



Audit Findings Report

Prepared for Wormwood Scrubs Charitable Trust

Audit for the year ended 31 March 2020

Presented to the Trust Committee on 24 March 2021

Now, for tomorrow

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1 - Introduction

We have pleasure in setting out in this report our comments and recommendations on various matters which came to our attention during the course of the audit of the financial statements of the Wormwood Scrubs Charitable trust (hereafter referred to as 'WSCT' or 'the Charity') for the year ended 31 March 2020.

In order to comply with the provisions of International Standards on Auditing we are required to report to you our audit findings and in particular:

- The nature and the scope of audit work we have undertaken
- Views about the qualitative aspects of your accounting practices and financial reporting
- Unadjusted and adjusted misstatements
- Matters specifically required by Auditing Standards to be communicated to those charged with governance (such as fraud and error)
- Expected modifications to our auditor's report
- Material weaknesses in the accounting and internal control systems and
- Any other relevant and material matters relating to the audit.

This report has been prepared for the sole use of the Trust Committee, on behalf of the Corporate Trustee in line with the charity's governance structure and must not be shown to third parties without our prior consent. No responsibilities are accepted by MHA MacIntyre Hudson towards any party acting or refraining from action as a result of this report.

We would be grateful if you will in due course advise us what action you propose to take on the recommendations in the report and also if you would like our further assistance on these or any other matters.

In conducting the audit we do need to recognise that, as a result of the Covid-19 pandemic, the working arrangements for all of us have been understandably affected. We have conducted the audit remotely and have liaised with the finance team virtually whilst examining accounting books

and records which were sent to us digitally. We are pleased to report that this approach has not caused us difficulties which could have resulted in limitations in the scope of our audit. There have however been delays in providing the audit team with audit evidence and as a result our audit timetable was amended slightly. There are a number of sections of our audit plan which are currently outstanding at the time of writing this report. We will provide a verbal update on progress against the plan at the meeting on the 24th. We would like to express our thanks to all the Charity's officers and staff who assisted us in carrying out our work – particularly Chris Harris, Carmen Lornotey, Yinka Ehinfun and their team.

Stuart McKay is looking forward to attending your meeting on 24 March 2021 to present this report, review the Trustees Annual Report and financial statements, and agree the letter of representations.

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2 - Independence & responsibilities

2.1 Independence

Auditing Standards require us to communicate at least once a year regarding all relationships between MHA MacIntyre Hudson and the Charity that may reasonably be thought to have a bearing on our independence and objectivity.

We have reviewed our independence, including consideration of whether:

- The firm is dependent on the Charity as a client due to the significance of the audit fee to the firm
- The firm is owed significant overdue fees
- There is any actual or threatened litigation between the firm and the Charity
- Any benefits have been received by the audit team which are not modest
- The firm has any mutual business interest with the Charity
- Any members of the audit team have any personal or family connections with the Charity or officers; or
- Independence is impaired through the provision of services other than the statutory audit.

Our preliminary assessment of potential threats to our independence was set out in our Audit Planning Memorandum and did not identify any threats that we considered necessary to communicate to you. Following the completion of the audit fieldwork, we can confirm that no further threats have arisen and as such MHA MacIntyre Hudson remains independent within the meaning of regulatory and professional requirements.

2.2 Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the financial statements, have included the examination of the transactions and the controls thereon of the Charity. The work we have done was not primarily directed towards identifying weaknesses in the Charity's

accounting systems other than those that would affect our audit opinion, nor to the detection of fraud.

We have included in this report only those matters that have come to our attention as a result of our normal audit 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.

To a certain extent the content of this paper comprises general information that has been provided by, or is based on discussions with, management and staff. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.4 Responsibilities

The Trustees are responsible for preparing the Trustees' Report and Financial Statements. MHA MacIntyre Hudson as auditors of Wormwood Scrubs Charitable Trust are responsible for forming an opinion on those Financial Statements, as detailed in our engagement letter.

3 - Matters arising from the audit

3.1. Audit Approach

In the conduct of our audit, we have not had to significantly alter or change our audit plan, which we communicated to you in our Audit Planning Memorandum dated February 2021.

3.2. Matters identified at the planning stage

The key areas of audit focus which we had identified as part of our overall audit strategy and how they have been resolved, are as follows:

	Audit area and key risks as presented	Our approach as presented	Resolution
1	<p>Income recognition – Car Park Income</p> <p>Risk that income is not complete.</p>	<ul style="list-style-type: none"> • Confirm the systems and procedures which should be operating within the Car Park and the Council's review and monitoring processes thereof. • Consider testing the operation of procedures (council reconciliations per machine ID) on a sample basis. • Perform analytical review to budget/prior year for each Parking Machine. • Test a sample of Car Park machine records to receipt to ensure that income is complete. • Test online tickets (Ringo) issued to sales invoices and income allocation sheets. 	Audit work performed as planned – no exceptions.
2	<p>Income recognition – Rental income</p> <p>Risk that income has not been accounted for in line with the terms and conditions of the rental agreements.</p>	<ul style="list-style-type: none"> • Ensure that rental income is accounted for in line with the respective licence agreements, noting any restrictions. • Ensure correct cut off has been applied in respect of rental advances or arrears. 	Audit work performed as planned – no exceptions.

3 - Matters arising from the audit

<p>3</p>	<p>Authorisation, categorisation and allocation of expenditure (non-payroll costs)</p> <p>Risk that expenditure is not authorised in line with the Trust's procedures.</p> <p>Risk that allocation of costs to each activity, and then between the service lines, is not accurate or consistent.</p>	<ul style="list-style-type: none"> • Review the systems and controls around authorisation, monitoring and allocation of expenditure ensuring appropriate oversight was maintained during Covid-19 through appropriate alternative methods. • With reference to the Council's Financial Procedures, identify and test the key controls over expenditure authorisation; payment and allocation. • Review the controls in place over supplier set up and on-going due diligence. • Ensure there are effective controls in place to ensure that grounds maintenance contracts are monitored against work performed. • Review the cost allocation methods and sample test. We note that allocations of support costs are expected to be done on a consistent basis with the previous year. • Ensure all contingent liabilities or provisions for future works/repairs are recognised as necessary or disclosed as appropriate. (e.g. Artillery Wall repairs) 	<p>Our audit work is not fully complete in this section. A verbal update will be provided on the 24th March.</p> <p>The testing conducted did highlight that the HS2 expenditure and corresponding income had been misclassified in the account. In the first draft the income had been recorded as unrestricted 'other income' similarly the costs were included within 'other expenditure'. Upon review of the supporting agreement we have agreed with the Finance Team that the grant should be recorded as a restricted grant and the expenditure within restricted expenditure on charitable activities.</p> <p>The final draft of the accounts will be adjusted to incorporate the HS2 income and expenditure as restricted funds. There will not be any effect on the overall surplus or deficit in the year.</p>
<p>4</p>	<p>Fixed Assets</p> <p>The Trust owns substantial assets. A significant proportion were passed to the Trust under the Wormwood Scrubs Act 1879. As such there is limited information regarding their value to the Trust. As such their carrying value in the financial statements is low. Other assets do have carrying values.</p> <p>There is a risk that assets have not been accounted for in line with the Charities SORP.</p>	<ul style="list-style-type: none"> • Review the historical information held on the assets gift to the Trust. • Assess the treatment of the fixed assets held against the requirements of the Charities SORP. This review will include the provisions afforded to mixed motive investments and heritage assets. 	<p>TBC – our audit fieldwork is currently outstanding. However our initial work has not identified any significant issues. A verbal update will be provided on the 24th March.</p>

3 - Matters arising from the audit

<p>5</p>	<p>Opening balances</p> <p>We did not audit the financial statements for the year ended 31 March 2019, therefore we need to perform additional procedures to satisfy ourselves that the opening balances are not materially misstated.</p>	<ul style="list-style-type: none"> • Standard opening balance testing in line with Auditing Standards and our role as new auditors in order to satisfy ourselves as to the validity of the opening balances and any assumptions underpinning them. 	<p>Audit work performed as planned – no exceptions.</p> <p>We were able to review the previous auditor's prior year audit file remotely.</p>
<p>6</p>	<p>Financial reporting</p> <p>There is a risk that the Trustees' Report and financial statements are not fully compliant with the Charities SORP and relevant regulations / legislation or are materially misstated through errors in their compilation.</p>	<ul style="list-style-type: none"> • We will review the financial statements for WSCT to ensure that they properly reflect the underlying financial records and include the disclosures required. As part of our audit we will: • Check a sample of accounts to ensure there is a full audit trail to the financial statements. • Review the assessment by the Committee Members of the risk that the financial statements may be materially misstated as a result of fraud. • Review the Trust's processes for identifying any related parties and related party transactions that might require disclosure. • Review the Trusts risk register and ensure any key issues for the financial statements have been considered in the context of our audit, and appropriately managed in the context of the Trusts governance. • Review the Trustees' Report and financial statements for consistency with the financial statements and to ensure they comply with applicable regulatory and SORP 2015 / FRS102 requirements. 	<p>Audit work completed as planned, with exceptions noted below.</p>

3 - Matters arising from the audit

<p>7</p>	<p>Reporting Covid-19 in your Financial Statements</p> <p>The Charity SORP-making body has issued advice on the financial reporting implications that may arise from the measures being put in place to contain the impact of the COVID-19 virus.</p> <p>https://www.charitySORP.org/media/648486/sorp-covid-19.pdf</p> <p>The advice is for Financial Statements that have yet to be approved. The advice looks at the considerations to be taken into account when producing the Trustees' report and also considers post balance sheet event reporting. This guidance must be considered when preparing the 31 March 2020 accounts.</p> <p>Due to the unprecedented situation regarding the Covid-19 pandemic we will consider the impact that this could have on the Trust regarding going concern and your planned response.</p>	<ul style="list-style-type: none"> • We will consider the Trust's response to the guidance issued by the Charity SORP Committee on Covid-19 as well as guidance issued by the Charity Commission. • We will review your Trustees' Report and financial statements to ensure the appropriate disclosure has been included in the 31 March 2020 accounts in line with the events that have occurred to the date of signing the accounts. • We will review the impact of Covid-19 on the organisation, its response and reporting considerations. • Where this could have a material effect on your financial sustainability, we will undertake enhanced going concern analysis as necessary. • We will follow guidance issued by the accountancy bodies in this regard, but at this stage we have no specific intentions to modify our audit report, although this will continue to be considered during our audit. 	<p>Audit work completed as planned, with exceptions noted below.</p> <p>Feedback was provided on the draft accounts and suggestions made that consideration of the impact of Covid-19 be added to the 'Areas of significant judgements and estimates' accounting policy, in line with the Charity SORP Committee's guidance.</p>
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3 - Matters arising from the audit

3.3. Audit Status

The audit work on the financial statements is now substantially complete and we anticipate issuing an unqualified audit opinion for the year ended 31 March 2020 for the Charity, following:

- receipt of approved Trustees Report and Financial Statements signed by the Board;
- receipt of a signed letter of representation (provided under a separate cover);
- receipt and review of confirmation from the London Borough of Hammersmith and Fulham of the Charity's year-end bank balance.

Our work to enable us to sign off the audit report comprises of:

- a final post balance sheet review;
- review of your going concern review.

3.4. Letter of representation

We [have forwarded / will forward] a letter of representation for your review and approval, as part of your overall review of the Trustees' Report and Financial Statements. It is important that this is then reviewed and approved by "those charged with governance". Non-standard representations related to:

- *Going concern*
We have asked the Board to confirm that they have considered the impact of the Covid-19 pandemic whilst performing their assessment of the Charity's going concern.

4 - Audit findings

4.1 Audit misstatements

In accordance with International Standards on Auditing we are required to report any material adjusted audit misstatements arising from our work. We are also required to report any unadjusted audit misstatements and why they are unadjusted, other than those that are “clearly trivial”. These are both set out in Section 5.

4.2 Risk of fraud and error in the financial statements

We are required under International Standards on Auditing to consider fraud risk throughout the audit. In particular we must consider management arrangements for preventing and detecting fraud and error.

Fraud risks may include asset sales at under value, suppliers over billing for goods or services, misappropriation of assets and cheque frauds, as well as manipulation of financial results.

Our work has not identified any matters which we wish to draw to your attention.

4.3 Accounting policies

Financial Reporting Standard FRS102 and FRS102 Charities SORP, requires that entities should review their accounting policies regularly to ensure that they are appropriate to their particular circumstances for the purpose of giving a true and fair view.

We have reviewed the Charity’s accounting policies, as stated in the financial statements, and confirm that they are appropriate to provide relevant, reliable, comparable and understandable information.

4.4 Accounting estimates

As auditors, we are aware that the selected basis of an accounting estimate may have a significant impact on the financial statements so in our work we

need to identify all accounting estimates and the basis of the estimate and, where we consider there to be a high estimation uncertainty, we must ensure our audit work challenges the basis of the estimate.

We are also required to consider the outcome of accounting estimates in prior periods as a basis for our risk assessment in the current year.

In the Charity’s accounts most significant accounting estimates concern - contingent liabilities (and assets), asset valuations, and certain aspects of income recognition such as cut off.

We have reviewed the accounting estimates for the Charity and conclude that they have been calculated on a basis that is consistent with our knowledge of the Charity and expectations.

4 - Audit findings

4.5 Significant deficiencies in internal control

We have set out below significant deficiencies in internal control which came to our attention during the course of our audit work, as defined by ISAs. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

We have prioritised our recommendations into the following categories:

- Grade A – matters that we consider fundamental, against which management should take action as soon as possible;
- Grade B – matters that we consider significant, that should be addressed within a reasonable/ defined timeframe; and
- Grade C – matters that merit attention and would improve overall control or are options to promote better or more efficient practice.

	Observation & Risk	Recommendation	Management Response
1	Accounts adjustments – Grade C In preparing the accounts, the Charity has posted manual adjustments to the Excel accounts workbook and not to the accounting software. This increases the risk of erroneous or fraudulent adjustments being included in the accounts.	We recommend that all year-end, pre-audit adjustments be posted to the accounts software from which a final trial balance can be generated and used to prepare the accounts.	

4.6 Review of prior year auditors' findings

We have reviewed the audit findings communicated to management and those charged with governance in the Audit Findings Report issued by the previous auditors of the accounts for the year ended 31 March 2019. These matters have been addressed by the Charity.

5 - Audit misstatements

We are required to report all adjustments that management have corrected that we believe should be communicated to the Trustees to assist them in fulfilling their governance responsibilities. We are also required to communicate all unadjusted misstatements, other than those that we believe are clearly trivial, to Trustees.

ADJUSTED MISSTATEMENTS	SOFA		BALANCE SHEET	
	DEBIT £'S	CREDIT £'S	DEBIT £'S	CREDIT £'S
Surplus per draft statutory accounts		147,205		
Restricted income from grants and donations		201,883		
Unrestricted 'other income'	201,883			
Restricted charitable expenditure	201,883			
Unrestricted 'other expenditure'		201,883		
<i>Being adjustment to reallocated HS2 income to restricted funds.</i>				
Accrued income			182,624	
Trade debtors				182,624
<i>Being adjustment to reclassify HS2 purchase invoices issued after the year-end but relating to the year as accrued income.</i>				
Net Impact (Adjusted)			182,624	182,624
Surplus per statutory accounts		147,205		

DISCLOSURE ADJUSTMENTS

The following are misstatements in disclosures which have been adjusted for in the financial statements:

Note 9 Being adjustment to include a table showing the movement of deferred income in the year (and a prior year comparative) in line with SORP requirements.

5 - Audit misstatements

UNADJUSTED MISSTATEMENTS	SOFA		BALANCE SHEET	
	DEBIT £'S	CREDIT £'S	DEBIT £'S	CREDIT £'S
Professional fees	3,699			
Accruals				3,699
<i>Being adjustment to recognise the element of a professional charges invoice received after the year-end for services provided partly within the year.</i>				
Net Impact (Unadjusted)	3,699			3,699

6 - Fees

6.1 Fees

Our initial fee quote was provided in our Audit Planning Memorandum dated February 2021 which was based on accounts and audit deliverables and draft accounts being supplied in accordance with the agreed timetable.

Service	Fee (excluding VAT)
Fee for the audit of the financial statements of WSCT for the year ended 31 March 2020	£9,750

As requested by management, and for consideration when appointing the Charity's auditor for the year ended 31 March 2021, our proposed fee for such services would be £10,000 (excluding VAT). This fee quote is based on the same assumptions as those set out in our Audit Planning Memorandum dated February 2021.

Appendix A: Sector Development

We prepare regular updates on accounting, tax, regulations and legal charges affecting the sector. These include a monthly Not for Profit eNews update which can be found at:

<http://www.macintyreHUDSON.co.uk/sectors/not-for-profit>

Other sector publications and guidance can be found at:

<http://www.macintyreHUDSON.co.uk/publications>

We have also recently established our MHA Trustee Hub – an online resource for good governance, which includes templates, checklists and guidance to help charities improve the effectiveness of their governance. See:

<https://mha-uk.co.uk/charity-trustee-hub/>

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