



Wormwood Scrubs Charitable Trust Audit Findings Report

Audit for the year ended 31 March 2024

Presented to the Trust Committee on date 04/12/2024

Now, for tomorrow

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Executive summary

A summary of the key points from this Audit Findings Report has been provided below in order to provide those charged with governance a snapshot of some of the key aspects of the audit.

Audit status

The audit is now substantially complete and we anticipate issuing and unqualified opinion for the year.

Key audit risks – updated assessment

Significant risks
<ol style="list-style-type: none">1. Fraud risk in Revenue Recognition2. Management Override3. Related party transactions

Other audit risk
<ol style="list-style-type: none">4. Donated services5. Income recognition – Rental income6. Authorisation, categorisation and allocation of expenditure (payroll and non-payroll costs)7. Going concern8. Financial reporting

Updated materiality

	Benchmark	Proposed level
Materiality	2% of income	£29,900
Performance Materiality	85% of overall	£25,400
Reporting threshold - triviality	5% of overall	£1,500

Internal control recommendations and findings

Below is a summary of the internal control risks and recommendations made in the year, listed by grade of importance (A grade being the most important)

	Identified this year	Identified last year and re-raised
	#	#
Grade A	0	0
Grade B	0	0
Grade C	0	0
Advisory	1	0

Adjusting misstatements

We are pleased to report that, to date, we have not identified any adjusting misstatements during the course of our audit.

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 Wormwood Scrubs Charitable Trust (hereafter referred to as 'WSCCT' or 'the Charity') for the year ended 31 March 2024.

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;
- adjusting and non-adjusting 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;
- any other relevant and material matters relating to the audit.

This Report has been prepared for the sole use of the Charity's Trust Committee, on behalf of the 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 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.

Finally, we would like to express our thanks to all the Charity's officers and staff who assisted us in carrying out our work – particularly Nick Falcone, Carmen Lomotey and their team.

Stuart McKay is looking forward to attending your meeting on 4/12/2024 to present this Report, review the accounts, and agree the Letter of Representation.

MHA

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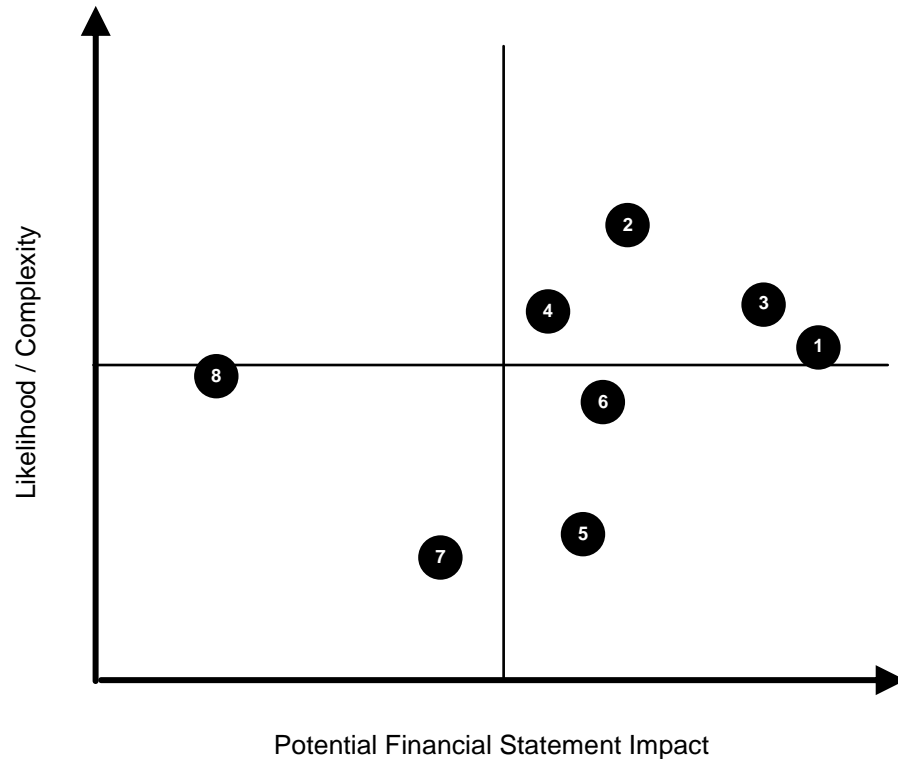
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2 – Matters arising from the audit

2.1 Audit Approach

Detailed below are the key audit risks that we identified at the planning stage of the audit and communicated in our Audit Planning Memorandum. We considered the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, and with the audit now substantially complete, we note that our assessment has not materially changed.



Key Audit Risks	
1	Fraud risk in Revenue Recognition
2	Management Override
3	Related Party Transactions
4	Donated services
5	Income recognition – Rental income
6	Authorisation, categorisation and allocation of expenditure (payroll and non-payroll costs)
7	Going concern
8	Financial reporting

■ Significant risks

2 – Matters arising from the audit

2.2 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>Fraud risk in revenue recognition</p> <p>International Auditing Standard 240 requires us to presume that fraud in revenue recognition is a “significant audit risk”, unless this presumption is specifically re-butted.</p>	<p>We will consider the risk of fraud in all income areas including where required an assessment against the three aspects for income recognition for each material income stream:</p> <ul style="list-style-type: none"> • Completeness (has all income been included in the accounts) • Recognition (this considers three criteria of; “probable” (e.g. more likely than not), “entitlement” and “measurement”) • Fund accounting (are there restrictions on use and are these correctly recorded?) 	<p>Audit work performed as planned – no exceptions.</p>
2	<p>Management override</p> <p>In accordance with ISA 240 (UK) management override is presumed to be a significant risk. The ability to override controls puts management in a unique position to perpetrate or conceal the effects of fraud. This may take a number of forms such as falsifying accounting entries in order to conceal misappropriation of assets or other manipulation of accounting entries intended to result in the production of financial statements which give a misleading view of the entity’s financial position or performance.</p> <p>We are required to design and perform audit procedures to respond to the risk of management’s override of controls. transactions.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Document our understanding and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and test the appropriateness of a sample of such entries and adjustments. • Review accounting estimates for biases that could result in material misstatement due to fraud. • Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Charity and its environment. 	<p>Audit work performed as planned – no exceptions.</p>

2 – Matters arising from the audit

<p>3</p>	<p>Related party transactions</p> <p>In order to comply with ISAs, we are required to consider the risk of fraud through related party transactions and our audit planning and detailed work will address the fraud risks arising from related party transactions. This is in recognition of the fact that many significant corporate frauds utilised related party transactions to some degree.</p> <p>This is also a key area of regulatory concern for the Charity Commission and is listed as an area on which charity auditors should report under their Charities Act statutory duty to identify matters of material significance.</p>	<p>We will make enquiries as to the identity of related parties in respect of the Charity and management's systems of identifying and recording related party transactions, including reviewing any related party declarations prepared and signed by Key Management Personnel. This means that the Charity should have a comprehensive list of all related parties and details of all transactions with them.</p> <p>We will also look to identify any significant transactions outside the course of business – we are not expecting this to be an issue for the Charity, but will need to undertake specific procedures if these are in fact identified.</p>	<p>Audit work performed as planned – no exceptions.</p>
<p>4</p>	<p>Donated services</p> <p>During the year, there were continuing grants from Groundwork UK and Urban Tree Challenge Fund. We understand that the grants were made to the local authority, but the funds are to be used for improvements to the Scrubs.</p> <p>There is a risk that these donated services have not been correctly accounted for in WSCT's financial statements.</p>	<ul style="list-style-type: none"> • We will confirm the justification for inclusion of donated services within the financial statements, in line with the Charity SORP guidance. • We will scrutinise appropriate documents to ensure that the amounts disclosed in the financial statements is not materially misstated. • Assess that there are appropriate disclosures in the financial statements in relation to the donated services. 	<p>Audit work performed as planned – no exceptions.</p>

2 – Matters arising from the audit

5	<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. We note that the Kensington Aldridge Academy licence agreement is still in place during the 2023/24 year.</p>	<p>We will:</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 	<p>Audit work performed as planned – no exceptions.</p>
6	<p>Authorisation, categorisation and allocation of expenditure (payroll and 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> <p>We understand, that during the year, the Council has employed a staff member who works exclusively for WSCT. There is a risk that the cost of this staff member is not appropriately disclosed in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Review the systems and controls around authorisation, monitoring and allocation of expenditure • 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, noting that allocations of support costs are expected to be done on a consistent basis with the previous year • Review the allocation of the staff member's costs • Ensure all contingent liabilities or provisions for future works/repairs are recognised as necessary or disclosed as appropriate with specific reference to any HS2 activity. 	<p>Audit work performed as planned – no exceptions.</p>

2 – Matters arising from the audit

7	<p>Going concern</p> <p>Going concern is defined as being able to continue in 'operational existence' for at least 12 months from the date of signing the financial statements. As per the ISA 570, there is a requirement for auditors to document robust challenge of management's assessment of going concern, including the obtaining of evidence regarding, and concluding on, whether a material uncertainty relating to going concern exists.</p> <p>ISA 570 also requires our Auditor's Report to provide a positive conclusion on the appropriateness of the going concern basis and whether material uncertainties exist. There is also a "stand back" requirement for auditors to undertake at the end of our audit work, hence this may result in further queries related to going concern near to audit completion</p>	<p>As part of our audit work, we will need to obtain and review evidence of how the Board have satisfied themselves that the Charity will remain in operation for 12 months from the date of approving of the financial statements. Such evidence would include business plans, budgets and cashflow forecasts up to at least that date. Management will need to prepare such supporting evidence and also make it available to the Trust Committee and the Board to consider.</p> <p>We shall also consider the Charity's reserves policy and disclosures included in the Trustees Annual Report.</p>	<p>Audit work performed as planned – no exceptions.</p>
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2 – Matters arising from the audit

<p>8</p>	<p>Financial reporting</p> <p>There is a risk that Trustees' Report and financial statements are not fully compliant with the Charities SORP or are materially misstated through errors in their compilation.</p>	<p>We will review the financial statements to ensure that they properly reflect the underlying financial records and include the disclosures required. As part of our audit, we will:</p> <ul style="list-style-type: none"> • Check a sample of accounts to ensure there is a full audit trail to the financial statements; • Review the financial statements against legal, regulatory and the SORP 2019 requirements and sector best practice; • Review the assessment by the Trustees of the risk that the financial statements may be materially misstated as a result of fraud; • Ensure that the Trustees' Annual Report is materially consistent with the financial statements and our understanding of the Charity; • Review the Charity's 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 charity's governance; • Review the Trustees' Report for consistency with the financial statements and to ensure it complies with applicable regulatory and SORP 2019 requirements. • Review the Trustees assessment of the Going Concern assumptions • Critically review and evaluate the assumptions used in forecasts and budgets • Consider the disclosure relating to going concern in the Trustees' report and accounting policies <p>Consider the explicit statements relating to going concern now required in our Auditor's Report.</p>	<p>Audit work performed as planned – no exceptions.</p>
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2 – Matters arising from the audit

2.3 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 2024 for the Charity, following:

- Receipt of signed engagement letter
- Receipt of approved Trustees' Report and Financial Statements signed by the Board;
- Receipt of a signed letter of representation (provided under a separate cover).

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

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

2.4 Letter of Representations

We have forwarded a Letter of Representations 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". We have not included any non-standard representations

In accordance with International Standards on Auditing, and to assist those charged with governance fulfill their governance responsibilities, we are required to report any material misstatements arising from our work. We are also required to report any non-adjusting audit misstatements and why they are not adjusted for, other than those that are "clearly trivial".

3 – Misstatements

3.1 Adjusting misstatements

We are pleased to report that we have not identified any adjusting misstatements.

3.2 Disclosure misstatements

We are pleased to report that we have not identified any disclosure misstatements which require adjustment, other than minor points which have been communicated to management via the marked up version of the draft accounts.

3.3 Non-adjusting misstatements

The following adjustment has not been made to the financial statements as it is immaterial in both quantitative and qualitative aspects.

#		SOFA		BALANCE SHEET	
		DEBIT £'S	CREDIT £'S	DEBIT £'S	CREDIT £'S
1	Accrued income Hammersmith Hospital Car Park License Income <i>Being unadjusted misstatement to recognise income relating to the year but not invoiced or paid until after the year, the result of the Trust's year-end and the 'rental year' per the agreement being non-coterminous</i>		7,640	7,640	
	Net Impact (Unadjusted)	-	7,640	7,640	-

4 – Audit Findings

4.1 Significant deficiencies in internal control

We are pleased to report that we have not identified any significant deficiencies in internal control throughout our testing which we consider needed to report in our Audit Findings.

4.2 Advisory points

We have raised below matters which we consider as advisory points and to be considered for best practice.

	Observation and advice	Management Response
1	<p><i>Risk assessment schedule owners</i></p> <p>It was noted that the risk assessment schedule, does not have any risk owners. We would recommend as best practice that each risk noted has an associated owner, whether they be individuals or specific teams within the Council. This will assist with the monitoring of risks and update on the progress of said risks.</p>	<p>We will look to add an associated owner (or owners where appropriate) to each risk outlined in the risk assessment schedule going forward to assist with monitoring and mitigating against them.</p>

4.3 Matters from last year now resolved

We are pleased to report that the following matters, raised last year, have now been resolved:

- **2023: Reserves Policy (Advisory)**

We have seen that a revised reserves policy has been implemented which outlines the desired level of reserves and the reasons for which they are being held.

5 – Fees

5.1 Fees

Our initial fee quote, detailed below and excluding VAT, was provided in our Audit Planning Memorandum.

Fee for the audit of the financial statements of Wormwood Scrubs Charitable Trust for the year ended 31 March 2024 (PY: £10,900):	£ 11,500
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This fee excludes VAT at the prevailing rate

Our fee quote was based on a number of assumptions, namely the delivery of draft accounts and audit deliverables in line with the agreed upon timetable.

We are pleased to report that we did not encounter any issues in this regard.

Appendix 1: Other findings, independence and responsibilities

A1 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.

A2 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/Group's accounting policies, as stated in the financial statements, and confirm that they are appropriate to provide relevant, reliable, comparable and understandable information.

A3 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/Group's accounts most significant accounting estimates concern: contingent liabilities (and assets), provisions, asset valuations and certain aspects of income recognition.

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.

A4 Independence

Auditing Standards require us to communicate at least once a year regarding all relationships between MHA 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;
- independence is impaired through the provision of services other than the statutory audit.

A5 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

Appendix 1: Other findings, independence and responsibilities

Charity's/Group'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.

A6 Responsibilities

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

Appendix 2: Sector update

Regulator Refreshes Meetings Guidance for the Digital Era

The outbreak of Covid-19 back in late 2019 resulted in an increased use of video call services for holding online meetings, raising questions as to how charities could appropriately comply with their governing documents, which often did not permit anything other than in-person meetings.

More recently, the Charity Commission has redesigned its *Charity meetings (CC48) guidance*, stressing that Trustees should make sure any of their charity's rules around holding meetings are up to date and practical. The guidance, which relates to all types of charities including membership organisations, as well as different types of meetings such as Trustee meetings and Annual General Meetings, emphasises the importance of complying with a charity's governing document when holding meetings.

The guidance includes details on how to set out details in a governing document on how to vote, ask questions, join a debate, and confirm whether all meetings are to be held virtually or through a combination of hybrid and virtual meetings.

Charity Commission Letter to Chief Executive Officers of Local Authorities

The Charity Commission has published a letter to Chief Executive officers of Local Authorities requesting they take action to ensure their organisation's are complying with their duties when operating as a charity Trustee.

There has been a significant increase in the non-compliance of Local Authorities regarding their legal duties as charity Trustees which has resulted in action being taken with significant numbers of complaints being received from the public. Such cases can be costly and resource intensive for both Local Authorities and for the regulator. Often these changes, if not

made correctly, will also result in additional budget pressures on Local Authorities rather than providing the additional resources initially thought.

The most common issues noted are regarding the change of use or status of charitable land and the process of disposing of it.

The letter links readers to specific Local Authority guidance, which detailed the required action that should be taken, which has been summarised below:

- Gain an understanding of the charitable assets that they own or manage. This will ensure that it is always clear to employees and elected representatives which assets are subject to charity law.
- Familiarise yourself with the different legal requirements and legal restrictions regarding charitable assets.

Whilst addressed to the CEOs of Local Authorities, the letter and associated guidance is of relevance to Trustees of charities, and Trustees of recreation ground charities in particular – for whom specific recreation ground charities guidance has also been updated.

Charity Commission guidance: Improving your charity's finances (CC12)

The Charity Commission has updated its guidance on how Trustees can improve the finances of their charity. There is also further advice for what can be done when Charity's do find themselves in financial hardship.

The guidance indicates the need for Trustees to consider the financial position of the Charity in light of the wider economic environment and whether this could lead to financial hardships further down the line. One of a number of examples of an issue that a Charity can face is the lack of funds to finance their ongoing operations. It is also necessary to consider whether the Charity has or will become insolvent in the future.

Appendix 2: Sector update

For Charities that follow the Statement of Recommended Practice (SORP), there will need to be further consideration given to the going concern disclosures in the accounts and how they might be impacted.

There is a useful [guide](#) that Trustees can use to plan for the future of their charity which can help them to manage the finances better if there is concern about the position the Charity may find itself in.

The Trustees can also check if the Charity is facing financial difficulties by taking account of three key areas of their finances:

- The cash position of the Charity
- Cash flow forecast – cash coming in and out over the coming weeks and months
- The assets and liabilities

This [checklist](#) can help Trustees determine if there is a risk of insolvency.

Once this has been determined, advice is available from a range of advisory bodies that the Charity already engage as part of their yearly the independent examination/audit or, if circumstances require it, an insolvency practitioner. It is also recommended that the beneficiaries are contacted for their opinion.

For Charity's in difficult financial situations, there are opportunities to carry on operating without the need for winding up completely, including the possibility of mergers with other Charities or to reduce their activities to offer only a core level of support. The Charity Commission has further guidance on how these actions may be undertaken to assist with the continuation of the activities of the Charity.

Autumn Budget: Themes, key announcements, and reflections for the Not for Profit sector

The Chancellor of Exchequer's, Rachel Reeve's, hotly anticipated Autumn Budget was significant, and focused on several key themes: rebuilding Britain, fixing the foundations, raising £40bn in taxes, and making difficult choices.

Detailed below are several of the key takeaways which could have the greatest impact on the Not for Profit sector:

- Increased local government funding
 - A 3.2% rise in core Local Government spending, with at least £600 million in new funding for social care
- Support for individuals and carers
 - Reduce Universal Credit debt deductions, from 25% to 15%
 - Raise the weekly earnings limit on Carer's Allowance
 - Conduct an independent review of Carer's Allowance overpayments.
- SEND support:
 - £1 billion (a 6% real-term rise) to support children with special educational needs and disabilities (SEND)
- Funding for hardship support
 - £1 billion next year to extend the Household Support Fund and hardship payments.
- Education funding
 - An additional £30 million for free breakfast clubs, £300m for Further Education and £2.3bn for Core Schools Budget.

Appendix 2: Sector update

The following areas are also undoubtedly going to have implications for the sector:

- National Insurance and National Living Wage
- VAT on private education
- Clamp down on Tax abuse
- Housing, Work and Welfare

Many Not for Profit sector bodies have published their reactions, including the [Charity Finance Group](#), who have also published a [Policy Briefing](#) for charities, and the [NCVO](#), who have also published an [open letter](#) to the Chancellor.

Other

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

<https://www.mha.co.uk/industries/not-for-profit>

Other sector publications and guidance can be found at:

<https://www.mha.co.uk/insights>

We encourage our clients to review our performance as auditors on an annual basis. To assist this exercise, we have prepared guidance on how to perform this review which can be found at:

[How-to-assess-the-performance-of-your-auditor](#)

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