Audit Report Encompassing

the Management Letter, Systems Findings

and Other Audit Matters

Forrester Boyd
Chartered Accountants

Prepared by: ________________
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Of Forrester Boyd
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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 **20 January 2020.**

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

2. Key audit areas

Key Audit Areas	Our Approach
Income recognition	We will reconcile any GAG funding to the funding document provided by ESFA. All other material grant funding will be agreed to funding documentation. Other material income streams will have controls testing completed.
Completeness and accuracy of payroll	As payroll is the main cost in the accounts a proof in total will be completed, agreeing the wages per the payroll provider back to the accounts. We will also test controls surrounding authorisation of payroll and ensure deductions surrounding PAYE and NI are made correctly.
Compliance with the ESFA requirements to ensure there are no regularity issues.	We will ensure the academy is complying with the 'musts' in the Academies Financial Handbook and that purchases made are deemed to be appropriate academy expenditure.
Statement of Financial Activities and fund allocations	We will review the major classification of income and expenditure to confirm they are consistent with expectations and to consider whether explanations are reasonable. We will review the allocation of funds in the statement of financial activities and ensure that this appears appropriate and in line with our expectations.

3. Overview of the year

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

Income

The income is made up of the following:

	2019 £	% of income	2018 £	% of income
Funding for the Academy's educational operations (Note 3)	1,141,990	87.92%	1,148,806	98.01%
Other income	156,863	12.08%	23,263	1.99%
Total	**1,298,853**		**1,172,069**	

97% (2018: 94%) of the total income is made up of Government Funding. This % can vary dependent on the types of income received by an Academy. This year the large amount of CIF funding was the reason for the increase.

Funding for educational operations has decreased this year. This is due a reduction in GAG received per pupil under the new funding formula. This has been partly offset by an increase in SEN funding from NELC and Teachers' Pay Grant being received from ESFA.

Included within funding for the Academy's educational operations is other income which can be broken down as follows:

	2019	2018
	£	£
Journey and trips income	30,242	26,539
Miscellaneous income	1,160	3,406
Insurance income	-	8,737
Catering income	1,886	7,753
	33,288	**46,435**

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

Other income can be broken down as follows:

	2019	2018
	£	£
Donations and capital grants (Note 2)		
Miscellaneous donations	2,787	2,642
Capital grants	148,348	6,813
	151,135	**9,455**
Other trading activities (note 4)		
Other income	5,350	13,688
	5,350	**13,688**
Investment income (note 5)		
Bank interest	**378**	**120**
Total	**156,863**	**23,263**

Capital grants have increased due to the £130,510 CIF grant and Devolved Capital Grant of £17,838.
Other income relates to various school fund donations including photographs and school discos. Also included here is income generated from work undertaken by the head for other schools. This is the area of reduction.

Expenditure

The main costs relating to the Academy are salaries (excluding actuary pension adjustments) at £792,048 (2018: £760,959) being 71% (2018: 69%) of your total non-fixed asset costs and 68% (2018: 65%) of your non-fixed asset income.

These percentages are lower than our expectations, with the primary academy average of salaries against income higher in other academies we see. The ESFA suggest that salaries should be a maximum of 80% of income, as any higher than this would indicate the academy is not financially viable.

The average salary per FTE teacher is £41,111 (2018: £40,284). This increase relates to the incremental percentage given to all teachers.

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

	2019	**2018**
Educational Supplies	£50,688	£58,313
Depreciation	£51,128	£45,580
Educational Services	£66,671	£69,659
Maintenance	£40,026	£42,519
Catering	£13,497	£19,045
Other support costs	£23,260	£25,293

Educational supplies costs cover books, materials and non-capitalised IT equipment/leases. These vary year on year, depending on changes in the curriculum.

Depreciation relates to the cost of the fixed assets being allocated to the income and expenditure account over your agreed policy, as noted in the accounting policies, which appear reasonable.

Educational services include various SLA charges and educational visits.

Maintenance costs have remained consistent.

Catering costs have decreased in line with income as catering is now outsourced.

Other support costs include photocopier leases, IT contract, telephones and health and safety. The small decrease is not due to one specific cost, and is made up of decreases in several areas.

The remaining expenditure relates to the general running of the academy and appears reasonable. 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.

Balance sheet

The main figure on the Balance Sheet is your fixed assets with a net book value of £2,447,158 (2018: £2,336,425). Additions this year include the new climbing frame, new fencing and new gates to improve safeguarding.

The other figures include:

Debtors £64,628 (2018: £51,050)

Debtors mainly consist of: Prepayments - £21,588, VAT recoverable - £3,752, Pupil Premium debtor - £12,990, CIF debtor - £26,102. This increase relates to the CIF money due.

Cash at bank and in hand £527,714 (2018: £408,339)

Cash has increased, reflecting the surplus made before depreciation and adjustments to the pension liability. This is also reflective of the increased creditors noted below (CIF money is still in the bank).

Creditors due within one year £247,195 (2018: £176,141)

Creditors are made up of: Trade Creditors - £2,412, Wages to NELC - £66,500, Accruals - £151,388 and Deferred Income - £23,895.
Creditors have increased as accruals have increased due to the work not yet invoiced for the fencing around the academy.

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

Pension Liability £309,000 (2018: £193,000)

The balance sheet shows the pension liability has increased significantly in the year. Of the total increase, changes in assumptions by the actuary have caused an increase of £88k (2018: £34k gain), mainly due to the reduction in the discount rate.

The liability is underwritten by the DfE and should never become payable by the academy.

Overall

This year has seen an increase in funds available to carry forward.

The total amount of free reserves available for the Academy to spend in the future is £324,037 (2018: £283,248) and is made up of:

- Unrestricted funds total carry forward of £137,566, which has increased by £16,121;
- Restricted funds, which exclude the fixed asset fund and pension reserve, have increased by £24,668; giving a total carry forward of £186,471.

There is also capital funding still available to spend of £21,110.

The total balance is above the Academy’s reserves policy of two month’s expenditure.

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's accounts for the year ended 31st August 2019.

a) Expected modifications to the auditor's report

There are no expected modifications to the auditor's 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 6 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 improvement. 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 should be pleased if you would 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.

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.

g) *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, website 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 statement

h) *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.

i) *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

There are no points to consider from our audit of the systems and controls.

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.

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

Surplus Per Client	61,898.00
Pension adjustment	(116,000.00)
FA Movement	161,862.00
Depreciation	(51,128.00)
Surplus per accounts	56,632.00

7. Unadjusted misstatements

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

	Impact on Surplus £	Impact on Balance sheet £
Potential audit adjustments for 2018		
Understated accruals	1,635	
Wages reconciliation difference	1,557	
Overstated deferred income	(7,628)	
Potential audit adjustments for 2019		
Overstated deferred income	15,517	15,517
Net unadjusted misstatements	11,081	15,517

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.