

# The Audit Findings for the Shottermill Recreation Ground Trust

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**Year ended 31 March 2015**

11 December 2015

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11 December 2015

Dear Councillor Knowles

**Audit Findings for Shottermill Recreation Ground Trust for the year ended 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. 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 you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Tom Davies – Engagement Lead

**Chartered Accountants**

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# Section 1: Status of the audit and opinion

**01. Status of the audit and opinion**

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03. Fees, non audit services and independence

04. Communication of audit matters

# Status of the audit

**Our work is substantially complete and there are currently no matters of which we are aware which would require modification of our audit opinion, subject to the outstanding matters detailed below.**



We are currently in the process of undertaking our final internal review processes, including our review of the revised Accounts, to ensure that all amendments have been processed correctly. However at the current date we are satisfied that the Charity has processed all of the required amendments to date, so the likelihood of any further amendments arising is reasonably low, and will not impact the main Financial Statements.

#### Status

- Likely to result in material adjustment or significant change in disclosures
- Potential to result in material adjustment or significant change in disclosures
- Not considered likely to result in material adjustment or change in disclosures

# Audit opinion

**Our anticipated audit report will be unqualified and include an Other Matter paragraph**

Other Matter paragraph – a paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.

The Other Matter paragraph included states:

**Other Matter**

The charity was not required to have a statutory audit for the year ended 31 March 2014 as it was entitled to exemption from the provisions of the Charities Act 2011 relating to the audit of the financial statements for the year by virtue of Section 144 and no Trustee or Trustees had requested an audit pursuant to Section 144 of the Act. Accordingly the corresponding figures for the year ended 31 March 2014 are derived from financial statements that are unaudited.

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## Section 2: Audit findings

01. Status of the audit and opinion

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# Significant findings

	Risks identified in our audit plan	Commentary
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</li> </ul>	<p>The work planned and performed was as follows:</p> <ul style="list-style-type: none"> <li>Review and testing of revenue recognition policies</li> </ul> <p>No issues were noted from our testing in this area.</p> <ul style="list-style-type: none"> <li>Performance of testing on material revenue streams, in particular, we will be focussing on the assets given for use by the Charity from the main Council during the year.</li> </ul> <p>No issues were noted from our testing on the Charity's material revenue streams included within the 2014-15 Accounts.</p>
2.	<p><b>Management override of controls</b></p> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities</li> </ul>	<p>The work planned and performed was as follows:</p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgements and decisions made by management, again in particular focussing on the judgements around the valuation and impairment of the Haslemere Leisure Centre.</li> </ul> <p>No issues of management override were noted from our testing.</p> <ul style="list-style-type: none"> <li>Testing of journals entries.</li> </ul> <p>No issues of management override or any other areas were noted from our testing.</p> <ul style="list-style-type: none"> <li>Review of unusual significant transactions.</li> </ul> <p>No issues of management override were noted from our testing of the significant transactions included within the Accounts.</p>




## Significant findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<p>The Charity's Revenue Recognition Policy is included within Note 3 – Incoming Resources. The Policy is as follows:</p> <p>Activity is accounted for in the year that it takes place, not simply when cash is received. Where income has been recognised, but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet.</p> <p>Where the amount of an item of income relating to the financial year is not known at the 31 March, estimation techniques are applied to ensure that the accounts reflect the most likely position.</p> <p>The following income is received:</p> <ul style="list-style-type: none"> <li>• Grant from Waverley Borough Council – a transfer of funds is made during the year to the value of grant agreed for the financial year, which is the net of total estimated support costs, energy costs, audit fees and management fee income.</li> <li>• Investment income – the Shottermill Recreation Ground Trust uses Waverley Borough Council's bank account. Interest is calculated on the working balance according to the interest rates obtained on Waverley's investments. Interest earned for the year is credited at the year-end to the Shottermill Recreation Ground Trust.</li> <li>• Other incoming resources – spend on the charity's assets by Waverley Borough Council and DC Leisure is included here as assets given for use by the charity.</li> </ul>	<p>The accounting policy is adequately disclosed in line with the requirements of the Charity SoRP.</p> <p>Our testing of the various revenue sources received by the charity did not identify any instances of inappropriate revenue recognition.</p>	<p style="text-align: center;">   <b>Green</b> </p>




**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

## Significant findings – accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgements</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>Useful life of tangible fixed assets</li> <li>Impairments</li> <li>PPE Revaluations</li> <li>Depreciation</li> </ul> </li> </ul>	The charity's critical judgements and estimation uncertainties relating to PPE are disclosed within Note 6 the Accounts, and are in line with the requirements of the Charity SoRP.	 <b>Green</b>
<b>Going concern</b>	The Trustees' have a reasonable expectation that the entity will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Trustees' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the charity's policies against the requirements of the Charity SoRP and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 <b>Green</b>

**Assessment**

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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 procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>The principal laws and regulations with which the entity complies include the Charities Act 2011 and the Charities (Accounts and Reports) Regulations 2005. The Trustees have also complied with the duty in section 4 of the Charities Act 2011 to have due regard to public benefit guidance published by the Charities Commission. We are not aware of any significant incidences of non-compliance.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>Representations will be requested from the entity's Trustee (Waverley Borough Council) to confirm that support will be provided to the entity for at least 12 months from the date of the approval of the financial statements, and that the parent has no intention to dissolve the entity.</li> </ul>
5.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>A number of minor disclosure issues were identified during the course of the audit, further details of which can be seen within the 'Disclosure Issues' Page, which follows within this report.</li> </ul>

# Internal controls

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported

	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> <li>• The entity currently shares a bank account with the Trustee, Waverley Borough Council. The entity's cash balance is calculated by the Trust Accountant at year end based on the Trust's activity during the year, subject to any adjustments for accruals. However there is a risk that if any adjustments or activity are not picked up correctly then the cash balance may be misstated without the secondary check of the independent cash balance from the bank account.</li> </ul>	<ul style="list-style-type: none"> <li>• We recommend that the entity opens a separate bank account to the account which is currently used by both the entity and the Trustee. This would then enable separate bank reconciliations to be performed and any transactions between the entity and the Trustee could then be clearly seen as intra-group transactions between the two bodies involved.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>

**Assessment**

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

# Adjusted misstatements

There were no adjusted misstatements.

# Unadjusted misstatements

There were no unadjusted misstatements.

# Disclosure issues

- The following are disclosure points that are pertinent to the users of the accounts (rather than cosmetic changes e.g. grammar)

	Disclosure issue identified	Management's response	Accounts updated?
1	<ul style="list-style-type: none"> <li>Per Note 4 (Audit Costs) the external audit fee is £2,000 and there are no non-audit fees payable. We have confirmed that there are no non-audit fees payable. But we have agreed an Fee of £5k with the Charity due to the fact this is the first year it has required a full Audit – they have included £2k as this was the fee for the Independent Examination undertaken in 2013-14. Given the fact that they only found out about this in October we would be comfortable that they do not increase for the additional £3k. An additional narrative disclosure confirming the additional £3k has been proposed as in effect the cost is now going to be processed through the 15-16 Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>TBC</li> </ul>	<ul style="list-style-type: none"> <li>Yes – we confirm that this item has been correctly processed within the revised Accounts.</li> </ul>
2	<ul style="list-style-type: none"> <li>Split out the Revaluation Reserve from the Endowment Fund on the Balance Sheet and Note 9 (and add a narrative to Note 9 stating that the Revaluation Reserve only relates to the donated assets). The Charity has agreed to disclose this split for both the current and prior years to enable easy comparison.</li> </ul>	<ul style="list-style-type: none"> <li>TBC</li> </ul>	<ul style="list-style-type: none"> <li>Yes – we confirm that this item has been correctly processed within the revised Accounts.</li> </ul>
3	<ul style="list-style-type: none"> <li>The draft Accounts did not explicitly include a full Trustee's Statement of Responsibilities, as these were originally included within the Notes to the Accounts. The Charity has now agreed to split this Statement out as required.</li> </ul>	<ul style="list-style-type: none"> <li>TBC</li> </ul>	<ul style="list-style-type: none"> <li>Yes – we confirm that this item has been correctly processed within the revised Accounts.</li> </ul>
4	<ul style="list-style-type: none"> <li>Initially there wasn't sufficient disclosure within Note 5 of the level of assets which had been donated to the Charity by the Trustee during 2014-15, and the subsequent impairment which was charged against those assets during the year. The Charity has now agreed to add some additional narrative to make this clear.</li> </ul>	<ul style="list-style-type: none"> <li>TBC</li> </ul>	<ul style="list-style-type: none"> <li>Yes – we confirm that this item has been correctly processed within the revised Accounts.</li> </ul>
5	<ul style="list-style-type: none"> <li>The Charity has enhanced its disclosure around its Going Concern status to provide further information on the support that will be provided by the Trustee should the need arise.</li> </ul>	<ul style="list-style-type: none"> <li>TBC</li> </ul>	<ul style="list-style-type: none"> <li>Yes – we confirm that this item has been correctly processed within the revised Accounts.</li> </ul>



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## Section 3: Fees, non audit services and independence

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# Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Shottermill Recreation Ground Trust Audit	£5,000	• N	N/A
<b>Total audit services</b>	<b>£5,000</b>		

- The above non-audit services are consistent with the entity's policy on the allotment of non-audit work to your auditors.

## Independence and ethics:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. 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

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## Section 4: Communication of audit matters

01. Status of the audit and opinion

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04. Communication of audit matters

# Communication of audit matters with those charged with governance

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Company accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## **Distribution of this Audit Findings report**

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance

## **Respective responsibilities**

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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