Crowe Clark Whitehill™

Not for Profit

Bungay High School

Year ended 31 August 2014

Audit Findings Report

Audit | Tax | Advisory

Carrick House
Lypiatt Road
Cheltenham
Gloucestershire
GL50 2QJ

The Governors

C/o Lynn Eldrett
Bungay High School

Queens Road

Bungay

Suffolk NR35 1RW

Dear Sirs

Audit for the year ended 31 August 2014

Following the completion of our audit fieldwork on the financial statements of Bungay High School and its subsidiary North Suffolk Skills Academy (NSSA) for the year ended 31 August 2014 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audits 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 the Bungay High School management during our audit of the financial statements and we have incorporated their comments and/or proposed actions where relevant.

Matters from our audit

We have set out in Sections 2 and 3 of this report comments on the matters arising from our audit work which we wish to bring to your attention. These comments highlight specific judgements / estimates that have been made in the preparation of the draft statutory financial statements as well as certain other important matters arising from the 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 audits. 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 at Bungay High School 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 your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

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Acknowledgements

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

Use of this report

This report has been provided to the Governors of Bungay High School, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Crowe Clark Whitehill LLP

Contents

1. Introduction and audit approach

Introduction

We have pleasure in setting out in this document our report to the Governors of Bungay High School for the year ended 31 August 2014.

We have substantially completed the audit in accordance with our Audit Planning Letter which was sent to you and the senior management team on 29 July 2014, subject to the matters set out below.

- Completion of the post-Balance Sheet events review.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of the outstanding matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

The above items we have identified as outstanding are with regard to work we usually carry out just prior to us signing our audit report.

Audit approach

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). Our work combines 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.

No restrictions were placed on our audit, and we have been able to undertake our work as set out in our Audit Planning Letter.

Our evaluation of the systems of control at Bungay High School was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of systems and 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.

Materiality and identified misstatements

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 judgement 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.

Ethical Standards

In our professional judgement we are independent within the meaning of APB Ethical Standards and the objectivity of the audit engagement partner and audit staff is not impaired.

We are not aware of any inconsistencies between APB Ethical Standards and the company’s policy for the supply of non-audit services or of any apparent breach of that policy.

We consider that there are no developments in relation to these standards which should be brought to your attention other than those raised elsewhere in this report or our audit plan.

Non-audit services

We are required to bring to your attention professional fees for non-audit services earned by Crowe Clark Whitehill LLP in the year ended 31 August 2014 and an analysis of these is therefore given below.

- Corporation Tax Return £2,400
- Teachers Pension Scheme Audit £750
- Accounts Return £1,200

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 to 2014
- Academies Financial Handbook 2013
- 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 Governor who was a Governor 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 Governor in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information; and
- so far as they are aware there is no relevant audit information of which the company's auditor is unaware.

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

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

2. Key areas of audit focus

Our work has been carried out in accordance with the audit plan presented to you and has taken account of our assessment of the risks of misstatement of transactions and balances in the financial statements.

We initially identified from our understanding of Bungay High School a range of risks and planned our audit work so as to reduce the risk of material misstatement in the financial statements to an acceptable level. We also considered whether there were any significant audit risks (risks assessed as requiring special audit attention), including any areas of significant judgements or estimates, and concluded that, other than the potential risk from management override of controls (which auditing standards deem to be a significant risk for all audits) there was also a significant risk in relation to the completeness of grant and other income recorded in the financial statements.

We also identified a specific risk associated with the regularity and propriety of the Academy's expenditure which may not have been spent in accordance with the purposes intended by Parliament and the regulations contained within the Academies Financial Handbook.

We have commented below on the results of our audit work on the Academy's key risks, activities and transactions during the year.

2.1 Income other than GAG income is understated in the financial statements

As per our planning letter we highlighted the above as a significant area of focus for our audit testing. During the audit we considered the risks associated with income and focused on three aspects:

- Completeness (is it all there?);
- Recognition (is the correct amount recognised in the period under consideration?); and
- Fund accounting (are there restrictions on use and are these correctly recorded?)

Our primary audit approach in these areas was to review the agreements in place and ultimately ensure that the income was complete and accurately reflected in the financial statements. We reviewed the terms and conditions included in these agreements and noted whether these were being adhered to.

2.2 Management override of controls

As part of our audit work we reviewed the following areas:

- Review of journals; and
- Use of significant estimates

International Standard on Auditing (ISA) 240 on fraud refers to management override of controls as the ability of management and/or those charged with governance to manipulate accounting records and prepare fraudulent financial statements by overriding these controls, even where the controls might otherwise appear to be operating effectively. No instances of management override of controls have come to our attention as a result of this work.

3. Regularity and Propriety Reporting

What is Regularity?

This requires a separate report from us as auditor but also requires the Accounting Officer (the Principal) 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. Indeed this year the EFA is paying particular interest in whether the Accounting Officer can actually make this statement and whether sufficient evidence has been maintained in order to demonstrate that the Accounting Officer has undertaken sufficient review and challenge of the Academies financial affairs.

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 2013 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's not just your 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 Academy's activities and this is the approach we have taken.

Conclusion

As a result of our detailed testing and substantive analytical procedures we have not become aware of any issues regarding Regularity.

4. Other accounting and audit matters

In addition to the matters relating to the key areas of audit focus as reported in Section 2 above, our audit processes include reviewing the overall accounting practices of Bungay High School and the disclosures made in the statutory financial statements and the annual report of the Governors. Details of matters from this review and from our other audit work and related discussions with the Academy's management have been recorded below.

4.1 Buildings used by North Suffolk Skills Academy (NSSA)

During our review of fixed assets we noted that the NSSA building had been accounted for as a freehold hold building. The amount brought into the financial statements was £1,712,812. This was treated as a "capital grant".

Academy buildings are ordinarily accounted for as fixed assets as they are on 125 year leases, this is because, under Statement of Standard Accounting Practice 21, accounting for leases, the majority of the risks and rewards are with the lessee. However on closer inspection of the lease agreement, it became clear that the lease was for 20 years with a 10 year break clause – this suggested the arrangement was more akin to an operating lease as per SSAP 21

"A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all (normally 90 per cent or more) of the fair value of the leased asset. The present value should be calculated by using the interest rate implicit in the lease. If the fair value of the asset is not determinable, an estimate of it should be made.

An operating lease is a lease other than a finance lease."

We have discussed the impact of SSAP 21 on the draft financial statements with management and the following adjustments have been made;

- Reduce income by £1,712,812 and increase deferred income (aged over the agreement). This had the effect of still recognising the fixed asset in the financial statements but not the income.
- Then each year going forward, the depreciation on this leased asset shall be charged to the statement of financial activities and a reduction in the net book value to the same amount in the balance sheet.
- An equal journal will also reduce the deferred income in the balance sheet equal to the depreciation charge and increase grant income.

This means the effect on the income and expenditure account will be £nil (which represents the peppercorn rent). This will also show that the Local Authority has given use of the building for 20 years at a £nil charge i.e. grant.

The only charge to hit income and expenditure will be repairs and maintenance. This also prevents a large hit to income and expenditure if the lease is surrendered in 10 years at the break clause.

4.2 Consolidated financial statements

This is the first year that consolidated financial statements were prepared following North Suffolk Skills Academy becoming a subsidiary of Bungay High School. We therefore looked at the process behind compiling the financial statements and the treatment of intercompany balances.

We are pleased to report that the consolidation was carried out correctly with intercompany transactions and balances being fully eliminated on consolidation.

5. Systems and controls issues

We have set out below certain potential improvements to the Academy's processes and controls which we noted during our audit work and which we believe merit being reported to you together with an update on the matters we raised last year.

Our evaluation of the systems of control at Bungay High School 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.

In order to provide the Committee with a clearer picture of the significance of issues raised, we have graded the issues raised by significance before any corrective actions are taken:

High	1	These findings are significant and require urgent action.
Medium	2	These findings are of a less urgent nature, but still require reasonably prompt action.
Low	3	These findings merit attention within an agreed timescale.

Audit finding and recommendation	Priority	Management response
5.1 VAT Registration The North Suffolk Skills Academy (NSSA) has no employees. Work is performed by staff of the Bungay High School (BHS) who have been seconded to NSSA and the costs are recharged across. We have discussed the secondment of staff with management this year. In particular we have reviewed the transactions for any potential VAT impact. The recharge for the staff that carry out the work for NSSA is a supply of staff for VAT purposes. A supply of staff is made if the use of an individual who is contractually employed by the supplier is provided to another person or entity for a consideration.	3	When the NSSA was set up we sought specialist advice from both CSD Ltd and Abbey Tax Ltd and have dealt with this issue in accordance with that. The supply of staff is within our charitable aim and objective ie the education of students, We will however, reinvestigate this.

5.1 VAT Registration (continued) This is taxable for VAT purposes. We understand that neither Bungay High School nor North Suffolk Skills Academy are VAT registered. Instead both complete an Academy VAT Return. We have discussed this with management and whilst we note that management belief that the majority of cross charges the employees are on joint contracts of employment, we would recommend that further advice is sought into whether these entities should become registered for VAT and what the potential liability, if any, could be in relation to a cross charge of employees.	3	
5.2 Fixed Asset Register Doing our audit of fixed assets, we noted that whilst there is a detailed fixed asset register in place that contains asset numbers and invoice details, there could be a slight improvement to help with the monitoring and control of assets. Some of the descriptions for assets held on the fixed asset register are vague and it is not clear which projects these invoices relate to. This makes it difficult to identify which assets are held by the academy and which have been disposed of, this in turn increases the risk of the financial statements being misstated. We understand that a lot of this detail is already included in the business plans therefore we recommend that a review of the fixed asset register is undertaken to ensure that all assets listed on the register are still held by the academy and are grouped by projects undertaken and details taken from the business plan to update the fixed asset register.	3	The Finance Director will review the FA register to make it clearer with regard to describing assets, and colour coding per project.

5.3 Accruals/Provisions It was noted from our testing that there were 2 balances included within accruals totalling £73,538 which were in relation to disputed invoices from Suffolk County Council. From discussions with management, it became clear that Bungay High School had not entered into a signed agreement nor ordered these services and therefore doesn't believe these invoices should be paid, but have provided £73,538 in the financial statements to be prudent. We recommend that a review of the balances is undertaken to establish whether the funds can be repatriated by Suffolk County Council. Further, a policy should be introduced that weights the likelihood of these funds being clawed back. For example, balances between 5 and 2 years could be 50% credited back with any under 2 years being held as a creditor. Introducing a policy would manage the risk to the academy should Suffolk County Council try and claim back these funds beyond a reasonable period and allows for funds to be used to further the charitable activities of the academy.	3	Agreed, although the Academy had entered into a signed agreement in respect of the majority of this total, solicitors had only just replied to SCC with the opinion that this was not enforceable. Rather than risk assess the situation, the Academy had acted completed on the cautious side in accruing the full amount, but we will review our policy as suggested.

5.5 Non charitable trading 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 2014 totalled £16,002, 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. 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.	3	The Academy expects income from income generating activities to be in the region of £22,000 in 2014/15. We have procedures to monitor this on a monthly basis and will discuss with auditors if we risk nearing the de minimus.

Update on matters reported in 2013

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 2014 financial statements.

Recommendation fully implemented or no longer relevant	**1**	
Recommendation partially implemented	**2**	
No progress on recommendation	**3**	
Observations in 2013		**Update in 2014**
5.6 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 were pleased to note that this was adjusted for in the financial statements and due to its one off nature there should be no future implications stemming from this.	1	There were no issues to note from our testing this year.

5.7 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 had 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 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 6th Form Centre, and any future buildings projects, a review be undertaken at the outset to identify the components, so they can 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.	2	This point has been re-raised with management. From our review of the fixed asset register, several assets that have a useful economic life of less than 50 years are being depreciated at 2%, this includes works to the car park. We recommend that as part of the fixed asset register review point 5.2 that a review of the depreciation rates used is also carried out and the fixed asset register updated accordingly. We will revisit this point during the 2015 audit. The Academy uses a depreciation rate over 15 years for items such as boilers, window replacements, flooring etc.

5.8 North Suffolk Skills Academy The North Suffolk Skills Academy Limited (NSSA) was established in July 2013. It is a 100% 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 drew up its first set of financial statements for the period to 31 August 2014, this was 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 were not produced. The first set of consolidated statements was therefore to 31 August 2014. We were 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 appreciated that the company is being managed by its two Directors and is a separate entity to Bungay High School, we 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 and 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 reconciliations.	1	The financial controls and policies in place during the accounting period to 31 August 2014 are the same as Bungay High School. Bungay High School Finance Team has control over the finances of NSSA therefore the systems and controls in place are the same across both entities. The Finance team reports to NSSA Directors monthly using management accounts. Bungay High School Finance Team advises Directors of the NSSA regarding procurement, and reviewed the current system to ensure it is in line with Charities SOPR and EFA guidance. Bungay High School Finance Committee and Governors review Outturn statements and Budgets for the NSSA at least termly.

5.8 North Suffolk Skills Academy (continued) NSSA tendering and contracts with businesses operating in the Centre should be reviewed by Bun 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. NSSA budgets should be subject to review by Bungay High School Governors. As a separate legal entity, NSSA was subject to audit for the period to 31 August 2014. You therefore needed to appoint auditors to the company. If appointed, CCW would, as part of the planning process, identify the key audit risks and report those to you and our work to manage those risks. CCW would then report back to you our findings in our Audit Findings report for 2014. CCW will continue to work with the client to ensure that the NSSA is properly accounted for and that the control environment is in line with best practice particularly during its first period of operation.	1	

6. Future reporting under FRS 102 and the new charity SORP

From 1 September 2015 Bungay High School will be required to report under FRS 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland.

This change will impact on Bungay High School's year ending 31 August 2016 financial statements however FRS 102 sets out how an entity prepares its first financial statements that conform to this standard. The key requirements will be the restatement of the opening balance sheet at the date of transition (i.e. for Bungay High School at 1 September 2015 and the restatement of the comparative balance sheet (i.e. at 31 August 2014) in accordance with FRS 102. The opening balance sheet does not need to be published but will be needed to allow the restatement of the results for the comparative year.

In anticipation of this change a new Charities SORP was published in July 2014 and we expect the 2015/16 Academies Accounts Direction to take into account the new reporting requirements required by FRS102 and the new Charities SORP.

More details on the new Charity SORP can be seen on a separate Charity Commission SORP website: http://www.charitysorp.org/ .

Areas of restatement and disclosure

We have highlighted below certain specific areas which may lead to changes to the balance sheet position of Bungay High School at 1 September 2014, its results in subsequent periods and / or certain of its disclosures. We recommend that you consider these now in order to plan for the necessary adjustments and ensure that any relevant data is collated and valuations obtained on a timely basis.

SoFA presentation

The SORP 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). There is a similar simplification of expenditure headings with three headings (fundraising costs, expenditure on charitable activities and other expenditure). However, it will be necessary to represent the relevant amounts under the new SoFA headings.

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

Cash flow statement

The format of cash flow statements has been simplified with cash flows being identified as resulting from operating activities, financing activities and investment activities, as opposed to the eight different categories currently available under FRS 1.

Income recognition

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 (i.e. more likely than not). This potentially may have implications for the accounting for certain sources of income such as fundraising, legacy or similar income as the previous SORP required certainty for recognition.

Employee benefits

Any employee benefits which the non teaching staff are contractually entitled to such as holiday, time off in lieu etc. at the year-end and not taken will need to be accrued on the charity's balance sheet.

Finance and operating leases

We understand that this is not likely to impact on the reporting by Bungay High School, however we remind the Governors of the requirement to obtain prior approval from the EFA for any leases deemed to meet the criteria of a finance lease.

FRS 102 makes no significant changes to lease accounting. Leases will still be capitalised as finance leases if substantially all the risks and rewards of ownership are transferred.

The current 90% of value test will no longer be required. If leases do not meet the definition of a finance lease, they will be classified as an operating lease with the rent going through the SoFA. However, there will be substantial changes to the disclosures required. On first time adoption, you have the option to reassess whether any lease arrangements are finance lease or operating leases based on the facts at the transition date.

Lease incentives received used to be spread over the period remaining to when the rent reverted to a market level, usually when a break occurred. Under FRS 102, the incentive received will be spread over the most likely term of the lease. The charge against income each year will be smaller as a result.

Remuneration of senior management

Charities reporting under FRS 102 *must* disclose the total amount of employee benefits received by its key management personnel for their services to the charity.

Currently this disclosure is required for staff Governors and for Senior Leadership Staff Members earning above £60k pa. In practice we don't believe this additional requirement will fundamentally alter the current disclosure required under the current Academies Accounts Direction.

Consolidated accounts

The process for determining how control is identified has been clarified under the new SORP which may impact on deciding which entities are subsidiaries. Bungay High School may need to consider the present treatment of the different entities within its consolidated accounts.

Pension reporting under FRS 102

For charities which participate in multi-employer defined benefit pension schemes, the accounting has been refined. Under FRS 102 if an employer has entered into an agreement with the multi-employer plan that determines how the entity will fund a deficit, the entity will be required to recognise the present value of the contributions payable from this agreement as a liability on its balance sheet.

This would not have been required previously as funding contributions were only recognised when they fall due.

For charities with continuing defined benefits pension scheme liabilities (ie Local Government Pension Scheme), there will be some potentially significant differences between the current FRS 17 accounting requirements and the approach to pensions accounting required under FRS 102.

The main difference for the future reporting under FRS 102 relates to the calculation of the pensions net financing cost. This cost currently comprises the net of the expected returns on the scheme assets as determined by the actuary and an estimated interest cost on the scheme liabilities. Currently the assumed rate of return on the assets is usually significantly higher than rate of "interest" on the liabilities. However, under FRS 102 the expected return on assets will be calculated using the discount rate so that no credit is taken for the expected outperformance on the Plan assets.

There are also differences in the treatment of any surpluses under the two standards should this become relevant in the future.

Transitional disclosures

FRS 102 requires the presentation of reconciliations of a charity's funds as determined in accordance with the previous financial reporting framework and its funds determined in accordance with FRS 102 at two dates:

(a) the date of transition to FRS 102; and

(b) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

FRS 102 also requires the presentation of a reconciliation of "profit or loss" determined in accordance with its previous financial reporting framework and reported in the entity's most recent annual financial statements to its profit or loss determined in accordance with FRS 102 for the same period.

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 Governors 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 letters 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 Academy 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 Academy's financial statements.

We draw your attention to bullet point 2 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 2014 financial statements, or the period since the 2014 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.

The following provides further information on the three kinds of fraud that charities such as Bungay High School 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 certain income provided to an Academy can become 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.

8. Reporting audit adjustments

International Standard on Auditing (UK and Ireland) require 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 Planning Letter that we would report unadjusted misstatements greater than £5,000 unless they are qualitatively material at a lower amount.

We have summarised below the cumulative effect of adjustments that we have identified that have been made in the financial statements along with those that have not been adjusted on the grounds that they are not material to the financial statements.

Appendix 1 - External developments

We have summarised below the changes in the charity and Academy 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 . Alternatively, these briefings are available on our website.

Changes to the Academies Financial Handbook (AFH) 2014 (effective from 1 September 2014)

There have been a number of changes to the AFH following the latest release. The key areas of change relate to:

Governance

- "Dear Accounting Officer" letters; the EFA intends to send these letters out to all AO's annually and expects the contents of these letters to be **shared** with the Governors and senior leadership team as a matter of routine.
- Non-compliance with connected party relationship regulations; could lead the EFA to issue a Financial Notice to Improve (FNtI). The EFA may also prevent the Academy from entering into future connected party transactions without prior EFA approval.
- Emphasis on disclosure of Governance arrangements; as part of the Academy's Governance Statement, the EFA **emphasise** the need to ensure disclosure of composition of board, skills, effectiveness and leadership along with how effective the board has been (self review).
- Disclosure of business and pecuniary interests; the Academy must capture relevant business and pecuniary interests of members, Trustees, local Governors (in a MAT) and SLT members (and also **encourage** disclosure for any other relevant staff members such as heads of departments). Note also that Academy's **must** disclose the interests of its Governors/Trustees and members on the **Academy's website.**
- "At cost" de minimis in relation to connected party transactions; the 2013 AFH introduced the concept that such transactions should be at nil profit. The new 2014 AFH introduces a de minimis limit for these transactions of £2.5k (to avoid undue bureaucracy).
- Losses relating to fraud; The Academy **must** now report any instances of fraud that resulted in a loss to the Academy of **£5,000** either individually or cumulatively as soon as is operationally practical. This report must state **how** the fraud occurred, the loss **value**, measures taken to **prevent recurrence**, whether the **police** were informed, whether any loss is covered by insurance.

Financial control

- Written scheme of delegation; Whilst the Trustees cannot delegate overall financial responsibility they must approve a written scheme of delegation where approval/responsibilities are passed to staff members.
- Consideration of financial information: The EFA has **emphasised** that the Board of Governors and any finance related committee **must** receive and consider information on financial performance at least **three times** per year. Furthermore, the Board must notify the EFA **within 14 days** if they intend to submit a **deficit budget** that cannot be funded by brought forward funds from previous years.
- Risk protection pooling; Confirmation that Academies can now enter into the DfE's risk protection arrangements from 1 September 2014, however this does not cover motor vehicle insurance.

Financial control (continued)

- Approval for certain transactions; The EFA **emphasises** that prior agreement must be sought for any **novel or contentious** connected party transactions or where **ex gratia** payments are envisaged. This is in addition to the "special payments" and "write offs/disposals" that continue to require prior authorisation over delegated limits (see AFH 2014 for details).

Audit related matters

- Staff members excluded from sitting on the Audit Committee; Staff members and employees of the Academy **should not** be members of the Audit Committee, however senior leadership members **should frequently attend** such meetings and participate in discussions.

EFA funding profile from September 2014

The EFA is revising the payment profile for academies and free schools from September 2014. This will provide more consistency across all state-funded schools and simplify financial planning.

EFA will profile payments into 12 equal instalments. Currently it pays 12% in the first month, with the remainder flat profiled across the rest of the year.

Charity senior executive pay report – transparency vital for public trust

Following an inquiry over the summer of 2013, the National Council for Voluntary Organisations in April 2014 issued a report on senior executive pay in the not for profit sector.

The report recommends that charities should publish full details of senior executive pay in order to maintain public trust. Currently, charities with audited accounts are required by the SORP to disclose the number of staff in pay bands over £60,000. However, the report recommends that these charities publish a remuneration statement explaining their pay strategy, stating the remuneration of their highest-paid staff by position and name.

The report sets out five recommendations:

- that the report's principles for setting charity remuneration are adopted as good practice by all charities.
- that all charities with a gross income of over £500,000 should adopt a remuneration policy.
- that charities consider the esteem and the value – financial or otherwise – derived by employees from working for a charity and the impact this may have on setting levels of remuneration for senior staff and others throughout the organisation.
- that charities with an income of above £500,000 consider the use of remuneration ratios as a helpful tool to assist in their approach to pay (the relationship expressed as a multiple between the highest pay to median pay is regarded as the most reliable measure of pay throughout an organisation).
- that as good practice all charities with independently audited accounts should publish an annual statement explaining their charity's ethos and policy on remuneration and explain how this impacts on the delivery of their charitable purposes.

The report suggests that this information should be brought together, not only within the annual accounts, but also on the charity's website no more than two clicks away from its home page.

The report can be seen on the NCVO website
http://www.ncvo.org.uk/images/documents/about_us/our-finances-and-pay/Executive_Pay_Report.pdf .

Guidance for Trustees on how to manage conflicts of interest

The Charity Commission in May 2014 issued a new guide for Trustees about how to manage conflicts of interest. Whilst there are no changes to the legal duties of Trustees, the new guidance is designed to explain the principles and practical steps in a clearer way.

Conflicts of interest affect charities of all types and sizes. They can lead to decisions that are not in the best interests of the charity and which are invalid or open to challenge. Conflicts of interest can also damage a charity's reputation or public trust and confidence in charities generally.

These harmful effects can be prevented where individual Trustees can identify conflicts of interest, and the Trustee body can act to prevent them from affecting their decision making.

The guidance sets out practical steps to help trustees identify, manage and record conflicts of interest and the Commission recommends that Trustees read the guidance to understand the basics, and how they expect Trustees to deal with conflicts of interest facing them or their charity.

The guidance and more information on this can be seen on the Charity Commission website http://www.charitycommission.gov.uk/detailed-guidance/trustees-staff-and-volunteers/conflicts-of-interest-in-charities/ .

Top tips to avoid cheque fraud

The Cheque and Credit Clearing Company (C&CCC) has published a fraud prevention guide to help charities safeguard themselves from fraud when paying by cheque.

Although figures published by Financial Fraud Action UK show that cheque fraud fell by 22% last year - down from losses of £35.1 million in 2012 to £27.5 million in 2013 - with most charities still being regular users of cheques following common sense advice will help minimise their chances of being part of these statistics.

The guide is available to download from the C&CCC's website http://www.chequeandcredit.co.uk/media/news/-/page/2122/ .

Audio podcasts for charity trustees and management

The Charity Commission have during 2014 published various audio podcasts designed to help charity Trustees and management understand particular aspects of trusteeship or charity law to provide an introduction to their online guidance. The podcasts issued currently cover the following key areas.

- Big Board Talk - questions a Trustee Board should ask themselves about their strategic plan and their financial health
- Big Board Talk - questions a Trustee Board should ask themselves about how effective they are as a board and whether they are making the most of their resources
- Conflicts of Interest: What can your charity learn from this case study?
- Internal Financial Controls: What can your charity learn from this horror story?
- Managing disputes
- Protecting your charity from harm from extremist abuse
- Beneficiaries as Trustees

The podcasts are available on the Charity Commission website http://www.charitycommission.gov.uk/about-the-commission/press-office/media-information-centre/podcasts/ .

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 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% extra in NI contributions. Employees will be required to pay an extra 1.4% in NI contributions.

Clearly it will be important that charities recognise these future NI changes in their budgeting and other considerations for future years.

Data Protection

All organisations in the UK which hold or process personal data (i.e., anything that identifies an individual) are required to comply with the Data Protection Act 1998. The Information Commissioner's Office (ICO) is responsible for enforcing the Act and can perform reviews on organisations to ensure they are compliant. Organisations face large fines up to £500,000 for failing to comply, and in October 2012, a charity had to pay £70,000 for a serious data breach.

The Data Protection Act provides a framework for protecting people's privacy and making sure that data stored about them is appropriately secure (both electronically and in paper form). It also aims to make data usage and collection transparent to individuals, so that they know what data is being collected about them, how it is being used, how it is kept up to date and how they can obtain a copy of any personal data held by an organisation. The Act comprises of eight principles, which have an impact on how and where you should store data, what kind of data you can collect, and how that data can be used.

Changes to the Data Protection Act are being discussed, which will be driven by the European Union and could include an increase in fines. It is important to ensure your organisation is compliant with the Act and that this compliance is monitored.

Find out more about us at

www.croweclarkwhitehill.co.uk