

APPENDIX 1

KING GEORGE'S FIELD, MILE END

REPORT TO MANAGEMENT

YEARS ENDED 31 MARCH 2019 AND 31 MARCH 2020

**King George's Field, Mile End
Report to Management
Years Ended 31 March 2019 and 31 March 2020**

During our audit of King George's Field, Mile End for the years ended 31 March 2019 and 2020 we evaluated the charity's accounting systems and internal controls to ascertain how much reliance we could place on the information when forming our audit opinion.

From this evaluation of the systems and internal controls we present a report of the areas where we believe that improvements would be beneficial to yourselves. In addition, we also would like to take this opportunity to highlight potential areas of efficiency gains in regards to us, Arnold Hill & Co LLP, carrying out our year-end audit work.

We make these comments independently of our audit and they are confined to matters which we feel should be brought to your attention.

We would therefore be grateful if, after considering the contents of this letter, you would inform us of the action you intend to take in response to the points raised.

Issues Highlighted	Implications	Recommendations	Management Responses
<p>1. Bank</p> <ul style="list-style-type: none"> ▪ We note that the charity does not have its own bank account and that all transactions pass through the London Borough of Tower Hamlets' bank account. ▪ As at 31 March 2020, the bank balance is in effect overdrawn. 	<ul style="list-style-type: none"> ▪ There is a concern that there is a lack of controls of what the charity's cash balance is which could lead to misstatement. ▪ The bank being overdrawn would effectively mean the council has loaned money to the charity. 	<ul style="list-style-type: none"> ▪ Ideally the charity should have a bank account separate to the council's. ▪ As a minimum, a detailed record should be maintained of all transactions relating to the charity that pass through council's bank which can support the closing balance. 	<p>The council uses its financial and accounting process to keep the transactions separate from other budgets (cost centres).</p> <p>However, the council will create a separate bank account for the Charity – where transactions relating only to the Charity will pass through the account (2022-23 financial year).</p>
<p>2. Trade Debtor Recoverability</p> <ul style="list-style-type: none"> ▪ From the trade debtor reports that were provided we note that some amounts have been outstanding for a number of years. 	<ul style="list-style-type: none"> ▪ Some of these debts may be irrecoverable and hence trade debtors are at risk of being overstated. 	<ul style="list-style-type: none"> ▪ We recommend regularly considering the recoverability of old debts (particularly if no payment has been received by that client for a number of years) and processing a write off if necessary. 	<p>The status of arrears is reviewed monthly by council officers with the external letting agents. Officers will continue to undertake this regular review to ensure any unrecoverable debt is written off. It should be noted that the Green Bridge shops do not have any</p>

			<p>historic debt except for debt that is currently being reviewed in line with COVID-19 rent relief considerations.</p> <p>There is one historical debtor, who is being monitored and the council is discussing payment of arrears as part of the renewal of the terms of the lease.</p>
<p>3. Depreciation</p> <ul style="list-style-type: none"> We understand that depreciation is charged on plant and machinery on a straight line basis over 5 years. However, we have noted that depreciation is not charged on additions in the year that they have been acquired. 	<ul style="list-style-type: none"> While it might be an accounting policy to not depreciate assets in the year of purchase, it is not stated in the accounting policies in the financial statements and would not be best practice. Depreciation would be understated in the Statement of Financial Activities and the carrying value of the assets on the Balance Sheet overstated. 	<ul style="list-style-type: none"> We recommend that plant and machinery is depreciated in the year of purchase, the charge being pro-rated for the number of months that the asset was available for use. 	<p>The current accounting policy on depreciation for the Charity reflects the Council's own accounting policy on depreciation. From 2020-21, The accounting policy on depreciation for the Charity will be updated as per the recommendation (2020-21 financial year).</p>
<p>4. Rental Income</p>			

<ul style="list-style-type: none"> We are aware that quarterly rental income was being recognised when received from the property manager and not in the period to which it relates. 	<ul style="list-style-type: none"> On the accruals basis, income should be recognised in the period it relates to. Failing to do this is a departure from the charities SORP (FRS 102). 	<ul style="list-style-type: none"> Income received that relates to a period after the year end should be recognised as deferred income on the balance sheet. Income not received that relates to the current period should be recognised as accrued income. The above should be done on a per-tenant basis to ensure accuracy of deferred and accrued income at the year end. 	<p>Officers will review all year - end accruals (including deferred income) related to the Charity to ensure they are accurate and complete. (2020-21 financial year).</p>
<p>5. Employee Contracts</p> <ul style="list-style-type: none"> We have noted that, according to the payroll report, numerous employees are being paid more than their salary as stated in the employee contracts provided. 	<ul style="list-style-type: none"> If the contract is not an accurate record of how much each employee should be getting paid, there is a risk that overpayment or underpayment will go undetected. 	<ul style="list-style-type: none"> We recommend a review is undertaken of the employee contracts compared to payroll records and any changes updated. Please provide this evidence in future audits. 	<p>Employee contracts state starting salaries and do not take into account incremental pay increases in line with council pay policies). In addition, some staff are paid overtime.</p> <p>A number of staff have part time contracts and therefore they amass some overtime to cover project/activities, sickness and annual leave etc.</p>
<p>6. Accounting Systems</p>			

<ul style="list-style-type: none"> ▪ The charity does not have its own accounting system separate to the council's and relies upon transactions being coded to the correct cost centre. 	<ul style="list-style-type: none"> ▪ There is a significant risk that not all transactions that relate to the charity are being captured. If transactions that relate to the charity are incorrectly coded to a different cost centre, income and/or expenses would be understated. ▪ Similarly, if transactions that don't relate to the charity are incorrectly coded to the charity, income and/or expenses would be overstated. 	<ul style="list-style-type: none"> ▪ It is recommended that the charity maintains its own accounting system, separate from the council's. 	<p>Integrating and maintaining a separate accounting system for the charity will require re-engineering of existing processes and procedures. Officers will explore this recommendation, along with other potential options in order to ensure the risk associated with transactions relating to the charity not being captured is controlled and mitigated. It should be noted that the cost versus benefits of a standalone accounting system could require additional staffing resources that would be charged to the charity.</p> <p>Officers will, at a future date, present a risk analysis of this for consideration by the board.</p>
<p>7. Accruals and Prepayments</p> <ul style="list-style-type: none"> ▪ We note that there were no prepayment and accrual year end adjustments made in 2020 apart 	<ul style="list-style-type: none"> ▪ On the accruals basis, expenses should be recognised in the period they relate to. Failing to do 	<ul style="list-style-type: none"> ▪ Adjustments should be made for expenses paid before the year end that relate to a period after the year 	<p>Officers will review all year - end accruals (including prepayments) related to the</p>

<p>from the audit fee accruals we recognised.</p>	<p>this is a departure from the charities SORP (FRS 102).</p>	<p>end (pro rate where necessary) and should be recognised on the balance sheet as a prepayment under debtors.</p> <ul style="list-style-type: none"> ▪ Expenses that relate to the year but have not been billed prior to the year end should be provided for on the balance sheet as an accrual under creditors. 	<p>Charity to ensure they are accurate and complete. (2020-21 financial year).</p>
<p>8. Transaction Descriptions</p> <ul style="list-style-type: none"> ▪ During our audit we reviewed the nominal ledgers and often it was difficult to understand from the descriptions what the transactions related to. 	<ul style="list-style-type: none"> ▪ Unclear labelling of transactions could let to misposting with in the accounts. 	<ul style="list-style-type: none"> ▪ We recommend for all transactions to have a detailed description to include any date periods etc that a transaction relates to. 	<p>Officers will review all transactions to ensure any date, periods etc. are included in the descriptions of the transactions where necessary and required.</p>

