

Audit report

Encompassing the Management Letter

Systems findings

And

Other Audit Matters

 **Forrester Boyd**

*Prepared by: Kevin Hopper
(Senior Statutory Auditor)
Of Forrester Boyd*

5th December 2016

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1) **Audit introduction and general comments**

The audit was completed successfully and without any problems.

We found your team helpful and not evasive in any way, which allowed us to obtain information freely and easily.

It is also worth noting that our audit work is only conducted on a sample basis, so is unable to guarantee that all errors are found. As it is completed on a test basis, you may feel that certain areas, such as review of specific controls, especially in connection with wages, tax and VAT obtain a further review.

The finance team need to be aware that the Accounts Return needs to be completed and then checked by Forrester Boyd by the deadline of 31 January 2017. There are changes to the Return this year, so it may take longer to complete.

We would like to take this opportunity of expressing our thanks to your staff for their assistance during the course of our audit.

2) Overview of the year

We can make the following summary comments in connection with the year end accounts:

a) Income

The income is made up of the following:

	2016	% of	2015	% of
	£	income	£	income
Donation from the local authority on conversion	-		-	
Funding for the Academy's educational operations (Note 3)	2,146,797	89.19%	2,172,236	94.55%
Other income	119,590	10.81%	125,288	5.45%
Total	2,266,387		2,297,524	

91% (2015: 91%) of the total income is made up of Government Funding. This % can vary dependent on the types of income received by an Academy. This is lower than we see at other academies as the Trust has quite high amounts of other income, including school trips, catering and the Renewable Heat Incentive.

Funding for educational operations has decreased this year due to a decrease in Universal Infant's Free School Meals funding. This funding was particularly high in 2015. This is because in 2013/14 the funding was deferred and was then recognised as income in the 2014/15 year. However, in 2014/15 this same adjustment was not made and therefore the income appeared higher.

Also included in funding for educational operations this year is insurance claim income of £18,774 and catering income from pupils of £70,259 (2015: £70,141).

These Government funding income streams have been proved in total, by reviewing agreements from funding providers.

Other income can be broken down as follows:

	2016	2015
	£	£
Donations and capital grants (Note 2)		
Educational trips and visits	59,384	60,439
Capital grants	13,941	14,042
Other donations	3,657	3,310
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	76,982	77,791
Other trading activities (note 4)		
Catering income (adults)	1,421	1,189
School shop sales	1,710	1,263
Other sales	23,397	32,214
Renewable heat incentive	15,668	12,462
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	42,196	47,128
Investment income (note 5)		
Bank interest	412	369
<u>Total</u>	<u>119,590</u>	<u>125,288</u>

Educational trips and visits can vary each year depending on the trips taking place. This year the income has remained consistent.

Other sales has reduced this year. In 2015 this included staff absence insurance of £4k, but in 2016 the absence insurance income has been allocated differently (as noted above). Excluding this, other sales have still reduced by £5k. This appears to be owing to less income generated by parents in areas such as music tuition, however, this is actually owing to a mis-allocation to Educational Contracts.

The renewable heat incentive is income received for using the biomass boiler. This is the first full year of receiving the incentive.

Your investment return is very low. However, due to the levels of cash held and the minimum working capital required, it is unlikely you can meet a minimum target of an inflationary return, to ensure the value of funds held is not diminishing with time. If the funds continue to increase then we would definitely recommend considering the investment options.

Our audit work has not highlighted any systems issues or cut off concerns in respect to other income.

b) Expenditure

The main costs relating to the Academy are salaries at £1,667,179 (2015: £1,714,361) being 76% (2015: 77%) of your total non-fixed asset costs and 74% (2015: 75%) income, excluding capital.

These percentage are below the maximum guidance from EFA of 80% and do appear to be in line with other academies we act for.

These costs have been reconciled to your payroll provider's reports with no material errors.

The average salary per teacher is £36,177 (2014: £36,636). This has remained consistent and is in line with other academies we act for.

Other sizeable costs or costs worthy of note, relating to Academy's educational operations are as follows:

	2016	2015
Educational Supplies	£29,922	£22,554
Other direct costs	£38,504	£21,998
Depreciation	£86,662	£88,804
Maintenance	£69,684	£62,897
Technology costs	£30,703	£41,777
Rent, rates and utilities	£51,792	£60,437
Insurance	£32,601	£33,323

Educational supplies have increased this year, due to additional materials and learning resources being purchased. This area can fluctuate depending on changes in the curriculum and initiatives throughout the school.

Other direct costs are mainly made up of educational contracts and SLAs and educational software. There has been an increase due to higher library and swimming SLAs and some changes in how costs have been posted.

Depreciation relates to the cost of the fixed assets being allocated to the income and expenditure account over your agreed period, as noted in the accounting policies. The reduction in the charge shows that some assets have fully depreciated in the period.

Maintenance costs are higher than what we see at most other primary schools, due to the allocation of costs. We have kept the allocation consistent with previous years, except for moving technology costs to its own heading, as prescribed by the EFA. Therefore maintenance costs include photocopying costs, telephone, broadband and stationery. Other academies we act for include these amounts under other support costs.

Technology costs have decreased due to fewer IT and support contracts.

Rent, rates and utilities have decreased this year. This is due to less being spent on biomass pellets as a new supplier has been sourced.

Insurance costs appear reasonable.

The remaining expenditure relates to the general running of the school and do appear reasonable and our audit work has not found any material errors or cut off issues.

If you feel that any of these costs could be reduced, please do not hesitate to contact us as we may be able to help with alternative suppliers.

c) Balance sheet

The main figure on the Balance Sheet is your fixed assets with a net book value of £3,588,594 (2015: £3,669,286). The balance has decreased due to the depreciation charge being higher than the additions in the period. Additions this year include £2.8k new servers and hard drives at Swanland.

The other figures include:

Debtors £35,314 (2015: £40,466)

This relates to prepaid insurance and licence costs and amounts owed to the Academy for VAT. This year includes £7,650 (2014: £7,550) of Pupil Premium income which relates to the year ended 31 August 2016, but is received in October.

Cash at bank and in hand £407,183 (2015: £319,547)

Cash at bank has increased due to a surplus of funds (prior to FRS17 adjustments and depreciation).

Creditors due within one year £127,686 (2015: £122,994)

Creditors due in one year include accrued costs, deferred income and the tax owed in relation to your payroll. These figures have been confirmed to back up information and do not indicate there are any material errors.

We have also completed cut off work to ensure that all creditors are included in the accounts and no material problems have been encountered.

Creditors due after one year £51,478 (2015: £72,068)

This relates to the Salix loan for the biomass boiler, which is an approved EFA loan.

Pension Liability	£729,000	(2015: £530,000)
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This balance is based on work done by Hymans Robertson, the academy's actuary and can move up and down based on a number of Actuary assumptions. Change in assumptions by the actuary have resulted in a loss of £277,000 in the period (2015: £11,000 gain).

The liability is underwritten by the DfE so should never become payable by the Academy. However, it is possible that your annual contribution could increase.

Overall

This year has seen a decrease in funds, due to the increase in the pension liability and depreciation charge.

The total amount free reserves available for the Academy to spend in the future is £261,581 (2015: £163,199) and is made up of:

- Unrestricted funds total carry forward of £75,010, which have decreased by £34,788.
- Restricted funds, which exclude the fixed asset fund and pension reserve, have increased by £133,170; giving a total carry forward of £186,571.

These reserves are relatively low, but now cover approximately 6 weeks running costs. It is important that the academy sets a specific reserves policy to ensure that reserves are not too low or too high.

3) Independence and ethical matters

As discussed in the pre-year end meeting and as confirmed in our letter, there is a potential ethical issue, i.e. a self-review threat arising from our firm being involved in completing the accounts, and not just the audit.

We will mitigate the self-review threat in relation to the production of the Financial Statements by having another member of our Academy team, not involved in the audit, reviewing the accounts and completing the required accounts production checklist.

We believe the Academy has individuals and groups within its management that can make decisions and understand the finances of the Academy, including the Financial Statements. We note this group of people as being 'informed management' and can actively approve any adjustments that we make to the accounts.

By informed management we mean that "a member of the management of the Academy who is capable of making independent decisions or judgements on the basis of information provided".

We agreed in our pre year end meeting and the subsequent letter sent to you, prior to the commencement of the audit, that the following individuals were considered to be informed:

C Huscroft

D Carvalho

The Board of Trustees as a whole is also deemed to be informed.

If you do not believe that the above group of people are informed, please inform us immediately as it will potentially mean that we have to ensure further safeguards are put in place and a second partner completes a review of the file.

4) Formal matters to be reported

In accordance with our normal practice we are writing to draw your attention to various matters which arose during the course of our audit of the academy accounts for the period ended 31st August 2016.

a) Expected modifications to the auditors' report

There are no expected modifications to the auditors' report

b) Unadjusted misstatements

A schedule is included at section 7 of all the unadjusted misstatements determined during the course of our audit, except for those considered to be clearly trifling. As confirmed in your letter of representation to us, you believe that these adjustments are not material and therefore no amendments to the financial statements are required.

You have confirmed in the Letter of Representation that any amounts below £1,000 are trivial and do not need reporting to you.

c) Material weaknesses in the accounting and internal control systems

As you are aware from our letter of engagement, our audit procedures were directed towards testing the accounting systems in operation upon which we have based our assessment of the accounts.

Section 5 of this report includes specific audit points and also contains details of actual and potential weaknesses identified during the course of our audit and our recommendations for improvements. It is not meant to be a full and accurate reflection of all weaknesses that may be present in your system.

In making our recommendations, we have considered the size of the academy and the number of staff you employ. We shall be glad if you will let us know what steps have been taken in connection with the above.

d) Qualitative aspects of the entity's accounting practices and financial reporting

We have no comments to make concerning the qualitative aspects of the academy's accounting practices and financial reporting.

e) Identification of Fraud

We are pleased to report that our audit has not found any instances of fraud.

f) Compliance with key laws and regulations

Our audit is required to consider and assess the academy's compliance with central laws and regulations, and consider the existence of breaches that could lead to a fundamental event, such as excessive fines that have a material impact on the financial statements, that threaten the going concern status of the entity, or legislation that could lead to the forced closure of operations.

g) Compliance with key laws and regulations

Our work has not identified any instances of material breach, and the academy appears to have devoted sufficient resources, experience, skills and training to all key regulatory aspects of its affairs.

We are happy to offer any assistance necessary to ensure that this is the case.

h) *Other information connected with the financial statements*

Auditors are required to review any other information issued with audited financial statements, such as an annual review, web site announcement or trustees' report, and determine if such reports are consistent with the financial statements.

You have chosen to make public comment on the financial statements.

We are pleased to report that the trustees' report content is consistent with the financial statements.

i) *Other matters required by Auditing Standards to be communicated*

There are no other formal matters to be reported to you and the other details included within the report are above and beyond our requirements to report.

j) *Other relevant matters relating to the audit*

There are no other matters which we wish to draw to your attention.

5) Specific audit and control points

Following our recent audit visit, we have set out below the key observations of a systems and internal control nature that have arisen from the audit work undertaken.

The points are raised to assist the management team in strengthening and formalising the internal control environment, something which is essential and often overlooked in a small company environment.





These issues raised are not intended as, nor should they be construed as, criticism of management or individual persons. They are intended to be of assistance in establishing an appropriate system of internal control, essential to the academy if it is to grow.

Our audit focuses only on those aspects of internal control that are material to the production of accurate financial statements and safeguarding assets of the academy, and therefore is not exhaustive.

We only give consideration to peripheral areas if they directly support other systems of internal control or provide compensating controls to an area with potential weaknesses.

Where matters of efficiency come to our attention, we shall of course report these to you. However, the audit should not be relied upon to identify all matters of duplication or inefficiency in the allocation of responsibilities or the processing of transactions.

Key

-  1 Key concern. Action required immediately.
-  2 Moderate concern. Action believed to be required.
-  3 Minor concern. Action believed to be required, but not considered a significant issue.
-  4 No concern. Action not required, but the suggested improvement should be considered.

	Points Noted	Corrections and system improvements	Benefit of Control	Action and comments by the Academy
1 3	It was noted that orders were not always raised where one could be appropriate. The placement of an order is the crucial part of the purchasing process, as this is when you are committing to a cost.	It may be beneficial to bring in a de minimis limit, so that orders below this amount do not need an order. This helps to reduce the administrative burden, whilst ensuring the finance procedures are being followed. It is important that purchases above this amount have an order, where relevant.	It will provide an improved control over purchasing as it involves authorising items prior to the purchase being made, whilst streamlining the system.	A de minimis limit is not considered necessary, all orders require authorisation, particularly as so many orders are really quite small. Since 2015-16, the Trust has tightened the requirement for an order and is currently reviewing the system for kitchen orders so that the Cook may order up to a certain limit without a signed order.
2 2	The head does not authorise the gross pay prior to employees being paid.	We would advise the head to authorise the gross pay reports prior to the payment to employees, due to the low level of segregation, the fact payroll is a key cost and it indicated he is fulfilling his duties as Accounting officer. This could be in the form of a variance report where he compares with the previous month to spot any large changes.	This ensures the head is fulfilling his role as accounting officer and has sufficient financial oversight.	The Trust is currently in discussion with its payroll agent to provide a variance report for the Head of School to review/authorise, prior to the SBM signing off salaries each month.

Summary and conclusion

It is pleasing to report that our audit work has not identified any fundamental weaknesses in internal control systems, nor have we found any evidence of fraud.

We shall be pleased to discuss or advise on any of the above matters as required.

6) Surplus reconciliation and adjustments made

Please find detailed below the adjustments made during our audit work, which form part of the journals you approve within your letter of representation to us and as included in an appendix to this report.

<u>Surplus Reconciliation</u>	£
Balance per client	11,165
Pupil Premium accrued income	5,183
Adjustment to recharges	1,342
Pension liability movement	(199,000)
Surplus per accounts	<u>(181,310)</u>

If you require any clarification on the above adjustments please do not hesitate to contact us.

7) Unadjusted misstatements

Detailed below are the non-trivial misstatements found during the audit.

	Affect on Surplus £	Affect on Balance sheet £
Potential audit adjustments for 2015		
Potential overstatement of income	4,275	
Understatement of accruals	6,626	
Potential audit adjustments for 2016		
Potential overstatement of income	(11,214)	(11,214)
Parent Pay reconciliation difference	1,004	1,004
Understatement of accruals	(1,484)	(1,484)
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Net affect	(793)	(11,694)
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You have confirmed in your letter of representation to us that:

- a) £1,000 is deemed to be trivial and any adjustment under this amount does not need to be reported on
- b) The above items do not require adjustment, as they are individually and in total not material.