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The Board of Governors
South West Essex Community Education Trust Limited
William Edwards School
Stifford Clays Road
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Essex RM16 3NJ

Our ref: MW/PM/SH

6th December 2016

Dear Sirs/ Mesdames

BUSINESS REPORT

During the audit of the financial statements for the year ended 31 August 2016, we examined and sample tested the accounting systems which the company has established to ensure that the accounting records are accurate and reliable and to ensure that its assets are safeguarded.

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

The report includes explanations of how the weaknesses could affect your business and our recommendations on how to improve the systems.

Our report also includes details of recently released accounting standards and legislation which we would like to bring to your attention.

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

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

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

Yours faithfully

WILKINS KENNEDY LLP

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ILAS
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LEGAL ACCOUNTANTS

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1. Scope of the audit

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

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

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

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

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

2. Independence Issues

On 9 August 2016 we wrote to you identifying our perception of the principal threats to our objectivity and independence in carrying out this audit, along with the safeguards in place to mitigate those threats.

The principal threats and safeguards are repeated below:

Principal threats	Safeguards Implemented (and why they are considered effective)
<p>We are responsible for the preparation of the financial statements in addition to carrying out the audit. The service will not involve initiating transactions.</p> <p>There is a threat that, as a firm, we become perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own accounting work.</p>	<p>It is agreed that a senior staff member, will carry out a review of the financial statements. This will mitigate the threat of being too closely aligned with management and ensure that all accounting judgements are impartial and that the service is just one of a technical nature.</p> <p>Please see the below comment with regard to the independent principal review of the audit, which will address the self-review risk, as all audit work will need to be clearly explained.</p>
<p>We are responsible for the preparation of the Corporation Tax Return and the calculation of the associated tax liability in addition to carrying out the audit. However, as directors you remain responsible for both accounts and your Tax Returns. As independent auditors we cannot take any decisions that rightfully belong to management. Accordingly, if there are any decisions relating to the accounts or treatment of items on the Tax Return we will explain your options in layman's terms.</p> <p>However, you must make the ultimate decision.</p> <p>There is nevertheless a threat that, as a firm, we become perceived as being too closely aligned with the views of management to provide an independent review and/or that members of the audit team could be reviewing their own tax work.</p>	<p>We have extended the cyclical inspection of our completed audit engagements that is performed for quality control purposes to include a random selection of audit engagements where non-audit services have been provided.</p> <p>This independent review will comment on whether the safeguards being implemented by the firm on all audit clients are sufficient to address the threats identified.</p> <p>The independent review will also comment on whether audit work is being conducted in accordance with relevant standards and will ensure that sufficient audit work has been carried out, regardless of who prepared the original data.</p>

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

3 Compliance with Legal and Regulatory Requirements

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

- Relevant Academies Accounts Direction issued by the EFA
- Applicable accounting standards (UK Generally Accepted Accounting Practice)
- Companies Act 2006
- Charities Statement of Recommended Practice (SORP) 2015

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

Appendix 1

General Information

1. VAT – Audit Review
2. Governor review
3. Trusts Governance arrangements
4. Senior Executive Leader and Chief Financial Officer
5. Register of interests
6. Edubase – Notification to DfE
7. Whistleblowing procedure
8. Insurance
9. Staff severance
10. Three year budgets

1. VAT – AUDIT REVIEW

Observation

The academy is currently using Form 126 to reclaim VAT.

Issue

Academies are able to recover VAT by claiming on Form 126. Our audit does not examine VAT in detail and our audit procedures are not designed to detect immaterial fraud or error. Therefore we have not reviewed individual streams of income to:

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

Recommendation

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

Client Response

The Trust reviews its VAT position each month and all claims are scrutinised by the Chief Financial Office before submission to HMRC. However, the Trust's overall VAT position is something the Trust's Finance Committee will review in the New Year.

2. GOVERNOR REVIEW

Observation

The board of governors should review the composition and skills of its board on a regular basis to identify any potential gaps. These should be addressed through recruitment of new governors, and/or induction and training of existing governors. This applies for any local governing bodies in an MAT.

Issue

With Academy Trust's looking to expand or evolve as well as secure its financial future, it is important that the Board has all the necessary composite skills to run the Trust efficiently and effectively. The Academy Financial Handbook (AFH) refers to the Governance Handbook which identifies a range of training material to assist the trustee in their role. There are also links to the National Governors Association website in regards to key questions a Board should ask itself in respect of a SAT or a MAT.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535870/Academies_Financial_Handbook_2016_final.pdf

Recommendation

We recommend that the Governors review the composition of the Board and review the guidance provided by the EFA to ensure all Governors understand their role.

Client response

The Trust has recently undertaken a significant re-organisation of its governance arrangements based on skills required to run the trust efficiently and effectively.

3. TRUST'S GOVERNANCE ARRANGEMENTS

Observation

The board of trustees **MUST** provide details of the trust's governance arrangements both in the annual accounts and on its website. This includes the scheme of delegation for governance functions setting out what the board has delegated to its committees and local governing bodies.

Issue

Most academy trusts have included the list of Governors and related interests on their websites however they have not provided detail in relation to scheme of delegation for governance functions.

Most financial statements now have details of this within their governance statement. The Academy needs to ensure a separate statement is included on their website showing the purpose for each committee and how this is relayed to the main Governing Board.

Recommendation

We recommend that the Governors read 1.5.15 of the AFH and ensure they are familiar with the requirements and definition.

Client Response

All details are published on school and Trust websites. In addition, the Trust's scheme of delegation is also published on the Trust site.

4. SENIOR EXECUTIVE LEADER AND CHIEF FINANCIAL OFFICER

Observation

The Academies Financial Handbook emphasises that all trusts **MUST** have a senior executive leader who should also be appointed as accounting officer as well as a chief financial officer. These roles must not rotate.

Issue

The individual appointed as senior executive leader must be a fit and suitable person for the role. The accounting officer should be the senior executive leader of the trust. In trusts comprising a single academy this should be the principal. In multi-academy trusts it should be the chief executive or equivalent. The role of accounting officer must not rotate. The appointment of an accounting officer does not remove the responsibility of trustees, both individually and as a board, for the proper conduct and financial operation of the trust. The role of accounting officer includes specific responsibilities for financial matters.

The chief financial officer (CFO) must be appointed by the trust's board, who is the trust's finance director, business manager or equivalent, to lead on financial matters. The CFO should play both a technical and leadership role, including ensuring sound and appropriate financial governance and risk management arrangements are in place, preparing and monitoring of budgets, and ensuring the delivery of annual accounts.

The trust's finance staff **must** be appropriately qualified and/or experienced. Trusts should assess whether the CFO, and others in the trust holding key financial posts, should have a business or accountancy qualification dependent on the risk, scale and complexity of financial operations. Whilst a formal accountancy qualification may often serve as a proxy for the necessary skills, experience and personal qualities required for this role, there is no presumption that there will always be a perfect match. EFA recognises that many CFOs combine their specific financial responsibilities with a range of other support and leadership responsibilities in which the existence of a formal accountancy qualification may be less relevant.

The CFO need not discharge all of their duties personally. The trust may decide that its needs are adequately served by employing staff or contractors with the relevant skills and knowledge at the appropriate time (e.g. when accounts are being prepared).

Recommendation

We recommend that the Governors review and select a suitable person for the senior executive leader and chief financial officer roles.

Client Response

The Two roles are appointed by Trustees and comply with the rules set out in the Academies' Financial Handbook.

5. REGISTER OF INTERESTS

Observation

The guidance within the Academies Financial Handbook on registers of interests has been updated. The register **MUST** identify any relevant material interests arising from close family relationships between the academy trust's members, trustees or local governors. It **MUST** also identify relevant material interests arising from close family relationships between those individuals and employees.

Issue

Up until this latest handbook if a related party was included on the payroll it did not require disclosure in either the financial statements or the register of interests on the website. Now if a family member of the Governors or senior leadership team is employed by the academy this must also be disclosed.

Recommendation

We recommend that the Governors ensure the Register of Business interests is up-to-date and published on the academy's website

Client Response

This is updated regularly on all school websites.

6. EDUBASE – NOTIFICATION TO DFE

Observation

All academy trusts **MUST** use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer

Issue

There are no changes to the requirements but it is important to remember that any such changes must be notified to the DfE within 14 days and failure to do so is a breach of the AFH.

Recommendation

We recommend that the Governors appoint an individual with responsibility for ensuring that the DFE is notified within the 14 day limit.

Client Response

The Company Secretary will ensure this is achieved by the end of term.

7. WHISTLEBLOWING PROCEDURE

Observation

Academy Trusts MUST have a whistleblowing procedure

Issue

Previously this has been a recommendation but has been upgraded to a 'MUST'. Whistleblowing is defined as 'When an employee reports suspected wrongdoing at work and makes a disclosure in the public interest, under the protection of the Public Interest Disclosure Act 1998.'

Recommendation

We recommend that the trust review their whistleblowing policy and the policy is communicated to all staff.

Client Response

The procedure is found in the Code of Conduct for staff and is at least annually shared and is accessible at all times.

8. INSURANCE

Observation

The Academies Financial Handbook states that Academy Trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money

Issue

Insurance funding from the EFA is due to drop to £20 per pupil from September 2016. However some leases or dioceses do not allow for the use of RPA.

Recommendation

We recommend that the Governors should review their insurance cover to ensure it provides value for money and is sufficient for any third party who may have an interest.

Client Response

The Trust reviews its policy annually and has recently secured a long term deal with Zurich via the Essex County Council framework.

9. STAFF SEVERANCE

Observation

Academy trusts **MUST** satisfy the conditions in the Academies Financial Handbook when considering a staff severance payment.

Issue

When considering making a severance payment, you should review sections 3.7.4 – 3.7.6 of the AFH. You are also reminded that such payments should not be as a reward for failure and that if any payment being proposed is in excess of £50,000 the EFA prior approval **MUST** be obtained before any binding commitment is offered.

Recommendation

We recommend that the school reviews the guidance mentioned above before agreeing to any severance payments.

Client Response

Headteachers are aware of the need to comply with the Academies Financial Handbook in every regard.

10. THREE YEAR BUDGET

Observation

The Academy Trust must prepare and monitor financial plans to ensure ongoing financial health up to a minimum of three years in the future.

Issue

The Board of Directors/Governors **must** approve a balanced budget, and any significant changes to that budget, for the three financial years, which can draw on unspent funds brought forward from previous years. The Board must minute their approvals.

EFA's accounting officer is required to provide assurance that the bodies the EFA funds are in sound financial health. For this reason, the academy trust **must** submit to EFA a copy of the annual budget forecast in a form specified by EFA by the date notified.

The Board of Trustees, and any separate committee responsible for finance, must:

- Ensure good financial management and effective internal controls
- Comply with their funding agreement and the Academy Handbook
- Receive and consider information on financial performance at least three times a year, and take appropriate action to ensure ongoing viability.

The Board of Directors/Governors **must** notify the EFA within 14 days if it is formally proposing to set a deficit revenue budget for the current financial year which it is unable to address, after unspent funds from previous years are taken into account.

Recommendation

We recommend that the Directors/Governors review the financial information at least three times a year – ensuring that consideration is given to explanations for fluctuations between budgets and actuals in the current year, but also considering the business plan and budgets for the next three and where possible five years.

Client Response

The Trust considers a rolling 3-5 year budget for all academies.

Appendix 2

Issues Identified in Current year Audit

1. Deneholm fixed asset register (medium risk)
2. Stifford Clays UIFSM income (medium risk)
3. Stifford Clays deferred trip income (low risk)
4. Deneholm audit fee (low risk)
5. Deneholm & Stifford Clays record keeping (medium risk)
6. Trust reporting (medium risk)

1. Deneholm Primary School – Fixed asset register (Medium risk)

Observation

Deneholm does not maintain a fixed asset register.

Issue

All academies should keep a fixed asset register as a record of all material fixed assets inherited from their predecessor schools and all material additions, disposals and write offs (eg stolen or damaged assets). Without a fixed register, it makes keeping track of such additions/disposals difficult, and therefore difficult for the auditors to review/test at the year end. It also makes calculation/posting of appropriate depreciation charges more difficult.

Recommendation

We recommend that each school maintains a fixed register.

Client response

The Trust's Finance Committee will be reviewing this practice in all schools in the spring term 2017.

2. Stifford Clays Primary School – UIFSM deferred income (Medium risk)

Observation

2015/16 Universal Infant Free School Meals (UIFSM) income incorrectly deferred on FMS.

Issue

Income such as the above which relates to the next financial year (2015/16) should be provided recognised when received and not deferred. Deferment of such amounts results in 2015/16 income being effectively understated.

Recommendation

Identification of deferred income provisions should take place at source. When income is received it should be reviewed to ensure that it is understood which accounting period it relates to and an appropriate provision made where necessary.

Client response

This has been resolved.

3. Stifford Clays Primary School – Deferred trip income (Low risk)

Observation

Trip income within Stifford clays was correctly identified as needing to be deferred, however the entry to defer these amounts was entered incorrectly and rather than carrying the income forward to the next period the income was recognised twice in 15/16.

Issue

Trip income recognised twice in the 15/16 year, whilst not being carried forward and recognised against the correct trip expense in the 16/17 year.

Recommendation

Review of all audit journals to ensure correctly posted.

Client response

Noted.

4. Deneholm Primary School – accrued audit fee (Low risk)

Observation

2014/15 accrued audit fee not reversed out in the 15/16 year.

Issue

Audit fees at the end of the 15/16 year are over accrued, presenting a weaker financial position than is correct.

Recommendation

Accruals to be reviewed at the end of each month and any over or under provisions to be amended via journal.

Client response

Noted.

5. Deneholm Primary School & Stifford Clays Primary School – Record keeping (Medium risk)

Observation

Record keeping within two primary schools different from system used at William Edwards.

Issue

While most records can be located fairly easily, it would be helpful if the records at SCPS and DPS are maintained in a manner consistent with WES. This will facilitate interchangeability of staff between schools as the MAT grows, enabling cover to be provided more easily for staff sickness etc.

Recommendation

Record keeping system to be reviewed at each primary school and brought in line with the system used at William Edwards.

Client response

Agreed. The Chief Financial Officer will oversee this change in practice.

6. Trust reporting (Medium risk)

Observation

Currently consolidated management accounts are not prepared on a regular basis.

Issue

If financial results are not consolidated and reviewed across the MAT periodically it is difficult to understand the exact position and performance of the Trust and therefore monitor and manage resources effectively.

Recommendation

Consider preparing regular consolidated management accounts for monitoring and reporting purposes.

Client response

The Trust has changed its finance systems which produces consolidated reports.

Appendix 3

Unresolved issues from previous years

None

Appendix 4

Resolution of previous years issues

William Edwards School:-
None

Stifford Clays Primary School:-

1. EFA remittance advice (low risk)
2. VAT reconciliation (low risk)

Deneholm Primary School:-

3. Deferred income (medium risk)

Stifford Clays Primary School and Deneholm Primary School:-

4. Bank reconciliation (medium risk)
5. Accruals (low risk)

**1. STIFFORD CLAYS PRIMARY SCHOOL
EFA REMITTANCE ADVICES (low risk)**

Observation

Not all EFA remittance advices were on file.

Issue

The academy should have supporting documentation for all material income amounts at the time of receipt. Without it there is the potential for income not being treated correctly in the accounts.

Recommendation

We recommend that supporting documentation is obtained for all material income amounts at the time it is received in order to ensure that the income is treated correctly in the accounts.

Client response

Noted. To be kept in future.

2. STIFFORD CLAYS PRIMARY SCHOOL VAT RECONCILIATION (low risk)

Observation

Year end VAT difference.

Issue

Unless regular VAT reconciliations are carried out, there is the potential for material over/underclaims to go unnoticed, meaning that the accounts could potentially be misstated.

Recommendation

While the VAT difference in this instance was not material, we recommend that the academy carries out regular VAT reconciliations to ensure that material differences do not arise.

Client response

Agreed. Reconciliations to be performed periodically going forward.

**3. DENEHOLM PRIMARY SCHOOL
DEFERRED INCOME (medium risk)**

Observation

2015/16 Universal Infant Free School Meals (UIFSM) income not deferred on FMS.

Issue

Income such as the above which relates to the next financial year (2015/16) should be provided as deferred income (ie removed from 2014/15 income and credited to a creditor account in the balance sheet, with the provision being reversed in 2015/16). Without an appropriate provision, 2014/15 income is effectively overstated by this amount.

Recommendation

Identification of deferred income provisions should take place at source. When income is received it should be reviewed to ensure that it is understood which accounting period it relates to and an appropriate provision made where necessary.

Client response

Noted.

4. STIFFARD CLAYS PRIMARY AND DENEHOLM PRIMARY BANK RECONCILIATION (medium risk)

Observation

No formal bank reconciliation prepared as at year end 31st August 2015.

Issue

The bank reconciliation is a basic control which verifies that all bank transactions have been accurately recorded in the accounting system. Without bank reconciliations the school cannot be sure that all bank transactions have been recorded, meaning that income and expenditure could potentially be misstated. It also makes it difficult for the auditors to review/verify the bank balances at the year end.

Recommendation

We recommend that a formal bank reconciliation is prepared each month for each bank account and reviewed by an appropriate officer of the school to verify its accuracy and evidenced as such. A print of the unreconciled bank transactions at each month end should be kept in a separate bank reconciliation folder.

Note: The list of unreconciled bank transactions can ONLY be printed at the time the bank reconciliation is carried out. The list of unreconciled transactions always reflects the CURRENT bank reconciliation, once a subsequent bank reconciliation is carried out it is not possible to then go back and print the list at an earlier date/period end.

It should also be noted that once a period end bank reconciliation has been agreed, no further bank transactions should be posted back into that period (eg once the year end bank rec has been prepared/agreed as at 31/08, no further bank postings should be made into August).

Client response

Systems now in place so periodic bank reconciliations performed.

**5. STIFFARD CLAYS PRIMARY AND DENEHOLM PRIMARY
ACCRUALS (low risk)**

Observation

No accruals made for audit fees.

Issue

Understatement of accruals can potentially give rise to material misstatement of the accounts.

Recommendation

While the amounts involved are not material in this instance, we recommend that the academy regularly reviews for unbilled expenditure and ensures that appropriate provisions are made as necessary.

Client response

Noted.