

Audit report


Encompassing the Management Letter

Systems findings

And

Other Audit Matters

 **Forrester Boyd**

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1) **Audit introduction and general comments**

The audit was completed successfully. Not all of the required information was available on the audit dates, which has caused delays with producing the accounts. It is important that going forward all information is available and complete prior to us coming to complete the audit.

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.

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

# Swanland Primary School Academy Trust



## 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:

	2015 £	% of income	2014 £	% of income
Donation from the local authority on conversion	-		746,545	25.43%
Funding for the Academy's educational operations (Note 4)	2,111,257	91.89%	1,964,160	66.91%
Other income	186,267	8.11%	224,664	7.66%
<b>Total</b>	<b>2,297,524</b>		<b>2,935,369</b>	

The donation from the local authority in 2014 includes the land and buildings, pension deficit and cash balances from the Dunswell predecessor school carry forward.

92% (89%: 2014) of the total income is made up of Government Funding. This % can vary dependent on the types of income received by an Academy. However, this is in line with what we see at other academies.

Funding for educational operations has increased for several reasons. Firstly, 2015 includes income for infants' free school meals totalling £133,914. In 2015 there are also more statemented pupils at Dunsweil, meaning an increase in SEN funding from the Local Authority. It should be noted that £48,314 of this FSM funding is for the 2015/16 academic year.

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

# Swanland Primary School Academy Trust

Other income can be broken down as follows:

	2015 £	2014 £
<b>Other voluntary income (Note 2)</b>		
Educational trips and visits	60,439	54,590
Other donations	3,310	7,555
	<u>63,749</u>	<u>62,145</u>
<b>Activities for generating funds (note 3)</b>		
Catering income	76,210	119,523
School shop sales	1,263	6,615
Other sales	28,226	20,330
	<u>105,699</u>	<u>146,468</u>
<b>Other income</b>		
Staff absence insurance	3,988	15,743
Renewable heat incentive	12,462	-
	<u>16,450</u>	<u>15,743</u>
<b>Investment income (note 4)</b>		
Bank interest	369	308
	<u>186,267</u>	<u>224,664</u>

Educational trips and visits can vary each year depending on the trips taking place. This year there has been an increase as more trips have taken place.

Catering income has decreased significantly due to reduced income now that infant's are entitled to free school meals. This decrease is more than offset by the increase in EFA funding.

This year there has been a lower level of maternity and staff absence covered by the staff insurance.

The renewable heat incentive is income received now that the biomass boiler is being used.

Your investment return is very low. The EFA is asking Academies to set a minimum target of an inflationary return, to ensure the value of funds held is not diminishing with time. This would therefore have led to a return in the year of circa £4,000, based on an average inflationary return. The cash levels at the academy have increased by £50k in the year, to £320k. It may be worth looking at some instant access accounts the academy could use to deposit surplus funds. Please contact us if you would like any advice in this area.

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 £1,714,361 (2014: £1,607,970) being 77% (2014: 77%) of your total non-fixed asset costs and 75% (2014: 73%) income, excluding transfer on conversion.

These percentages are at the higher end of what we have seen for primary academies. The average last year for primary academies was 69%.

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

The average salary per teacher is £36,656 (2014: £36,093). This has remained consistent and shows incremental increases. This 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:

	2015	2014
Educational Supplies	£22,554	£26,450
Other direct costs	£21,998	£25,092
Depreciation	£88,804	£92,959
Maintenance	£104,674	£102,898
Rent, rates and utilities	£60,437	£54,340
Insurance	£33,323	£35,535

Educational supplies have reduced slightly this year. This has occurred because economies of scale have been obtained for the two schools and there has also been a conscious effort made to reduce costs.

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Other direct costs are mainly made up of educational contracts and SLAs. The movement appears reasonable

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, therefore this includes photocopying costs, telephone, broadband, stationery and IT costs. Other academies we act for include these amounts under other support costs.

Rent, rates and utilities have increased this year, despite the use of the biomass boiler. This is because the total amount spent on pellets was £13k, which is more than on oil in previous years. However, taking into account the RHI income this shows a decrease in the overall cost.

Insurance appears reasonable, a reduced premium was obtained this year using an insurance broker.

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.





Pension Liability	£530,000	(2014: £492,000)
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This balance is based on work done by Hyman's 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 gain of £19,000 in the period (2014: £120,000 loss).

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 £163,199 (2014: £69,788) and is made up of:

- Unrestricted funds total carry forward of £109,798, which have increased by £45,727.
- Restricted funds, which exclude the fixed asset fund and pension reserve, have increased by £47,687; giving a total carry forward of £53,401.

These reserves are relatively low, but do now cover at least one month's salaries.

**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 Governing body 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 31<sup>st</sup> August 2015.

**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
<p>1 It was noted on the petty cash payments that the school business manager can authorise her own expenses.</p>	<p>Another member of staff should authorise the school business manager's claims.</p>	<p>This ensures there is strong segregation of duties.</p>	<p>Going forward, all SBM petty cash payments will be authorised by the Executive Head Teacher.</p>
<p>2 Some personnel files did not contain an up to date salary statement.</p>	<p>All personnel files should contain an up to date salary statement.</p>	<p>This provides a clear audit trail to show what each member of staff should be being paid.</p>	<p>Salary statements have already been produced for all staff at 1<sup>st</sup> Sept 2015; these will be revised for teachers following professional development reviews in Oct/Nov 2015. Going forward, this will be repeated in Sept/Oct each year.</p>
<p>3 The head does not authorise the gross pay prior to employees being paid.</p>	<p>The head should authorise gross pay reports prior to the payment being made to employees. This could be in the form of a variance report where he compares with the previous month to spot any large changes.</p>	<p>This ensures the head is fulfilling his role as accounting officer and has sufficient financial oversight.</p>	<p>Each month the SBM will produce a summary report of gross salaries, showing any large variances and reasons for such variances for the Executive Head Teacher to authorise.</p>

**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>	£
<b>Balance per client</b>	<b>(34,507)</b>
Pupil Premium accrued income	3,070
Reversal of deferred income	59,639
Correction to opening reserves	(1,462)
Correction to depreciation	(8,091)
Pension liability movement	(38,000)
<b>Surplus per accounts</b>	<b><u>(19,351)</u></b>

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 £
<b>Potential audit adjustments for 2014</b>		
Potential overstatement of income	4,169	
<b>Potential audit adjustments for 2015</b>		
Potential overstatement of income	(4,725)	(4,725)
Understatement of accruals	(6,626)	(6,626)
<b>Net affect</b>	<u>(7,182)</u>	<u>(11,351)</u>

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.