

# Audit management letter

For the year ended 31 August 2016 for

**Buckinghamshire University Technical College**

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# 1. Introduction

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This report has been prepared for the trustees of Buckinghamshire University Technical College (BUTC) to bring attention to those charged with governance various matters arising from the audit of the academy trust for the year ended 31 August 2016.

Our audit and assurance procedures, which have been designed to enable us to express an opinion on the financial statements and provide a limited assurance conclusion on regularity, have included an examination of the transactions and controls thereon of the company.

The work we have done was not primarily directed towards identifying weaknesses in the company's accounting systems, other than those that would affect our audit or assurance opinions, nor to the detection of fraud. We have, however, designed our audit and assurance procedures in such a way that we felt would increase our chance of detecting any fraud.

We have included in this report only those matters that have come to our attention as a result of our normal audit and assurance procedures and, consequently, our comments should not be regarded as a comprehensive record of all weaknesses that may exist or improvements that could be made.

This report is to be regarded as confidential to the trustees of BUTC and is intended only for use by them, and the staff of BUTC. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this report, or any part of it, is disclosed to a third party, other than to the Education Funding Agency, our written consent must be obtained.

The report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could result in material loss to BUTC or misstatement of the financial statements and other financial data.

## **Roles and Responsibilities**

The governors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the trustees confirm that our understanding of all of the matters referred to in this report are appropriate, having regard to their knowledge of the particular circumstances.

## 2. Overview

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### Audit Status and overall opinion

We set out below the current status of the audit and our timetable to completion.

We have substantially completed our work, and intend to issue an unmodified audit opinion, subject to the trustees' approving the financial statements and any other minor outstanding items listed below being received and/or completed.

The follow matters are outstanding at the date of this report:

- EFA General Annual Grant claw back impact on going concern
- Final review and approval by you of the final financial statements, including Trustees Annual Report;
- Post balance sheet events review to the date of signing the financial statements, including review of latest minutes and management accounts;
- Receipt of signed letter of audit representation.
- EFA electronic submission

### Timetable to complete

The anticipated time to complete is as follows:

Trustee board meeting to approve financial statements	14 December 2016
Signing of the trust financial statements	14 December 2016
EFA electronic submission	19 December 2016

## 2. Overview

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### **Independence and ethical standards**

We have not identified any potential threats to our independence as auditors. Please see page 5 for further details.

### **Audit scope and objectives**

We set out the scope and objectives of our audit. See page 7.

### **Overall audit strategy**

We set out our overall audit approach. See page 8.

### **Key audit and accounting issues**

We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified during our audit.

During our audit we found no instances of fraud or irregularity.

During our limited scope assurance engagement on regularity we identified an instance where the trust has not been compliant with the Academies Handbook during the year, and we have reported this as an exception in our regularity opinion.

### **Recommendations**

We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit, along with any other deficiencies identified.

## 2. Overview

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### **Misstatements and adjustments to the accounts**

It is considered good practice to inform you of any material misstatements within the financial statements presented for audit that have been discovered during the audit. A material misstatement is one where the auditors believe that the misstatement is such as to affect the reader's understanding of the accounts. Materiality is considered in relation to the value of the misstatement and also its context and nature.

We are pleased to report that we did not identify any material misstatements during the course of our audit.

It is generally not practicable to make accounts completely accurate because judgements need to be made and it is difficult to obtain 100% of information about all transactions. Our role is to ensure that deviations from complete accuracy are not material to the reader of the accounts. During the course of our audit we have come up with various proposed adjustments to make the accounts more accurate. We are required by Auditing Standards to inform you of any such adjustments which have not been made, other than those deemed to be clearly trivial. Details of these are given in Appendix II.

We are required to request that you review these adjustments and consider amending the financial statements accordingly, and to confirm your reasons for not making the adjustments, if this is your decision.

The unadjusted audit differences in total would reduce the draft net expenditure and increase the draft balance sheet total by £43,368 respectively.

### **Going concern**

The trustees need to give consideration to the level of reserves maintained, and consider going concern for the period to 31 August 2016, being at least 12 months from the approval of the accounts and ensure they agree with the assessment. This is to be confirmed subject to clarification from EFA.

### **Thanks**

We would like to take this opportunity to thank Bob Carvey, the finance team and other staff for their co-operation and assistance afforded to us during the course of the audit.

### 3. Independence

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Under current UK Ethical Standards we are required as auditors to confirm our independence to “those charged with governance” i.e. the governors/trustees.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors.

The procedures require that the audit engagement partner is made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 August 2016.

In addition to performing the statutory audit, we also provide the following non-audit services:

1. preparation of the statutory financial statements;
2. certification of the Teachers’ Pension End of Year Certificate “EOYC”;
3. the completion of the August Accounts Return and providing an assurance thereon;
4. provide general advice as required, including attendance at one audit committee meeting, by the engagement partner.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards, and are able to express an objective opinion on the financial statements.

The following safeguards are in place to ensure our independence:

1. the preparation of the financial statements from your own draft Sage accounts is largely a mechanical function to present the results in the necessary format required by the Annual Accounts Direction. Any adjustments required were made in Sage One
2. the certification of the Teachers’ Pension EOYC does not affect our audit;

### 3. Independence

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1. the completion of the August Accounts Return is largely an exercise involving the extraction of the relevant numbers from the financial statements and support accounting records, and the provision of an assurance report confirming that the Return has been completed consistently with the financial statements and other supporting records is not considered to affect our audit;

Should you have any comments or queries regarding this confirmation we would welcome discussion in more detail.

## 4. Audit scope and objectives

Our statutory audit of the financial statements is carried out in accordance with International Standards on Auditing (UK and Ireland) of the statutory financial statements, with the aim of forming an opinion whether:

The financial statements give a true and fair view of the state of the academy trust's affairs as at 31 August 2016 and of the academy trust's result for the period then ended.	The financial statements have been properly prepared in accordance with FRS 102, the Charities SORP 2015.	The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and the Annual Academies Accounts Direction 2016 issued by the Education Funding Agency.	The information given in the Trustees' Report for the financial year is consistent with the financial statements.
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We also report on whether:

The academy trust has kept adequate accounting records.	The financial statements are in agreement with the accounting records and returns.	Other information contained in the annual report is not consistent with the audited financial statements.	Certain disclosures of trustees' remuneration specified by law are not made.	We have not received all the information and explanations we require for our audit.
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## 5. Overall audit strategy

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### **Risk-based audit**

We performed a risk-based audit, focusing our work on key audit areas. We began by developing further our understanding of the trust's activities and the specific risks it faces. We held an initial planning meeting with key management and finance staff to ascertain management's own view of potential audit risk, and to gain an understanding of the trust's activities. We have also developed an in depth understanding of the accounting systems and controls so that we may ensure their adequacy as a basis for the preparation of the financial statements, and that proper accounting records have been maintained.

Our audit procedures were carried out, and we ensured that the presentation and disclosure in the accounts met all the necessary requirements.

### **Risk-based limited assurance engagement**

In addition to our audit opinion we are also required to perform a limited scope assurance engagement, reporting both to you and to the Education Funding Agency ("EFA"), considering whether the expenditure disbursed and the income received by the trust during the period 1 September 2015 to 31 August 2016 has been applied to the purposes identified by Parliament and that the financial transactions undertaken by the trust conform to the authorities which govern them. This latter point is concerned with looking at compliance with the requirements of the various frameworks that apply to trust, including your memorandum and articles, your funding agreements, the Academies Financial Handbook(s) extant for the relevant period, the Accounts Direction 2015/2016, the Charities Act 2011 and the Companies Act 2006.

Our approach was once again risk-based. We began by developing our understanding of the trust's own approach to ensuring the proper application of funds received and to ensuring compliance with relevant legal and contractual frameworks. We developed an understanding of the trust's governance arrangements and internal control procedures, planning our work accordingly to allow us to gain sufficient evidence to give the required limited assurance opinion. Our assurance procedures included reviewing and commenting on the "Accounting Officer's Statement on Regularity, Propriety and Compliance, and the trustees' report and governance statement. We also confirmed the procedures performed with the Accounting Officer so that he may sign the Regularity report.

## 5. Overall audit strategy

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### Significant risks

As part of our audit procedures we are required to consider the significant risks that require special audit attention. Auditing Standards require us to consider:

- Whether there is a risk of fraud;
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- The complexity of transactions;
- Whether the risk involves significant transactions with related parties;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

The identified significant audit risks were communicated to you in our audit planning report issued before our main fieldwork began. We now note the work performed and conclusions drawn on the following pages:

## 5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Revenue recognition	<p>The auditor's responsibility to consider fraud in an audit of financial statements means that there is an assumption that revenue recognition is a fraud risk.</p> <p>Income from grants should be recognised when the conditions of recognition have been satisfied.</p> <p>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</p> <p>Management exercise judgment in determining when income from grants should be recognised.</p> <p>There is also potentially management judgement in the classification of income between restricted and unrestricted funds.</p>	<p>We documented the income systems and carried out audit procedures to gain assurance over the operation of internal financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and academy finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed governors' and Finance Committee meeting minutes. We have not been made aware of any significant frauds that occurred during the year.</p> <p>Our audit testing involving sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income recognition, whether relating to fraud or error, however we have raised some recommendations later in this report.</p>

## 5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Management override	<p>The trustees and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Trustees should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where they could override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly.</p> <p>During our audit we considered the possibility of manipulation of financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>Our audit procedures have not identified any instances of management override.</p>

## 5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Regularity of income and expenditure</p>	<p>As set out on page 9 we are required to obtain limited assurance about whether the expenditure disbursed and income received by the trust during the financial year have been applied to the purposes intended, and whether the financial transactions conform to the authorities which govern them.</p> <p>The Accounts Direction 2016 lists the following matters which may be potential triggers for an increased likelihood of irregularity in an established academy trust:</p> <ul style="list-style-type: none"> <li>• culture (attitude and values) within the academy trust;</li> <li>• a change in accounting officer, principal finance officer or significant changes in the board of trustees;</li> <li>• an expansion of the number of academies within the academy trust; and</li> <li>• changes to the scheme of delegation or major accounting systems.</li> </ul>	<p>We documented income systems and carried out audit procedures to gain assurance over the operation of financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and academy finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed governors' and Finance Committee meeting minutes, and Responsible Officer reports. We have not been made aware of any significant frauds that occurred during the year.</p> <p>Our audit testing involving sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income recognition, whether relating to fraud or error, however we have raised some recommendations later in this report.</p>

## 5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Related and connected parties</p>	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the Companies Act 2006 and Academies Accounts Direction 2016. In particular, section 9.4.12 of the Accounts Direction 2016 requires that:</p> <ul style="list-style-type: none"> <li>• declarations of business interests have been completed by those in a position to influence the academy trust, including key staff;</li> <li>• contracts with connected parties have been procured following the academy trust's procurement and tendering process;</li> <li>• where contracts are entered into or renewed on or after 7 November 2013 the academy trust has obtained statements of assurance (confirming no profit element was charged) and the academy trust has followed their internal processes in reviewing this;</li> <li>• the academy has requested, under the open book arrangement, a clear demonstration that the charges do not exceed the cost of supply;</li> <li>• governors who provide consultancy services to the academy are not receiving a profit for their services and the correct procurement and tendering process is being followed;</li> <li>• no connected party gains from their position by receiving payments under terms that are preferential; and</li> <li>• if employees are providing external consultancy that the income is being received into the academy's accounts if the work was performed within the academy's normal working hours.</li> </ul>	<p>We discussed with management and reviewed trustee and other senior management declarations to ensure there are no potential related party transactions which have not been disclosed.</p> <p>Internal procedures in place for the identification of related party transactions were reviewed and assessed, and any relevant information concerning any such identified transactions was reviewed.</p> <p>A Companies House search was completed for each of the trustees to identify possible related parties with which the trust may have transacted.</p> <p>We have requested written management representations from you confirming the full disclosure of related party transactions.</p>	<p>A small number of related party transactions have taken place between the trust and parties connected to the trustees during the year.</p> <p>Our audit work has provided assurance that the related party transactions disclosed in the financial statements are complete.</p>

## 6. Audit issues identified in the year

This section updates you on the issues we identified in the year, and confirms whether any further action is required.

Issue and cause	Solution suggested	Follow up comment
<p>A fixed asset register is maintained but wasn't updated for the additions – particularly for the assets donated by CISCO.</p>	<p>A full fixed assets inventory should be undertaken so that fixed assets can be itemized and the values of the assets recorded in the fixed assets register verified.</p>	<p>Agreed, we are also at the point where some disposals will occur.</p>
<p>In our attempt to physically verify the existence of fixed assets we noted that no assets are marked in any way to make identification possible.</p> <p>We were therefore unable to determine whether the assets inspected are included in the fixed assets register for the reasons noted above.</p>	<p>As part of the fixed assets inventory suggested above, all assets should be marked or numbered in such a way that individual assets can be readily identified. This will also make it easier to determine if any assets are missing.</p>	<p>Whilst PC's have an identification number embossed on the case, this practice was not included across all assets at the outset, nor since. When completing the audit mentioned above, as necessary items will be given identification numbers.</p>

## 6. Audit issues identified in the year

<p>There is no evidence that physical inspections of fixed assets are taking place on a regular basis.</p> <p>Fixed assets could be taken off site or go missing without the knowledge of the management team.</p>	<p>Carry out regular (monthly or quarterly) physical inspections of a sample of fixed assets. This inspection should be undertaken by a nominated individual who is responsible for the custody of assets in a department. Spot checks should also be undertaken by the Business Services Director as an additional control.</p>	<p>This is a recognized shortfall, which was initially to be included in a computing module and therefore undertaken by students, supervised by the class teacher. This and other "IT" aspects were tried during the year, but proved not workable. SLT will review in early 2017.</p>
<p>The depreciation is material to the accounts but is not being calculated during the year.</p>	<p>Depreciation should be calculated monthly so that this is taken into account when preparing the quarterly management accounts.</p>	<p>Agreed</p>

## 7. Recommendations for the current year

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### Significant deficiencies in internal control

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. As the purpose of the audit is for us to express an opinion on the trust's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

The following significant deficiencies were identified during our audit work, and we note our recommendations below, along with the response we have received from the trust and the timescale involved in addressing the issues:

Area	Observation	Recommendations	Management response
All areas	No significant deficiencies were noted	None	None

## 7. Recommendations for the current year

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We are also required to communicate other significant audit findings such as:

- where we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate in the particular circumstances of the entity;
- significant difficulties, if any, encountered during the audit; or
- other matters, if any, arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process are communicated to those charged with governance.

We confirm that we have nothing to report to you in any of the above three areas.

### **Other deficiencies in internal control**

We also bring to your attention other deficiencies that came to our attention during our work, again along with our recommendations, and your own response:

## 7. Recommendations for the current year

Risk	Area	Observation	Recommendations	Management response
High	Employee expenses	There is no formal expenses policy in place.	A formal expenses policy be introduced and all staff made aware of what the policy is. Two key reasons for such a policy are to control expenses and improve productivity by allowing decision makers to make quicker decisions.	Agreed
High	Procurement of goods and services	There is no formal procurement policy in place.	A formal procurement policy be introduced. Such a policy should ensure a cost effective and legally compliant approach to all purchasing.	Whilst purchasing is very small at present, the need is recognized and will be implemented.
High	Related and connected parties and transactions	There is no register of related and connected parties.	A formal register be introduced to record all related and connected parties. This will ensure that beyond its legal and financial reporting requirements, the UTC makes disclosures for the purposes of transparency and to ensure that any potential, known or perceived conflicts of interest are effectively managed.	Agreed. This will also be linked to the persons of influence data.

# I. Appendix I – Unadjusted audit queries

We are required to bring to your attention audit adjustments that the trustees are required to consider. A schedule of such adjustments is included below.

No.	Description	Dr	Cr	Effect on SOFA
	Net movement in funds per draft financial statements			(250,149)
1	<u>Employment allowance incorrectly claimed twice</u>			
	Other taxes and social security	4,000		
	Employers NI		4,000	4,000
		<u>40,000</u>	<u>40,000</u>	
	Net movement in funds per draft financial statements after adjustment			<u>(246,149)</u>