Internal controls observations

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Internal controls issues

The academy trust's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to the academy trust.

In consequence, our work cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

We would be pleased to discuss any further work in this regard with the Board.

Our testing to date has identified the following significant control weaknesses which we consider should be brought to the Board's attention.

We have a system of grading our control weaknesses. Each weakness is graded based on the potential risk level to the academy trust:

High — The academy trust is subject to levels of fundamental risk or inefficiency where immediate action should be taken to implement an agreed action plan.

Medium — Attention should be given to resolving the position as the academy trust may be subject to significant risks or inefficiency.

Low — Desirable improvements could be made to improve the control framework or strengthen the ability to mitigate against risks and improve efficiency.

Best Practice — Point brought to the attention of management as best practice only and the issue raised does not impact on the overall control environment.

Current Year Points

Risk Rating	Weakness	Risk	Recommendation	Management Response
Medium	**Bank Reconciliations** Bank reconciliations are not being completed accurately resulting in unknown differences.	Risk that the academy is maintaining inadequate accounting records and is a breach of the responsibilities of the Board of Trustees and Accounting Officer. Not reconciling the bank can result in difficulties in detecting any potential fraudulent activities, assessing the academies current cash position and highlighting any unknown amounts through the bank.	Bank reconciliations should be being completed on a monthly basis with the balance per the trial balance accurately reconciling to the bank statement. The reconciliation should be completed within a few days of bank statements being received and should be passed to the Accounting Officer to review and authorise.	Client will ensure that the bank is reconciled accurately on a monthly basis.
Medium	**Year End Procedures** Not all year end journals were posted to the system. These are then being posted by the audit team during the audit. This was also a control weakness in the prior year.	Risk is that the Board and Accounting Officer are failing to comply with their responsibilities. Both are responsible for maintaining adequate accounting records and ensuring that the academy has proper stewardship. Without these year-end postings, the Accounting Officer is unable to provide assurance to the Secretary of State that the academy funds are in sound financial health.	It is our recommendation to take on training as it seems this is an issue due to a lack of knowledge or understanding. This will help understand the importance of year-end journals and their impact on the financial statements.	Client will be taking some extra training courses in the year in order to close the knowledge gap on year end procedures.
Low	**Personnel Files** Personnel files maintained are not up to date and salaries paid to employees cannot be verified.	Risk that incorrect salaries are paid to employees.	All amendments to contracts of employment should be updated and included within the employee's personnel file. A new contract is not required for every amendment, but some evidence should be placed on file e.g., a letter informing an employee of their new salary or an effective increase as authorised by senior management.	Client will seek to ensure all salary letters have been updated at the correct rates for every member of staff.

Risk Rating	Weakness	Risk	Recommendation	Management Response
Low	**Journal Posting for Stock** The current control environment in relation to the processing and authorisation of journals is weak. The stock journal had not been posted correctly.	Risk that staff can easily override controls within the Trust and potentially manipulate figures to hide any fraudulent activity.	The recommendations are as follows: All journals posted should be printed and retained with supporting documentation attached. All journals should be authorised by the Business Manager and journal print signed. Management should review the full management accounts on a regular basis as well as departmentalised accounts and investigate any anomalies.	Journal was misposted and more effective controls to approve journals will be taken in the future.
Low	**Trade creditors** Outstanding invoices which were paid in September 2023 are not on the aged creditors report.	Misstating trade creditors can lead to either an overstatement or understatement of an academy's liabilities on the balance sheet. An understatement may present a misleadingly positive financial position.	To mitigate the risk of trade creditors being misstated, the client should maintain robust internal controls, follow generally accepted accounting principles, and perform regular reconciliations and reviews of their accounts payable.	Client to reconcile trade creditors as part of month end management processes.

Previous Year Points

Risk Rating	Weakness	Risk	Recommendation	Current year update	Cleared?
Medium	At the time of the audit, it was noted that month end procedures had not been performed. As such, adjustments for year-end prepayments, accrued income, accruals, deferred income, and stock movements were not posted to the nominal ledger.	There is a risk that the income, expenditure, debtors, and creditor balances within the financial statements are materially misstated.	Ensure that month-end procedures are performed to include prepayment, accrued income, accruals, and deferred income movements, and ensure that these are posted promptly on a monthly basis.	*All month end procedures were performed manually, however we noted that not all year end journals were not posted through the system.*	✘
Low	It was identified during the audit that there were some instances of income being posted to the incorrect income nominal code.	There is a risk that income is not correctly classified which could affect monthly reporting and budget decision making.	It is recommended that a monthly review is performed of the income nominals to ensure that income has been classified in the correct nominal code.	*All income was posted correctly in the current year*	✔