



Audit Findings Report – 31 August 2017

Management Letter to Trustees following conclusion of the Audit
20 October 2017

- 1. Introduction and Management Summary**
- 2. Audit Approach**
- 3. Key Audit Areas**
- 4. Audit Findings**
- 5. Other Issues**
- 6. Appendices**
 - 1. Future Developments in the Sector**
 - 2. Topical Help-sheets**

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1. Introduction and Management Summary

1.1 Outline

This report has been prepared for the trustees of Woodfield School following the audit of the financial statements for the year to 31 August 2017, and will be presented by Landau Baker Limited at the meeting of the trustees on 9 November 2017. The comments and recommendations made in this report arose as a result of our review and are for the sole use of the trustees. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

Our audit work has been carried out with the express objective to enable us to offer an opinion on the financial statements, thus ensuring that they are compliant with the prevailing regulatory requirement listed below:

- Companies Act 2006
- UK Generally Accepted Accounting Practices (including FRS 102)
- Charities Statement of Recognised Practice (2015)
- Academies Accounts Direction 2016 to 2017

We have also carried out a limited assurance engagement as to whether the expenditure disbursed and income received by Woodfield School for the year to 31 August 2017 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

The scope of the above work has been communicated to the trustees through our audit planning letter, and our terms of engagement detail the respective responsibilities both Landau Baker Limited and the trustees.

We would like to express our thanks to Natalie Kampta, Rasmita Mistry and the finance team for their assistance during the audit.

1.2 Nature and Scope of the Audit

We set out below an outline of the nature and scope, including where relevant, any limitations thereon, of the work we propose to undertake and the form of the report we expect to make

We have a duty to form an opinion on the financial statements at the end of the audit. We must give an opinion on whether the financial statements give a true and fair view at the year end, whether the financial statements have been properly prepared in accordance with the Companies Acts 2006, we must also state whether all the information and explanations which we consider necessary for the purpose of the audit have been obtained, whether proper books of account have been kept by the academy and whether the information given in the Trustees' Report is consistent with the financial statements.

We will express an unqualified opinion when the financial statements give a true and fair view in accordance with the financial reporting framework. Any modification to this unqualified audit opinion will be expressed in our auditor's report.

We will conduct our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the financial statements.

We will document the internal controls and the systems of the academy. We will review internal and external operational, financial, compliance and other risks facing the academy, which might affect the financial statements, including the likelihood of those risks materialising and how they are managed.

We will also document and review the control environment within the academy, including the attitude of management to controls and whether management have a process for keeping under review the effectiveness of the system of internal control and, where a review of the effectiveness of internal control has been carried out and the results of that review.

We will also review the actions that the trustees plan to take in response to matters such as developments in law, accounting standards and other developments relevant to the academy's financial statements.

1.3 Audit Opinion

At the date of this report, nothing has been identified which would warrant the issuing of a qualified audit opinion or modified conclusion in our regularity assurance report.

Our specific observations and recommendations have been highlighted in section 4.

2. Audit Approach

2.1 Materiality

Our audit work does not attempt to verify that the financial statements are 100% correct. We employ the concept of materiality to decipher whether any error or misstatements found during the audit process require adjustment.

When assessing materiality, we utilise our professional judgement whilst considering the following:

- Whether the omission or misstatement of an individual item would reasonably influence the reader of the financial statements; and
- Whether the adjustment or non-adjustment of individual item would impact on the true and fair view of the financial statements.

The overall level of materiality for the financial statements of Woodfield School has been set at £37k. This was set during the planning stage of the audit, using the level of funding received by Woodfield School, and we are satisfied that it continues to be appropriate.

Any unadjusted misstatements above the trivial level of £1,850 have been recorded on the Summary of Unadjusted Errors [Appendix 5.1].

2.2 Independence and Objectivity

In accordance with the Auditing Practices Board's Ethical Standards we as auditors must ensure that our independence and objectivity is maintained at all times. The following threat and safeguards identified at the planning stage were as follows:

a. Long association with the audit engagement

The engagement partner has not been involved with the audit for more than 10 years. However, there may be a perceived loss of independence due to self-interest, self-review or familiarity (as per APB Ethical Standard 3). In order to address such threats, we applied the following safeguards appropriate to the audit. These are outlined below.

- i. The audit manager has not been involved with the audit for more than 5 years.
- ii. The perceived ethical threats are regularly reviewed.
- iii. A sample of our audit files are subject to review each year by an independent member of the Institute of Chartered Accountants in England and Wales, who specialises in this type of technical review. The audit files selected for review are chosen by reference to the perceived risk associated with those audit files.
- iv. The Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales, who is our audit regulator,

visits us from time to time and carries out, amongst other things, independent reviews of our audit files.

- v. We use an independently produced audit programme.
- vi. We use an independently produced accounts disclosure checklist.

b. Non-audit services provided to the audited entity

Landau Baker Limited is also engaged by Woodfield School to provide the following non-audit services detailed immediately below.

- Preparation of Statutory Accounts
- Preparation and Submission of Corporation Tax Return
- Annual Accounts Return
- Teacher's Pension – End of Year Certificate
- Land and Building Collection Tool

There may therefore be a perceived loss of independence due to self-review and a management threat (as per APB Ethical Standard 5). In order to address such threats, we applied the following safeguards. These are outlined below.

- i. The non-audit services are provided by a separate team from the engagement team, and the team providing the non-audit services avoids taking any action or making any statement that compromises the independence or objectivity of the engagement team, for example, expressing any opinion about the approach that the engagement team might take or the conclusion it might reach when considering the appropriateness of accounting or other audit judgements.
- ii. The audit team is satisfied that a member of management has been designated by the audited entity to receive the results of the non-audit service and has been given the authority to make any judgements and decisions of the type set out in paragraph 34 of APB Ethical Standard 1 that are needed.
- iii. The audit team concludes that that member of management has the capability to make independent management judgements and decisions on the basis of the information provided.
- iv. The perceived ethical threats are regularly reviewed.
- v. A sample of our audit files are subject to review each year by an independent member of the Institute of Chartered Accountants in England and Wales, who specialises in this type of technical review. The audit files selected for review are chosen by reference to the perceived risk associated with those audit files.
- vi. The Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales, who is our audit regulator, visits us from time to time and carries out, amongst other things, independent reviews of our audit files.

We confirm that, in our professional judgement and having regard to the safeguards in place, the firm is independent within the meaning of the Auditing Practices Board's Ethical Standards and the objectivity of the audit engagement partner and staff has not been impaired during the course of our audit.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

2.3 Qualitative aspects of Accounting Policies and Financial Reporting

During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We would discuss, as necessary, the following items with the trustees:

- The appropriateness of the accounting policies to the particular circumstances of the academy;
- The timing of transactions and the period in which they are recorded;
- The appropriateness of accounting estimates and judgements (e.g. in relation to provisions), including the consistency of assumptions and degree of prudence reflected in the accounting records;
- The potential effect on the financial statements of any uncertainties including significant risks and disclosures, such as pending litigation, that are required to be disclosed in the financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the academy's ability to continue as a going concern;
- The extent to which the financial statements are affected by any unusual transactions during the period and the extent to which such transactions during the period and the extent to which such transactions are separately disclosed in the financial statements; and
- Disagreements about the matters that, individually or in aggregate, could be significant to the academy's financial statements or in the auditor's report. These communications include consideration of whether the matters have or have not been resolved and the significance of the matters.

We trust that this more formal approach to the above matters will be helpful to you.

2.4 Trustees' Responsibilities

As required by the Companies Act 2006 s418 (2) the Trustees' Report is required to include a statement confirming at the date of approval of the financial statements, the trustees' have:

- taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information; and
- ensured so far as they are aware that there is no relevant audit information of which the company's auditor is unaware.

3. Key Audit Areas

Our audit work undertaken has been focused upon our assessment of the risk of misstatement of balances reported in the financial statements. Summarised below are the significant risks and reasonably possible risks identified at Woodfield School and a summary of the specific audit testing undertaken. Any key findings pertaining to the work undertaken are summarised in section 4.

3.1 Significant risks identified (ISA 315)

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special consideration. The significant risks identified by the audit team are as follows:

Identified Audit Risk	Audit Approach & Findings
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper revenue recognition of revenue. We will select 100% of grant income and a sample of non-grant income from the sales ledger and trace these items back to source documentation. We will also review any funding restrictions in place. Walkthrough tests will be performed on all other material income streams to ensure the system is operating in line with expectations. Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.
Management override of controls	Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities. We will review accounting estimates, judgements and decisions made by management, test journal entries and review unusual significant transactions. Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.

3.2 Reasonably possible risks identified

Identified Audit Risk	Audit Approach & Findings
Fund Allocation	Review the allocation between funds to confirm that it has been correctly undertaken in accordance with both regulation and precedence. Specifically confirm that income and expenditure allocation is accurate and any transfer between funds has the appropriate authority. Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.
Payroll Costs	Agree the total payroll costs per the reports to the staff costs reported in the financial statements. Agree payments made on a sample basis. Test check a sample of employees to ensure existence and that their individual deductions are correctly calculated.

	<p>Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.</p>
Local Government Pension Scheme	<p>Sense check the assumptions made by the actuaries to ensure that they are comparable with the industry standard. Review the accuracy of the calculation made.</p> <p>Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.</p>
Related Parties	<p>Enquire with management as to the existence of any related parties. Review the accounting records and any other governorships / directorships held, thus confirming that all relevant disclosures have been made within the financial statements.</p> <p>Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.</p>
Accounting Estimates	<p>Consider and document all significant accounting estimates used in the preparation of the financial statements. Review all estimates made for accuracy, appropriateness and consistency.</p> <p>Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.</p>
Governance	<p>Review of the financial procedure manual and the financial systems to ensure that the appropriate level of governance is adhered to. Typical review work concerns the convening of regular meetings, the timely submission of reports and the correct disclosures made as prescribed by the prevailing regulations.</p> <p>Our audit work undertaken did not indicate any reason why the identified audit risk could not be mitigated.</p>

4. Audit Findings

As stipulated by the Academies Accounts Direction 2016 to 2017, all findings detailed below have been given a priority rating as follows:



High Priority – should be addressed as a matter of urgency.



Medium Priority – recommendations to be implemented as soon as practical

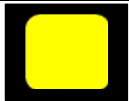




Low Priority – recommendations made but little risk – to be dealt with in the future


4.1 Interim Audit

Points identified in previous management letter 29 June 2017.

Findings	Recommendation	Current Position	Priority
<p>1. Governance We noted that the following documents are not available on the academy's website:</p> <ul style="list-style-type: none"> a) The members of the academy trust b) ESFA funding agreement c) Memorandum of association d) Articles of association 	<p>The full names, date of appointment / resignation of each member must be disclosed on the academy web-site in terms of paragraph 2.5.2 of the Academies Financial Handbook. Academies should publish their funding agreement, memorandum of association and articles of association on their website, as per DfE guidance (see the link below). https://www.gov.uk/guidance/what-academies-free-schools-and-colleges-should-publish-online</p>	<p>Woodfield School will place the listed documents on the school website by close of business on Friday 10 November 2017</p>	
<p>2. Register of Business Interests We noted that the register of business interests was not completed by Chris Justic.</p>	<p>The register of business interests should be maintained and kept up to date for all governors and staff with significant financial responsibilities to avoid conflicts of interest arising.</p>	<p>Chris Justic resigned from the Governing Board in March 2016.</p>	
<p>3. Aged Creditors List The aged creditors list at 30 April 2017 totalled £555.37 (debit balance), whereas the creditors per the nominal ledger were</p>	<p>At each month end, the balance on the creditors listing should be reconciled to the creditors balance in the nominal ledger and any differences should be investigated and explained.</p>	<p>The aged creditors listing at the year end has been fully reconciled to the nominal ledger</p>	n/a

Findings	Recommendation	Current Position	Priority
£48,052.24.			
4. Purchases We noted that some purchase orders were dated after the corresponding invoice date.	In order that all purchase orders are committed on the academy's accounting system, enabling the budget to be effectively monitored and overspending avoided, we recommend that purchase orders are raised, authorised and submitted to suppliers before goods and services and invoices are received.	Woodfield staff are reminded at the start of each term of the need to raise purchase orders in advance. However, the very nature of responding to the urgent needs of teaching and learning will result in the occasional lapse in process.	
5. Tending Procedure We noted that the academy only obtained two quotations for the works required for storage walls. The total work cost £38,330.	According to the academy's financial procedures, written quotations should be obtained from three different suppliers to ensure the academy obtains the best value for money.	Woodfield School raised a 'Contract Procedure Rules' waiver in relation to these works. The school will pass a copy to Landau Baker.	
6. Other documents The following document was not available for review: - Updated risk register	We shall be grateful if the academy could let us have the documents at the final stage of the audit.	Formal response to Interim Management Letter not yet received. Sincere apologies	

4.2 Final part of the Audit

Findings	Recommendation	Priority	Management Response
1. Off Payroll Working We note that G Foley and N Kampta are not included on the payroll and invoice the academy for their work done.	Following new legislation, there is an increased responsibility on the Academy to ensure that the relevant PAYE and NIC deductions are paid on all individuals deemed employees. We draw your attention to our guidance contained in section 6.2.1, concerning this.		Woodfield School will forward extract from the GOV UK HMRC 'Employment Status Checker' showing that Intermediaries Legislation does not apply to the engagement of either G Foley or N Kampta

5. Other Issues

5.1 Schedule of Unadjusted Errors

There were no errors that we noted in carrying out our audit that have not already been adjusted in the financial statements.

5.2 Other communication requirements

- We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedure
- We are not aware of any related party transactions which have not been disclosed
- We are not aware of any significant incidences of non-compliance
- Our review of the financial statements has found no material omissions in the financial statements

5.3 Misstatements Identified

There have been no material misstatements identified during the course of our audit work.

5.4 Significant difficulties met

There were no significant difficulties encountered during the course of our audit work.

6.1 Future Developments in the Sector

6.1.1 Teacher's Pension Scheme

It is anticipated that the employer's contribution rate will increase from the current level of 16.48%, to a figure upwards of 18%, and likely nearer to 20%.

As staff costs form a large percentage of the academy's total expenditure, any increase in the pension contributions is likely to have a significant impact, as can be seen from the summaries below, and will need to be budgeted accordingly.

Example Primary School

	Current level	Projected increase 1	Projected increase 2
Gross Teacher's Pay	£1,250,000	£1,250,000	£1,250,000
Contribution Rate	16.48%	18%	20%
Total TPS contribution	£206,000	£225,000	£250,000
Annual Increase		£19,000	£44,000
Monthly Increase		£1,583	£3,667

Example Secondary School

	Current level	Projected increase 1	Projected increase 2
Gross Teacher's Pay	£4,000,000	£4,000,000	£4,000,000
Contribution Rate	16.48%	18%	20%
Total TPS contribution	£659,200	£720,000	£800,000
Annual Increase		£60,800	£140,800
Monthly Increase		£5,067	£11,733

6.2 Technical Help-sheets

6.2.1 OFF - PAYROLL WORKING

The 2017 draft Finance Bill confirms the new anti-avoidance measure to tackle the disguised employment of individual workers who use an intermediary, whether a personal service company, partnership or individual (intermediary), to provide their services to a school or academy for example. The new legislation will take effect for any payments made after 6 April 2017 and will impact both new and existing agreements for the supply of workers via an intermediary.

The new rules are designed to capture workers who use intermediaries to provide services to, for example, schools and academies and avoid paying the full amount of employment tax and NICs where, in fact, if the individuals were directly engaged by the schools or academies, they would be either employees or office holders of those schools or academies and subject to PAYE and NIC deductions on payments received.

From 6 April 2017, each school or academy (or agency or other third party) will become responsible for considering new rules and where relevant operate PAYE and NIC deductions on any payments made to the worker.

A worker will need to provide personal details to the school or academy (or agency or third party) including their National Insurance number, date of birth and personal address, P45 from previous employments in the tax year, if available, and details of the bank account into which payments will be made. A worker for this purpose may be for example, a peripatetic music teacher and a clerk.

In general, in order to determine whether a worker not providing services through an intermediary should be treated by a school or academy as an employee, or self-employed, HMRC provide an employment status tool on their website which can be used to reach a decision. Please refer to:

www.gov.uk/guidance/employment-status-indicator

If you have any questions relating to these matters, please contact Michael Durst at our office who will be pleased to assist.

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6.2.2 VAT ON CATERING

	Does the academy claim VAT via s. 126 claim or is it VAT registered?	Meals supplied by Academy at 'cost or less' or 'for profit'?	Pupil Meals	Staff & Visitor Meals	Comments
1) Caterer is principal	Either	n/a	Standard rated supply by caterer to pupils	Standard rated supply by caterer to staff and visitors	
2) Academy is principal Caterer is agent	s. 126 claim	Cost or less	Non-business No VAT charged as outside the scope of VAT	Business income* No VAT	*Business income would not be subject to VAT unless the academy breaches the VAT registration threshold due to its taxable income.
	Input VAT recovery on catering costs?		Yes – relates to non-business activities	No – apply apportionment	
3) Academy is principal Caterer is agent	Registered for VAT	Cost or less	Non-business No VAT charged as outside the scope of VAT	Business income Standard rated supply by academy	
	Input VAT recovery on catering costs?		Yes	Yes	
4) Academy is principal Caterer is agent	s. 126 claim	Cost or less	Non-business No VAT charged as outside the scope of VAT	Provided free of charge	
	Input VAT recovery on catering costs?		Yes	No – apply apportionment	

	Does the academy claim VAT via s. 126 claim or is it VAT registered?	Meals supplied by Academy at 'cost or less' or 'for profit'?	Pupil Meals	Staff & Visitor Meals	Comments
5) Academy is principal Caterer is agent	Registered for VAT	Cost or less	Non-business No VAT charged as outside the scope of VAT	Provided free of charge Academy should account for output VAT based on cost	If the academy does not account for equivalent output VAT, it should block the recovery of input VAT on these costs.
	Input VAT recovery on catering costs?		Yes	Yes (but see comments)	
6) Academy is principal Caterer is agent	s. 126 claim	For profit	No VAT - trading income*	No VAT - trading income*	*Trading income would not be subject to VAT unless the academy breaches the VAT registration threshold due to its total taxable income and then it must use the VAT position for VAT registered shown in (7) below.
	Input VAT recovery on catering costs?		No	No	The academy cannot recover the VAT because it is making trading supplies whilst unregistered.
7) Academy is principal Caterer is agent	Registered for VAT	For profit	Business income Standard rated supply by academy	Business income Standard rated supply by academy	
	Input VAT recovery on catering costs?		Yes	Yes	