or such higher figure as may from time to time be agreed, minus any amount used under sub-clause (a) above, may be used on the upkeep and improvement of premises, including the costs of equipment and routine repairs and maintenance of the Academy, and on capital expenditure relating to the Academy."

The GAG wording in new funding agreements reads as follows:

"At the beginning of any Academy Financial Year the Academy Trust may hold unspent GAG from previous Academy Financial Years amounting to such percentage (if any) as the Secretary of State may specify by notice in writing to the Company prior to the beginning of that Academy Financial Year of the total GAG payable for the Academy in the Academy Financial Year just ended or such higher amount as may from time to time be agreed. The Company shall use such carried forward amount for such purpose, or subject to restriction on its use, as the Secretary of State may specify by notice in writing to the Company."

The downside to this is that your funding going forward will be calculated on a lagged basis rather than on the estimate of pupil numbers. For older academies whose funding agreements allow a generous tolerance limit from

this estimate then the loss of funding may be substantial. This may also be an issue for Academies that are aiming for future growth in that there will be a lag on receiving the funding for those additional pupils that may put a strain on the existing reserves.

### Value for money statement

The EFA have released guidance for Accounting Officers in completing a Value for Money statement for Academy Trusts in respect of the period ended 31 August each year.

The purpose of the statement is to provide accounting officers with an opportunity to demonstrate to parents and the public that the academy trust's use of public assets and funds has provided good value for money during the year and to identify opportunities for potential improvement. Accounting officers are personally responsible and publicly accountable for achieving the best possible value for money in their organisation.

The Value for Money Statement must be submitted as a signed and scanned pdf file to the EFA at [academiesfinancialmonitoring.EFAeducation.gsi.gov.uk](http://academiesfinancialmonitoring.EFAeducation.gsi.gov.uk) by 31 December. It must also be published on the academy trust's website within one month of submission to the EFA. The statement does not need to be audited.

It is recommended that the report should include examples of the trust's achievements in obtaining value for money and recommendations for improvement.

### EFA's guidance on fraud

Academies are increasingly becoming an important target for fraudsters and as a result the EFA have written a letter to accounting officers dated 17 June 2013 about the important matter of standards of governance and accountability in academies. The letter also set out the EFA's role in relation to allegations of actual or potential fraud, theft or irregularity.

The EFA are suggesting that academies may wish to complete a self-assessment of their financial controls using the questions posed in the letter sent. The EFA website also contains a reference document which is a collation of generic indicators of potential fraud. This list may be useful when completing the aforementioned self-assessment.

Noted below is a brief description of two known fraudulent practices, hopefully notifying you of these will give you the opportunity to review and possibly adapt your systems and controls to aid the prevention of this issues.

#### Known fraudulent practices

- ‘Suppliers’ have been writing to academies stating that their bank details have changed. They have been able to produce replica letterheads and are therefore able to present a ‘genuine’ letter when in reality it is a fraudulent request.

We recommend that academies contact the supplier using previously obtained supplier details and review current systems/users involved within changing standing data.

- Direct Debits have suddenly appeared on academy’s bank statements which the finance officer is unaware of. This has occurred with a fraudster creating a Direct Debit mandate for a charitable entity and forging the authorisation signature of the finance officer(s).

We would expect that monthly bank reconciliations should pick up any unauthorised Direct Debits but recommend that you review your procedures for setting up Direct Debit mandates and discuss these controls with your bankers.

The EFA are publishing a range of information over the coming months to support accounting officers in managing their finances in a transparent and effective way, and to reduce the risk of fraud or financial irregularities.

#### The future of financial reporting

As we commented last year, the Financial Reporting Council (FRC) had announced proposals to replace all extant Financial Reporting Standards (FRSs), Statements of Standard Accounting Practice and Urgent Issues Task Force Abstracts in the UK and Republic of Ireland with a single FRS.

The main new standard - FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - was issued in March 2013 and is the key Financial Reporting Standard which will replace all UK accounting standards for accounting periods commencing on or after 1 January 2015.

The FRC also proposed that most SORPs, including the SORP “Accounting and Reporting by Charities”, should be updated to bring them in line with the

new Financial Reporting Standard and an exposure draft of the proposed amended charity SORP was published for comment on 8 July 2013. The closing date for the consultation on this is 4 November 2013.

The SORP exposure draft follows a new modular format. It is hoped that this new style will make the recommendations easier for charities to navigate and identify the parts of the new SORP which are applicable to them.

The expansive draft includes a number of changes in accounting treatments and disclosures which will impact on areas such as income recognition, accounting for pensions in multi-employer defined benefit schemes and the valuation of donated goods and services. In particular, FRS102 sets the basis for the recognition of assets and liabilities and related income and expenditure to take account of the probability that future economic benefit associated with the item will flow to or from the entity. This may have implications for the accounting for any fundraising, legacy or similar income in Colleges as the current SORP requires certainty for recognition.

There are also a number of proposed presentational changes. The SORP Committee are looking to encourage better use of the Annual Report as a document for explaining the activities, achievements and learning of the charity and greater prominence is therefore given to these areas.

The draft also simplifies the presentation in the SoFA, with four incoming resource headings (donations, earned income split between income earned from charitable activities and other activities, and investment and other income) replacing the previous six headings. A similar simplification of expenditure headings is also proposed with three headings (fundraising costs, expenditure on charitable activities and other expenditure) replacing the seven headings of the current SoFA.

There will also no longer be a requirement to disclose governance costs on the face of the SoFA. The costs will instead be disclosed in the notes as a component of support costs.

The effective date for the implementation of the new reporting requirements is for accounting periods starting on or after 1 January 2015, so the changes will generally be effective for most Colleges in preparing their financial statements in 2016 (although consideration will need to be given to the restatement of the previous year’s comparative figures).

More details on the proposed charity SORP can be seen on a separate Charity Commission SORP consultation website: <http://www.charitySORP.org/>

#### **Flat-rate state pensions from April 2016**

The Chancellor has confirmed the Government's proposals that the flat-rate state pension will start in April 2016 - a year earlier than previously planned. This will impact on employers and employees who currently contribute to pension schemes, including the Teachers' Pension Scheme, which are accepted for the purposes of contracting-out of the State Earnings Related Pension Scheme and the State Second Pension.

Employers will no longer receive the current contracted-out NI rebate for salary-related pension schemes and will therefore have to pay 3.4 per cent extra in NI contributions. Employees will be required to pay an extra 1.4 per cent in NI contributions.

Clearly it will be important that schools recognise these future NI changes in their budgeting and school fee considerations for future years.



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