



## **Loughton School**

### **Report to Governors**

Audit for the period ended 31 August 2014

Updated following meeting on 13 November 2014



# Loughton School Report to Governors

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# Loughton School Report to Governors

## 1 Introduction

Streets is a top 40 firm of Chartered Accountants, looking after clients across the education sector including Academies, Free Schools and University Technical Colleges, throughout the East Midlands, East of England, South and East Yorkshire, London and the South East. Further information on our work with Academies and schools is included on our website, please visit [www.accountants4academies.co.uk](http://www.accountants4academies.co.uk).

Streets Chartered Accountants has offices in Bedford (Wyboston Lakes), Cambridge, Grantham & Newark (Long Bennington), Hull, Lincoln, London, Manchester, Newmarket, Peterborough, Sheffield and Stevenage.

Streets Audit LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details of our registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) and [www.cro.ie/auditors](http://www.cro.ie/auditors) for Ireland, under reference number C001217999.

# Loughton School Report to Governors

## 2 Summary

### 2.1 Communications required by Auditing Standards

We have audited the statutory accounts of the Academy for the period ended 31 August 2014 in accordance with the terms of our engagement letter. We draw your attention to the following points, as required by auditing standards.

a) Qualitative aspects of the academy's accounting practices and financial reporting

We have no comments to make concerning the qualitative aspects of the academy's accounting practices and financial reporting.

b) Reconciliation to Management Accounts

Section 5 of this report includes a reconciliation of the management figures submitted for audit to the surplus/(deficit) reported in the draft statutory accounts. The reconciliation includes details of the adjustments which were agreed with the school's finance team during the course of the audit. As governors, we would ask you to confirm that you agree to these adjustments being made.

c) Unadjusted items

Section 6 would report potential adjustments identified during the course of the audit. However, there were no potential adjustments identified during the course of the audit, of more than £1,000, which have not been amended following discussion with the school's finance team.

d) Material weaknesses in the accounting and internal control systems

As you are aware from our letter of engagement, our audit procedures were directed towards testing the accounting systems in operation upon which we have based our assessment of the accounts. Section 7 of this report contains details of areas which were identified during the course of the audit and our recommendations. It is not intended to be a full list of all potential weaknesses that may be present in your systems.

## **Loughton School Report to Governors**

e) Letters of representation

Appendix 1 and 2 to this report contains our proposed letters of representation which we will request from you prior to issuing the final accounts. We would be grateful if you could review these letters and let us know if there are any areas you wish to query.

We will require the letters of representation to be signed by all of the governors (who are directors for the purposes of the Companies Act). Alternatively, we will require a copy of the board minute which documents the governors' consideration and acceptance of their contents.

f) Expected modifications to the auditor's report

Subject to confirmation of the adjustments made in the preparation of the draft accounts, we do not propose to modify the audit report.

g) Other matters required by Auditing Standards to be communicated

There are no other matters that we are required by auditing standards to communicate to you.

h) Other relevant matters relating to the audit

We have discussed with you the fact that we provide accounting and corporation tax services to the academy in addition to acting as auditors. We wish to confirm to you that in our opinion the provision of such services does not affect our independence as the additional services are of a compliance nature and management takes any decisions where judgement is required.

# Loughton School Report to Governors

## 2.2 Outstanding matters

We draw your attention to the following information which is outstanding. We will be unable to issue final financial statements until we have received the following items which are discussed further in this report:

- a) VAT debtor at period end to be reconciled
- b) Successful completion of Post Balance Sheet Events work
- c) Confirmation/decisions on the points included in this report as appropriate
- d) Signed letters of representation

## 2.3 Conduct of the audit

We would like to take this opportunity to thank the accounting staff for their help and assistance during the audit, which was gratefully appreciated.

## 2.4 Purposes of the report

Please note that this report has been prepared for the sole use of the Academy. It must not be disclosed to third parties, quoted or referred to, without our prior written consent. No responsibility is assumed by us to any other person.

# Loughton School Report to Governors

## 3 Key audit issues

This section details the key issues that arose during our Financial Statement audit and our Regularity Audit. It also includes areas that we consider require further explanation or consideration by the Governors.

### 3.1 Financial Statement Audit

#### Audit approach

Our general audit approach was determined by our assessment of the audit risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the company operates.

To summarise our approach, we:

- updated our understanding of the school and its environment;
- reviewed the design and implementation of key internal financial control systems; and
- planned and performed an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

Significant risks arise on most audits and are often derived from business risks that may result in a material misstatement, relate to unusual transactions that occur infrequently, or judgemental matters where measurement is uncertain. In areas where we identified the potential for significant risk, we extended our audit testing to include more detailed substantive work. Our work in other areas was proportionally less.

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

There were no changes to our audit approach as set out to you in our letter dated 23 September 2014.

## Loughton School Report to Governors

### Summary of significant audit findings

<b>A) Significant risk area identified at planning</b>	<b>Findings, significance and recommendations</b>	<b>Management response / timetable for action</b>
<p><b>EFA and other funding</b> Ensure EFA and LA funding is complete and recorded in the correct accounting period</p>	<p>Income from EFA and LA has been agreed by proof in total and all items were agreed.</p>	<p>No action needed</p>
<p><b>Other income</b> Ensure other income is recorded and presented in the correct accounting period</p>	<p>A sample of other income streams were selected for testing and compared to underlying records. No significant issues were noted with the recognition or reporting of income.</p>	<p>No action needed</p>
<p><b>Wages</b> Ensure wages and salaries reflect the authorised rates of pay and hours work (where applicable) and that the associated contributions for tax, national insurance and pensions have been calculated appropriately</p>	<p>Payroll costs were reviewed by proof in total and a sample of individuals selected for detailed audit testing. All rates of pay were agreed and personnel files had been updated for any changes in pay.</p>	<p>No action needed</p>
<p><b>Payroll</b> Confirm the process applied for the appointment of staff, and the classification between employed and self-employed staff has been considered and that PAYE has been applied appropriately</p>	<p>The school has a robust policy for the engagement of staff or contractors. All individuals are required to provide proof of self employment on the exceptional occasions that such appointments are made.</p>	<p>No action needed</p>
<p><b>Purchase authorisation</b> Ensure costs other than payroll are authorised and classified appropriately in the accounts</p>	<p>A sample of expenses was selected for testing. Supporting documentation was obtained and agreed.</p>	<p>No action needed</p>

## Loughton School Report to Governors

<p><b>Pecuniary interests</b></p> <p>The governors are reminded of the requirements included in this area which have been reinforced in the Academies Financial Handbook 2014 that was issued in August 2014 and a further “Dear Accounting Officer” letter from the EFA (8 September 2014).</p> <p>Full details are included in the financial statements at note 26.</p>	<p>The school has a policy regarding pecuniary interests which are adhered to and no issues were noted during the audit.</p> <p>We recognise that the school has a very small number of potential connected parties, and that it is considered unlikely that any transactions with these organisations will be undertaken. However it is important that any individual who is authorised to purchase goods and services on behalf of the school has full access to information concerning potential connected parties.</p> <p>We would, therefore recommend that a formal register of all connected parties is maintained by the school. The register does not need to publicise the nature of the relationship between individuals but should act as a point of reference to ensure that appropriate information is obtained in advance of any transaction being undertaken, as set out in the Academies Financial Handbook.</p>	<p>A formal register is to be prepared and maintained on an ongoing basis.</p>
<p><b>Good Governance</b></p> <p>A letter and accompanying notes on the subject of “Good Governance” was sent to schools at the end of July 2014. The intention was for this to be considered at a full governors meeting and action taken as considered appropriate.</p> <p>Since this letter was sent there have been further relevant publications issued by the EFA which it is recommended should be circulated to and considered by governors as appropriate. These include the Academies Financial Handbook 2014, an updated version of the Governors Handbook and a further “Dear Accounting Officer” letter from the EFA (8 September 2014).</p>	<p>We have noted that the governors maintain regular committee meeting and full governors meetings to consider all aspects of the schools operations, such as educational standards, maintenance of premises and finance. It is important that all governors are aware of their responsibility and keep up to date with changes set out in the Academies Financial Handbook.</p>	<p>All documents from the EFA have been circulated to Governors and will be minuted in the next Full Governing Body meeting.</p>

## Loughton School Report to Governors

### **Going concern**

As stated in the accounting policies included in the financial statements, the governors are required to assess whether the use of going concern is appropriate, and make this assessment in respect of a period of one year from the date of approval of the financial statements.

The budget forecasts that we have seen for the academy are in deficit for 2014/15. The governors do need to give careful consideration to the ongoing position.

Governors give careful consideration to this on a regular basis. A subcommittee has been set up to monitor the position and to evaluate how to return the school to a surplus.

## Loughton School Report to Governors

<b>B) Other areas where issues were identified during the audit</b>	<b>Findings, significance and recommendations</b>	<b>Management response / timetable for action</b>									
<p><b>LGPS</b> As the governors are aware the LGPS deficit was recognised as a liability of the academy at the point of conversion, with a further actuarial valuation being required at each subsequent balance sheet date, to provide a figure to be included in the statutory accounts.</p> <p>This is in accordance with the requirements of the Financial Reporting Standard number 17 (FRS17) on the basis that the academy's share of the scheme deficit can be separately determined. This is shown as a separate (negative) restricted fund reserve.</p> <p>A full actuarial valuation of the LGPS scheme was carried out as at 31 March 2013 and the school's share of the deficit as at 31 August 2014, as reported by the actuary, incorporates this formal review. The deficit has increased to £325,000 and this has been included in the financial statements.</p>	<p>Our review is based upon the data submitted to the actuary concerning the number of scheme members and payroll costs.</p> <p>Whilst we do not propose to change the figure included for the school's share of the deficit as this is not an immediately crystallising liability, any alterations to the underlying school data that the actuary has used could alter the ongoing employer contribution rate from the current figure.</p> <p>We would reiterate that the LGPS deficit is not an immediately crystallising liability.</p>	<p>Incremental increases have been budgeted for in the long term forecasts.</p>									
<p><b>Staff costs</b> The main costs in any school relate to staffing and in the past the EFA have asked questions on the ratio of staff costs as a proportion of expenditure (excluding depreciation and building costs) and as a proportion of GAG income, especially where these figures exceed 80% - 85%.</p> <p>These figures will be reflected in the Accounts Annual Return (which is the main source of data for the EFA).</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">2014</th> <th style="width: 20%; text-align: center;">2013</th> </tr> </thead> <tbody> <tr> <td>Staff costs to relevant charitable expenditure</td> <td style="text-align: center;">82%</td> <td style="text-align: center;">n/a</td> </tr> <tr> <td>Staff costs to GAG income</td> <td style="text-align: center;">92%</td> <td style="text-align: center;">n/a</td> </tr> </tbody> </table> <p>Careful consideration should be given to the ongoing financial consequences indicated by the increased staff costs and ratios.</p> <p>Although the staff costs to GAG income percentage is greater than 85% we are aware that the school received substantial pupil premium funding and High Needs funding which are used to supplement wages costs.</p>		2014	2013	Staff costs to relevant charitable expenditure	82%	n/a	Staff costs to GAG income	92%	n/a	<p>These ratios are considered within the budgets prepared and are reviewed by the Governors.</p> <p>It was also added that some of the pupil premium and higher needs funding is used to support staffing costs.</p>
	2014	2013									
Staff costs to relevant charitable expenditure	82%	n/a									
Staff costs to GAG income	92%	n/a									

## Loughton School Report to Governors

### VAT

The VAT returns are being completed on a monthly basis, but copies of the return submissions are not always taken.

The VAT account is not being reconciled at the end of each month.

We would recommend that copies of all documentation submitted to HMRC is copied and included on a VAT file, together with any necessary workings.

The closing VAT balance included in FMS should be reconciled when preparing each month VAT to ensure nothing is being omitted, and assisting with chasing outstanding refunds.

These changes are to be implemented as soon as possible, and more vigilance to be given to the retention of documents.

# Loughton School Report to Governors

## 3.2 Regularity Audit

In addition to our audit report on the financial statements the Accounts Direction also requires us to issue an assurance report on Regularity. This requirement was brought in by the EFA in 2012, together with the additional “Statement on Regularity, Propriety and Compliance” which is signed by the Accounting Officer.

We conducted our regularity assurance engagement in accordance with the Academies Accounts Direction 2013 to 2014 issued by EFA. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement included examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust’s income and expenditure.

We anticipate that we will issue an unmodified regularity assurance report for the year, subject to the satisfactory clearance of any outstanding/unresolved the matters outlined in this report.

### **Conclusion:**

There were no regularity issues which need to be brought to your attention in connection with the regularity assurance engagement.

## **Loughton School Report to Governors**

### **4 Taxation**

#### **4.1 Current year's tax charge**

We are not aware of any activities that would give rise to a breach of HM Revenue and Customs (HMRC) thresholds for charities; accordingly we do not believe that the academy has a corporation tax liability. HMRC have issued the academy with a notice to submit a corporation tax return for the year ended 31 August 2014.

We are currently in the process of correcting your corporation tax records, with a view to getting the Academy an exemption from filing a corporation tax return. We will notify whether there is a requirement to file a corporation tax return once we have completed our adjustments and confirmed the position with HMRC.

Please advise us if you believe there are activities that may be taxable, or if you have received any correspondence from HMRC.

## Loughton School Report to Governors

### 5 Post management accounts adjustments

Adjustments have been made in arriving at the draft financial statements following discussions with the school's finance team. Please review these adjustments and advise us if you are not in agreement with any of them. The adjustments are as follows:

#### 5.1 Reconciliation of audit adjustments, as detailed in Section 3:

	Revenue Funding	Capital Funding	Total
<b>Surplus/(Deficit) per management accounts</b>	<b>194,731</b>	<b>4,299,735</b>	<b>4,494,466</b>
			0
Accrue letting income for Jul & Aug re. Kidsplay	2,084		2,084
Provision for 2014 Audit Fee	(5,500)		(5,500)
Amendment to prepayments of Silverbug support	1,442		1,442
<b>Adjusted surplus on educational activities</b>	<b>192,757</b>	<b>4,299,735</b>	<b>4,492,492</b>
LGPS - SoFA cost for the y/e 31 August 2014	(23,000)		(23,000)
LGPS - Actuarial gains/(losses) for the y/e 31 August 2014	(88,000)		(88,000)
LGPS deficit on conversion	(214,000)		(214,000)
<b>Net movement in total funds before transfers</b>	<b>(132,243)</b>	<b>4,299,735</b>	<b>4,167,492</b>

## **Loughton School Report to Governors**

### **6 Unadjusted items**

There were no potential adjustments identified during the course of the audit which have not been amended following discussion with the school's finance team.

We have not reported any potential adjustments which are deemed to be trivial to the accounts, either by nature or by the amount involved. For the purposes of the audit, items less than £1,000 have been deemed to be trivial level.

# Loughton School Report to Governors

## 7 Systems and controls

As part of our audit we are required by auditing standards to review the main systems and controls operated by the company, and report any material weaknesses to those charged with governance. Our procedures are designed primarily with a view to the expression of an opinion on the accounts. Our comments cannot therefore be expected to include all possible improvements in the internal controls that a more extensive review by Responsible Officer might identify.

The following issues were identified during the course of our audit, and we would recommend that these are discussed when we meet:

- Management accounts are produced on a cash basis rather than accruals basis. When there are timing issues it could potentially mean periodic figures are inaccurately reported.

**Management Response** - improvements are being made in this area and with the assistance of Jason Nutkins, Responsible Officer, with tasks being gradually implemented on an accruals basis.

- When reviewing the bank reconciliations in the year, the copies of the 'Outstanding Items Report' did not appear to always be included with the reconciliation. We recommend that this is done for everything reconciliation.

**Management Response** – finance team to be more vigilant and ensure copies of everything are printed and retained.

- Please refer to notes regarding VAT in section 3.1B.

**Management Response** – finance team to be more vigilant and ensure copies of everything are printed and retained, and implement the reconciliation of balance sheet figures.

# Loughton School Report to Governors

## Appendix 1

Streets Audit LLP  
Potton House  
Wyboston Lakes  
Great North Road  
Bedford  
MK44 3BZ

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the academy's financial statements and as, relevant, your assurance engagement on regularity for the period ended 31 August 2014. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of our knowledge and belief.

### **General**

- 1 We have fulfilled our responsibilities as governors as set out in the terms of your engagement letter dated 23 September 2014, under the Companies Act 2006 for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
- 2 All the transactions undertaken by the academy have been properly reflected and recorded in the accounting records.
- 3 All the accounting records have been made available to you for the purpose of your audit and regularity assurance engagement. We have provided you with unrestricted access to all appropriate persons within the academy, and with all other records and related information, including minutes of management meetings and correspondence with the Education Funding Agency, Department for Education and the Charity Commission.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 The effects of uncorrected misstatements (as set out in the appendix to this letter) are immaterial both individually and in total.

# Loughton School Report to Governors

## **Internal control and fraud**

- 6 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error and which conform to the requirements both of propriety and good financial management. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
- 7 We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 8 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

## **Assets and liabilities**

- 9 The academy has satisfactory title to all assets and there are no liens or encumbrances on the academy's assets, except for those that are disclosed in the notes to the financial statements.
- 10 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 11 We have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

## **Accounting estimates**

- 12 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

## **Loans and arrangements**

- 13 The academy has not granted any advances or credits to, or made guarantees on behalf of governors other than those disclosed in the financial statements.

## **Legal claims**

- 14 We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for, and disclosed in, the financial statements.

# Loughton School Report to Governors

## **Law and regulations**

15 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **Related parties**

16 Related party relationships and transactions, comply with the academy's financial regulations, relevant requirements of the Academies Financial Handbook and have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements and guidance set out in the Companies Act 2006, the Charities SORP and the Annual Accounts Direction issued by the Education Funding Agency.

## **Subsequent events**

17 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

## **Going concern**

18 We believe that the academy's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the academy's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the academy's ability to continue as a going concern need to be made in the financial statements.

## **Grants and donations**

19 Grants made by the Department of Education and Education Funding Agency have been applied for the purposes intended and the Accounting Officer has ensured regular and proper use and value for money of monies received from government.

20 All other grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such income.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that so far as we are aware, there is no relevant other information needed by you in connection with preparing your reporting accountant's assurance report on regularity of which you are unaware.

## Loughton School Report to Governors

Each trustee has taken all the steps that he/she ought to have taken as a trustee in order to make themselves aware of any relevant audit/other information and to establish that you are aware of that information.

Yours faithfully

.....  
Signed on behalf of the board of governors

Date.....

# Loughton School Report to Governors

## Appendix 2

Streets Audit LLP  
Potton House  
Wyboston Lakes  
Great North Road  
Bedford  
MK44 3BZ

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as I consider necessary in connection with your assurance report on regularity to Loughton School and the Education Funding Agency (EFA) for the year ended 31 August 2014. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of my knowledge and belief.

### **General**

- 1 I have fulfilled my responsibilities as accounting officer under the requirements of the funding agreement between the academy and the Secretary of State for Education dated 1 July 2013, the Academies Financial Handbook (published June 2013 and updated October 2013).
- 2 I acknowledge my personal responsibility to Parliament for the regularity and propriety of the public finances for which I am answerable; for the keeping of proper accounts; for effective internal controls; for prudent and economical administration; for the avoidance of waste and extravagance; for achieving value for money; and for the efficient and effective use of all the resources in my charge.

## Loughton School Report to Governors

- 3 I acknowledge my responsibility to notify the governing body and the EFA of any instances of material irregularity or impropriety, or non-compliance with the terms of the academy trust's funding agreement and have had due regard to the requirements of the Academies Financial Handbook (published June 2013 and updated October 2013) in performing this duty.
- 4 Any instances of material irregularity, impropriety, or non-compliance discovered to date have been notified to the governing body and the EFA.
- 5 Significant matters of which you should be aware have been brought to your attention including any instances of irregularity, impropriety or non-compliance with laws and regulations specific to the academy trust's authorising framework.
- 6 Full and free access has been granted to all the records, correspondence, information and explanations that you have considered necessary to enable you to perform your work.

Yours faithfully

.....  
Accounting Officer

Date.....