UHY Hacker Young
Chartered Accountants

Brighter Futures for Children Limited

Report to the Audit and Risk Committee

Period ended 31 March 2019

Helping you prosper

Contents

Introduction

Brighter Futures for Children Limited ("the Company")

Purpose of this report

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of the Company for the period ended 31 March 2019.

This report provides an update to the significant matters raised in our Audit Service Plan, which was provided to the Company on 4 March 2019 and discussed at the Audit and Risk Committee meeting on 5 March 2019 and the other matters which arose during the course of our audit.

Audit scope

Our terms of engagement are set out in our engagement letter. That letter sets out our audit responsibilities and their limitations and the responsibilities of the directors in relation to the financial statements.

Our Audit Service Plan sets out in detail the key issues and risks identified at the planning stage and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

Communication with those charged with governance

International Standard on Audit 260 "Communication of audit matters with those charged with governance" ("ISA 260") is an auditing standard designed to ensure that there is effective two-way communication between auditors and those charged with governance of the Company. In the context of ISA 260 "those charged with governance" means the Board of Directors of the Company.

Matters relating to the planning, conduct and results of the audit are communicated to those charged with governance of the Company on a sufficiently prompt basis to enable the recipients to take appropriate action.

During the audit, regular communications were made by us to David Locke and David Burton (prior to their resignations), Paula Gledhill and the finance team.

Audit independence

In accordance with the requirements of ISA 260 and the Ethical Standard issued by the Financial Reporting Council, we confirm the matters set out below.

We discussed the specific threat to you posed with our involvement in the services provided and how we mitigate such threats in our Audit Service Plan. We have not identified any further threats to our audit independence during the course of the audit.

We confirm that:	We are auditors of Brighter Futures for Children Limited;
	We provide tax compliance and ad-hoc advisory services to the Company;
	We have not identified any potential issues in respect of: i) personal relationships with the company; ii) investments in the Company held by individuals; iii) gifts or hospitality received from Brighter Futures for Children Limited; iv) contingent fee arrangements.

We therefore confirm that, in our professional judgment, UHY Hacker Young LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any questions relating to the issue of our independence and objectivity, please do not hesitate to contact:

Colin Wright
t: 020 7216 4604
e: c.wright@uhy-uk.com

Limitations

We have prepared this report for your use within the Company. It is part of our continuing communication of audit matters with those charged with the governance of the Company and, accordingly is addressed to the Audit and Risk Committee.

It is not intended to include every matter that came to our attention. For these reasons, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

UHY Hacker Young
11 October 2019

Acknowledgement

We wish to thank Brighter Futures for Children Limited staff for their helpfulness and co-operation during the course of the audit process.

Audit status

Audit structure

We have carried out the audit of the Company for the period ended 31 March 2019. The audit working papers have been reviewed by the audit manager and audit partner. Any significant issues arising during our audit were discussed mainly with Paula Gledhill and Steven Davies and have been included in this report if deemed necessary.

The audit was planned and conducted to concentrate on the high risk areas in the financial statements. The key audit issues arising in these areas are explained further on page 4 below.

The accounting systems were documented and the controls over those systems evaluated. Using these assessments we designed and conducted detailed tests of transactions and balances.

Current position

The audit of the Company is substantially complete. All queries arising during the audit were dealt with as the audit progressed. However there were delays during the fieldwork, in particular with key material balance sheet items such as the intercompany, cash and VAT reconciliations that led to additional time taken to resolve. Despite this, there were no overall limitations on the scope of our audit work completed to date.

There are, however, at the time of writing some other outstanding unresolved audit matters which are set out below and which may or may not have an impact on our audit opinion on the Company's financial statements.

We expect to be in a position to sign our audit report as soon as practicable after clearing the outstanding matters.

Outstanding audit matters:	Completion of our subsequent events review to the date of our audit report;
	Final subsequent events review;
	Signed Strategic Report, Directors' Report and financial statements;
	Signed Representation Letter from Directors; and
	Final going concern discussion with Directors.

Identified key risk areas and our responses

We have identified the following key risk areas as part of our audit planning processes. During our audit we focused on these areas, in addition to our other normal audit procedures, and we set out below our comments and the results of our testing.

Management override of controls

Explanation of risk

Auditing standards require that the risk of management override of controls should be considered to be a significant risk for all audit engagements.

Audit response to risk

We will review a sample of transactions in the year for unusual items outside the ordinary course of business and also test journals raised to ensure that such entries are relevant to the Company's business.

Outcome

Audit testing of a sample of journals posted in the year and other significant transactions that were posted at year end did not indicate any instances of management override of controls occurring in the accounts.

Revenue recognition cut off error, deferred and accrued income

Explanation of risk

Auditing standards assume a rebuttable risk of incorrect or fraudulent revenue recognition and consider that this is a significant audit risk.

There is a risk (by error or otherwise) that income is recognised on an inappropriate basis, notably where grants are received over a period that does not coincide with the company's period-end or where income is provided for a specific purpose or activity that has not been completed at the period end.

Management should review the status of all significant transactions close to the period end to ensure that all are accounted for in the appropriate accounting period and determine whether any income should be treated as accrued or deferred income at the period end.

Audit response to risk

We will review and audit your detailed analysis of revenue and trace the income to supporting documentation.

We will request audit confirmations of the income from the income providers.

We will review the systems in place in relation to the calculation and recognition of the income; evaluate the controls over these transactions; and re-perform calculations to ensure that income calculations are accurate.
We will test and re-perform calculations for accrued and deferred income at 31 March 2019. We will review relevant correspondence to ensure the grant income and expenditure has been recognised in line with the grant agreements and FRS 102.

Outcome

We have reviewed the systems in place in relation to the calculation and recognition of income; evaluated the controls over these transactions; and re-performed calculations to ensure that income is recorded correctly. There were no issues noted during this process.

Following adjustments made by the client, we also performed substantive testing on all material revenue streams. This is to determine whether the accounting policy had been correctly applied and performed specific cut-off testing to ensure that revenue has been accounted for in the correct period. Again, all items sampled were satisfactory tested with no issues noted. As such we believe that revenue is materially correct.

Completeness of liabilities & accruals

Explanation of risk

Due to the timing of the period end, and the transfer of operations from Reading Borough Council (RBC) to the Company, there is a risk that expenditure is not recorded in the correct period.

Errors in your liabilities and costs may be caused where goods and services have been supplied in the period but where an invoice has not yet been received.

As this is the Company's first financial period there is also an inherent risk of weaknesses in the systems and recording of transactions between RBC and BFfC.

Audit response to risk

We will perform a detailed review of creditors and post year end expenditure to ensure that proper cut-off procedures are in place.

We will perform detailed searches for unrecorded liabilities and costs at the period end by reviewing the post period end bank statements and invoices to ensure they are accounted for in the correct period.

We will analyse the various cost centres and comparisons to budgets and perform analytical reviews and procedures to determine their accuracies and appropriateness of the company's costs and period end liabilities and accruals.

Outcome

From review of the trade creditors, it was noted that our invoice from Silverbirch totalling £22k had not been correctly credited despite the services relating to pre-period end. Additional testing of post period end invoices was carried out to ensure whether any other creditors were unrecorded but none were noted. As the error is immaterial the accounts have not been adjusted for.

The existence of further missing trade creditors and accruals were also tested by reviewing bank statements from April 2019 onwards and testing whether any significant expenses related to services carried out before 31 March 2019 were correctly accounted for. No issues were noted from this testing.

Going concern

Explanation of risk

Due to increasing tightening of funds being provided to the public sector there is an inherent risk that some companies in the public sector may have going concern and cash flow challenges.

Audit response to risk

We will review the cash flow forecasts prepared by the Company and assess the Company's ability to continue as a going concern.

The forecasts should include some sensitivity analysis on uncertain assumptions to assess how

the Company will cope with different scenarios they may be faced with in the foreseeable future.

We will assess any funding guarantees and support provided by RBC or any other entities.

Outcome

We have reviewed cash flow forecasts to the end of November 2020 and compared actual results from April and May 2019 to those predicted in the forecasts. We identified the key assumptions were those regarding the contract sum income and government grants along with the service costs to be the key drivers to the profitability to the Company.

The forecasted net cash flow movement notably varies each month depending on when grants and contributions are due, however the cash balance is expected to increase throughout the year.

The revision of the repayment terms of the £5m working capital loan from RBC was also inspected and agreed to cover up to March 2020. The forecast includes a safety margin of £5m and as at September 2021, the cash balance is expected to be £11.5m over this limit. Along with the guarantee from RBC to cover the deficit, we consider the company to be a going concern for the 12 months from signing the audit report.

Payroll costs

Explanation of risk

The Company's payroll costs represent a significant cost and the majority of its activities. Due to the significance and size of the payroll expenditure it is a significant risk for the audit. The Company may also have a number of joiners and leavers in the period that increases the risk of error in the payroll amounts in the financial statements.

Audit response to risk

We will carry out detailed audit work on the payroll costs, allocations in the financial records, systems in place, deductions testing, analysis and testing of joiners and leavers and physical verification of a sample of employees.

Outcome

The payroll reports were obtained from where a detailed reconciliation process was carried out to agree the total amounts to the trial balance.

A list of joiners and leavers in the period were obtained and were sampled to supporting documentation and payroll reports. All samples chosen were correctly accounting accurately and a selection was randomly picked to be physically verified to ensure existence. No issues were noted.

Redundancy payments and their supporting documentation were also examined to ensure the expense has been calculated correctly and, if applicable, had been appropriately accrued for as at period end.

As no errors were noted from the above testing, we believe that payroll costs are materially correct.

Transfer of assets and liabilities on launch of BFfC

Explanation of risk

The company's activities commenced in December 2018 at which time certain assets and liabilities were transferred from RBC to BFfC. Due to the nature and timing of the underlying transactions involved with the transfer of the assets and liabilities, there is a risk that these balances may be misstated.

Audit response to risk

We will perform a detailed review of the processes in place at transfer to ensure that appropriate cut off procedures between BFfC and RBC were in place and have been properly carried out and that the assets and liabilities transferred have been correctly valued, treated and disclosed in the financial statements.

Outcome

The pension liability was transferred to the Company from RBC on 1 December 2018. We received actuarial report from Barnett Waddingham which confirmed the net defined benefit liability at this date and also at 31 March 2019. A disclosure note has been included within the financial statements as per FRS 102.

On 3 December 2018, RBC issued a £5m loan to BFfC, this has been agreed to supporting documentation and it was also confirmed that the loan repayment terms have been extended until March 2021.

The handover of the property leases to BFfC from RBC had yet to be resolved and therefore have not been transferred. This was discussed with Paula Gledhill during the post-balance sheet events review and the transfer is to be postponed to November 2019 once it is confirmed which properties are to be transferred.

Valuation of pension scheme assets and liabilities

Explanation of risk

The fair value of the Company's share of its LGPS pension liability will need to be included in the financial statements.

Management do not have the appropriate expertise to value the pension liability and therefore a valuation needs to be obtained by the Local Authority who have arranged for professional valuations from actuaries.

There is a risk that the pension scheme liability will not be recorded and accounted for incorrectly due to the complexities of the FRS 102 requirements.

Audit response to risk

As part of our audit procedures, we will assess the competence of the actuary, consider the reasonableness of the basis of the calculation and the assumptions made in the valuation.

We understand that the liability of the pension deficit will be guaranteed by RBC and therefore there will be a corresponding asset.

As part of our audit procedures, we will assess the validity of the guarantee and the appropriateness of the proposed accounting treatment of a corresponding pension asset, as opposed to a contingent asset. We will also request confirmation of the 'guarantee' from RBC.

We will review the disclosures in the financial statements, of both the pension liabilities and the corresponding asset, and confirm that these are reasonable and complete.

Outcome

Assessing the fair value of the pension scheme assets and liabilities is a complex exercise and the valuation has been obtained from the Local Authority who have arranged for professional valuations from actuaries.

As part of our audit procedures, the competence of the actuary performing the valuation was assessed.

In addition, the assumptions and basis of the calculations were assessed in light of assumptions used in similar valuations of companies that UHY also audit. The impacts on the valuation of using differing assumptions were assessed.

We have reviewed the FRS102 disclosures in the actuarial valuation and confirm that these are reasonable and complete.

Related/connected party transactions

Explanation of risk

Related party transactions are often a perceived risk and are of interest to regulators, the press and the wider public. Under UK GAAP companies are required to disclose all related or connected party transactions.

RBC is a related party. The onus is on the company to ensure that goods and services procured from related parties have been provided in accordance with the agreed Service Level Agreements.

Due to the high level of scrutiny and regulation in the area, it represents an inherent risk area.

Audit response to risk

We will perform a detailed review of transactions to identify any connected party transactions.

We will also discuss with management the existence of any related party transactions and ensure that these have been properly monitored and authorised by the directors, as well as ensuring that they are in accordance with the SLAs.

We will request and obtain related party confirmations to support the balances and transactions.

Outcome

We were provided with an updated list of all related parties at the planning stage. All audit staff members were made aware of these related parties and during our testing. We did not identify any undisclosed related party balances or transactions.

Details were provided during the audit of the transactions undertaken by Brighter Futures for Children Limited with their related parties and we have no evidence to the contrary (based on our testing performed) that this is not a complete list.

The transactions between BFfC and RBC were reviewed and agreed per the SLA contracts. Furthermore, following the late adjustment raised to correct the inter-company reconciliation, the working paper was reviewed to test the assumptions and criteria used to determine the correct allocation of income and expenditure between the two entities. A sample of both income and expenditure transactions were tested to ensure that they were indeed assigned accurately and no errors were noted.

Other matters

Internal controls

Our audit is tailored to our assessment of the risk of material misstatement, taking into account the inherent risk of error or fraud and our assessment of the effectiveness of controls in eliminating or reducing those risks.

We cannot examine every activity and procedure within the Company, nor can we substitute for management responsibility to maintain adequate controls at all levels of business.

Our work cannot therefore, be expected to identify all weaknesses in the Company's procedures and systems. However, we will gladly discuss with you an extension of our work to review in more depth any aspect of the business which potentially concerns you. The areas of improvement identified during the audit are discussed in Appendix 1.

Accounting policies

We have reviewed the accounting policies adopted by the Company in the preparation of its financial statements and consider that they are appropriate and suitable for the Company's particular circumstances.

As required by FRS 102, the Board of Directors should formally review the Company's accounting policies and treatments to ensure that they remain the most appropriate to the Company's particular circumstances for the purposes of giving a true and fair view. We suggest that the Board of Directors should minute this discussion.

Significant subsequent events

No significant subsequent events since the period end, with the exception of the RBC loan extension, which would require disclosure in the financial statements have been noted to date.

Consideration of fraud

We have discussed fraud with David Burton and Paula Gledhill.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

It was confirmed that:	There have been no instances of fraud during the year; and
	Those charged with governance of the Company consider there to be a low risk of fraud occurring.

Summary, adjustment and audit report

Audit adjustments agreed with management

We received the draft trial balances for the period ended 31 March 2019 from Steven Davies in accordance with the audit timetable.

During the course of the audit, adjustments were necessary in order to facilitate the preparation of the statutory financial statements, consisting of late adjustments from management together with some reclassifications of balances for statutory presentation purposes.

Late adjustments provided by management, mainly in order to correct the bank, VAT and intercompany reconciliations were reviewed as part of our audit process and have been agreed and processed in the financial statements.

Where we have proposed reclassifications of balances for disclosure purposes these amendments were reviewed and agreed by Paula Gledhill and Steven Davies.

Unadjusted items

During the course of our audit we identified some non-material items which have not been adjusted for in the financial statements. A summary of these unadjusted items is attached to the letter of representation. The net effect of these unadjusted items is an expense of £17,714.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be undertaken prior to finalisation of the Company accounts.

We acknowledge the subjectivity and scope for differing viewpoints over some of our concerns. By the same token, the Board in deciding to approve the accounts as currently drafted will also be exercising subjective judgement.

Audit report

We propose issuing an unqualified audit report on the financial statements of the Company for the period ended 31 March 2019.

Appendix 1 – Management Letter Points

Area	Observation	Recommendations	Management response
Access to Fusion	It was noted that members of RBC and BFfC staff have access to each other's finance system. For example, RBC input BFfCs payroll journals and Steven at BFfC can post journals on their system.	As material adjustments can be posted onto Fusion without BFfC's acknowledgement, we recommend that IT segregation measures be put in place to prevent non-BFfC staff from accessing Fusion. For example, even though RBC provides the payroll services, they should suggest the journal that ought to be posted and then BFfC staff checks the journal to make sure they agree with it and then post it themselves. However, we understand that checks and processes are to be put in place going forward that will separate the two business units.	Separate Business Unit within Oracle Fusion is set up for BFfC. The company transitioned in December 2018 which resulted in the use of RBC Business Unit and BFfC due to the delay in the bank account set up. It was a transition period which will not happen in future years. This will be rectified in 2019/20 as the 2 business units will be separate. Internal Audit will review the system set up for the company and RBC. Access still required to RBC schools which BFfC administer on behalf of RBC. Oracle Fusion Review has been commissioned and BFfC are key partner in this review.

Area	Observation	Recommendations	Management response
			RBC complete the bank reconciliations for BFfC, inter-company transactions, Accounts Receivable, Accounts Payable, Treasury Management and Payroll through SLA and why RBC employees have access to process into BFfC accounts. Accounts Receivable and Accounts Payable approval is required by BFfC manager but this system does need more control around the inter-company transactions for 2019/20. Treasury and Bank reconciliations are picked up by a senior member of BFfC. Head of HR signs off the monthly payroll run and this is also checked through the control accounts which are reconciled by the Strategic Business Partner.
Audit Information missing expenses	Some invoices requested during the audit could not be found by the finance team and therefore additional samples request were needed.	With the absence of proof of invoices, the accuracy of the payments posted to Fusion cannot be ascertained. We recommend that all invoices received be saved either online or in a physical file and referenced.	Accounts Payable issue to be rectified with Chris Beauchamp. All invoices should be scanned onto system. This has been highlighted in the Oracle Fusion Review.
VAT	The VAT codes did not match the submitted VAT returns.	We recommend that the VAT treatment is coded correctly into Fusion in order for the net debtor or creditor amount to be correctly accounted for.	This arose from the late bank suspense submission for March return. Sundry creditor missed initially, but will be covered in lessons learnt exercise.

Area	Observation	Recommendations	Management response
Address on purchase invoices	During our purchases testing, 3 invoices were found to be addressed to RBC rather than BFFC.	As there is a risk that expenditure relating to BFFC will be incorrectly recorded in the accounts of RBC. We recommend that suppliers are using the correct details when raising purchase invoices.	Relates to the inter-company transition period and delay to the set-up of bank account. This will be addressed for 2019/20 as full year as separate Business Unit.
Fixed asset capitalisation	Although it was only a trivial amount and an adjustment wasn't required for the financial statements, it was noted that a laptop purchased in the year was not capitalised as per the stated accounting policy of £2,500.	Fixed assets may be understated and expenses overstated. Therefore we recommend that all fixed assets purchased at a cost greater than the threshold are appropriately treated as capital items.	Depreciation policy wasn't followed initially owing to low material level. Accounting Policies have been written and approved.
Aged Creditor Report	It was noted that the aged creditor report did not agree with the trial balance as at 31 March 2019.	We recommend that reports taken from Fusion agree to the trial balance amounts and any differences to be investigated and resolved. These supporting documents are key to the audit and also valuable for management information.	This was due to a lack of RBC/BFfC partnership working, with RBC misunderstanding the requirements of BFfC. The report will be produced on 1st April 2020 to avoid repeat delay in the reconciliation. This will be recorded in the lessons learnt exercise.
Recording of transactions	The intercompany review conducted by BFfC staff showed that £1.79m was paid by BFfC but related to RBC and £1.72m was paid by RBC that should be BFfC. Also, that £930k of revenue was accounted for under RBC instead of BFfC. Incorrect recording of material income and expenditure transaction can lead to working capital management concerns.	We recommend that income and expenditure needs to be properly categorised and accounted for under the correct entity, however we appreciated that this was mainly due to the set-up of BFfC and should not re-occur going forward.	This was a unique situation of the transition period to BFfC in December 2018. This is not going to happen in 2019/20. Inter-company journals will be processed to charge each entity.