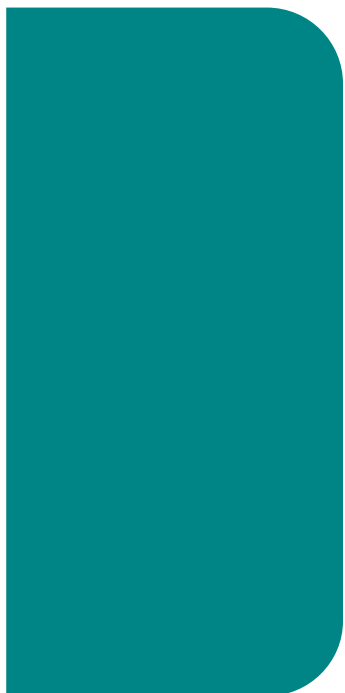


NORTHGATE PRIMARY SCHOOL DECEMBER 2016

MANAGEMENT LETTER TO DIRECTORS FOLLOWING THE AUDIT TO 31 AUGUST 2016



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Introduction

Introduction and Approach

This Report has been prepared for the Trustees of Northgate Primary School and summarises our key findings in connection with the audit and assurance work carried out for the year ended 31 August 2016.

The scope of our work has already been communicated via our Audit Planning Report to the Trustees. The respective roles and responsibilities of both Price Bailey and the Trustees are set out in our agreed terms of engagement.

Our audit and assurance procedures have been designed to enable us to express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland) and the regular, proper and compliant use of public funds as set out in section 9.3 of the Academies Accounts Direction 2015 to 2016.

Executive Summary

At the time of issuing this Report we anticipate issuing an unqualified opinion, without modification on the truth and fairness of information presented in the financial statements.

We also report that there are no matters of irregularity, by virtue of value or nature underlying the accounts, that would lead to a modified conclusion in our Regularity Assurance Report.



Audit Approach

We adopted a risk based approach to the audit and our planning identified the following key risks to be addressed. Our detailed findings are noted as follows:

Risk Identified	Planned Approach	Findings
Revenue recognition	<p>To complete detailed analytical procedures and depth testing on a sample of transactions ensuring correct accounting treatment had been applied.</p> <p>Review the systems and procedures implemented to ensure revenue is recognised in the appropriate accounting period and testing a sample of entries where necessary.</p>	<p>During the course of our audit work we documented the income systems and carried out procedures to gain assurance over the effectiveness of internal controls in place to prevent loss of income and ensure income is correctly recorded.</p> <p>We carried out work to ensure that the income in the accounts is materially complete and performed cut-off procedures to satisfy that income has been accounted for in the correct period.</p> <p>We have checked the income is appropriately recognised in accordance with the terms of any funding restrictions.</p> <p>No issues were noted.</p>
Significant accounting estimates	<p>To consider all significant accounting estimates used in the preparation of the financial statements and fully document the relevant method of calculation.</p> <p>To review the estimates ensuring accuracy, consistency and appropriateness by reviewing supporting documentation and assessing the accuracy of the estimates used in previous years.</p>	<p>We undertook a review on the pension actuarial valuation and considered it appropriate to rely on the work of an expert.</p> <p>We tested depreciation to ensure assets were being depreciated in line with the accounting policy and the relevant accounting standards.</p> <p>No issues were noted.</p>

Audit Approach continued...

Risk Identified	Planned Approach	Findings
Related parties	<p>To review your procedures in relation to identifying these transactions.</p> <p>Make enquiries as to the existence of any related parties before reviewing accounting records and other governorships to ensure that all related party transactions have been detailed in the financial statements.</p>	<p>We reviewed the internal procedures in place for identifying related parties, including the requirement to keep a register of trustees' business interests which is to be updated annually.</p> <p>Our audit work has provided assurance that the related party transactions disclosed in the financial statements are accurate and complete.</p>
Management override	<p>To review systems and procedures operating within the Academy finance function to identify potential areas of management override risk. Any risks identified will be tested to confirm the accuracy of the financial statements.</p>	<p>We reviewed a sample of journals posted throughout the year and a sample from those posted at the year-end to assess appropriateness and validity. Explanations were sought for any large or unusual amounts.</p> <p>No issues were noted.</p>
Staff and salary costs	<p>Staff costs are a key area, with specific focus on the testing of existence to ensure staff are bona fide employees.</p>	<p>We reviewed the reconciliations of the payroll records with the disclosures in the financial statements to ensure no indication of material misstatement of wages and salaries.</p> <p>We tested controls over the payroll system to ensure adequate and accurate recording and reporting of payroll information in the financial statements. Our testing included verification of a sample of employees to ensure they exist.</p> <p>No issues were noted.</p>

Audit Approach continued...

Risk Identified	Planned Approach	Findings
Fund Allocation	To ensure that allocation to funds has been correctly carried out. In particular that income and expenditure has been allocated correctly and any transfers between funds have appropriate supporting documentation and correct authority.	<p>We examined whether income had been correctly categorised between restricted and unrestricted funds, reviewing any terms and conditions where applicable.</p> <p>We checked that expenditure had been allocated correctly to the corresponding income.</p> <p>No issues were noted.</p>
Going Concern	<p>To review the Trustees' assessment of the Academy's ability to continue as a going concern for a period of not less than 12 months following the anticipated date of sign off.</p> <p>To consider budget and cash flow forecasts in relation to the going concern assumptions made and conclude on whether the considerations support the assessment that the Academy is a going concern.</p>	<p>We reviewed the cash flow forecasts and budget forecasts and consider that the assumptions made in relation to going concern appear reasonable and that the academy has sufficient resources to continue.</p> <p>Nothing has arisen to refute the Directors' adoption of the going concern basis in the financial statements.</p>
Regularity	To review expenditure (including charge cards and petty cash) to identify unusual or unexpected transactions which may not be in line with the intended use of the funding provider, and to identify transactions which would require EFA approval to ensure that this was complied with. To meet the Accounting Officer and review supporting evidence enabling them to sign their Statement on Regularity.	No irregular or improper use of funds was identified throughout the course of the audit fieldwork and there appear to be sufficient controls in place to enable the Accounting Officer to identify such instances.

Summary of adjustments

We have split the adjustments into those which have an effect on unrestricted and general restricted funds (revenue funds) and therefore effect the reserves available to carry forward to future periods and those which amend restricted reserves (non revenue funds).

Nature of adjustment	Adjusted items		Unadjusted items (factual)		Unadjusted items (judgemental)	
	Increase / (decrease) in Revenue funds £	Increase / (decrease) in Non Revenue funds £	Increase / (decrease) in Revenue funds £	Increase / (decrease) in Non Revenue funds £	Increase / (decrease) in Revenue funds £	Increase / (decrease) in Non Revenue funds £
Being adjustment for ACMF Grant not deferred	(56,097)					
Being adjustment for Creditors	531					
Being pension adjustment		(243,000)				
Being depreciation		(103,055)				
Being fixed asset additions		11,928				
Total	(55,566)	(334,127)				

Know What's In Your Accounts

Inaccurate reporting ?

In the last month the BBC have displayed a number of headlines on its website and made a number of allegations in its programmes.

“Debts run up by 113 academy trusts in England amount to almost £25m, figures obtained by the BBC suggest”.

“The most recent accounts show a deficit of £665,972”.

“A £2.1m deficit was found at one of Birmingham's largest academy chains, the BBC has discovered”.

Whilst no one is saying that the academy trusts involved do not have legitimate questions to answer, the reporting is not necessarily fair.

The deficit of £665,972 was in a MAT “central services” account and the constituent schools had reserves in excess of this deficit so the MAT as a whole was not in deficit.

Of the £2.1m deficit in the example noted above £1.6m related to the LGPS balance, something completely outside of the control of the Trustees.

It is therefore vitally important that Trustees understand what is in their reserves and can quickly refute unfair reporting if necessary.

With LGPS deficits rising significantly there will likely be some bad press about academy finances.

Therefore on the following page once again we reanalyse your accounts, separating non cash reserves such as fixed assets and pension balances.

It is the balances carried under the restricted and unrestricted funds line which are key to understanding the solvency of an academy trust.

Trustees, even those without a financial background, should understand the significance of these balances which together with the reserves policy statement in the Trustees report are key.

Summary of Income and Expenditure

	Restricted General Funds	Unrestricted Funds	Fixed Asset Fund	Pension Reserve	Total
Incoming Resources	1,653,312	88,224	9,043		1,750,579
Resources Expended	(1,541,459)	(174,797)	(14,306)	(95,000)	(1,825,562)
LGPS Charge	(95,000)				(95,000)
Depreciation			(103,055)		(103,055)
Employer contributions paid				78,000	78,000
Total Resources Expended	(1,636,459)	(174,797)	(117,361)	(17,000)	(1,945,617)
Assets Purchased from GAG	(11,928)		11,928		-
Actuarial Losses				(226,000)	(226,000)
Surplus / (Deficit) for the year	4,925	(86,573)	(96,390)	(243,000)	(421,038)
Balance at 1 September 2015	6,024	172,347	4,137,722	(361,000)	3,955,093
Balance at 31 August 2016	10,949	85,774	4,041,332	(604,000)	3,534,055

We believe this simple schedule gives a useful overview of how the school has spent its money this year.

Restricted General Funds

In the most simple terms the school spent approximately 99% of its income during the year, including £11,928 on fixed assets which that have been capitalised on the balance sheet. The balance carried forward of £10,949 relates to pupil premium.

Pension Reserve

Despite paying £78,000 into the LGPS the year end actuarial valuation increased the deficit by a further £243,000.

Fixed Asset Fund

Capital income of £9,043 was received in the year. Depreciation of fixed assets amounted to £103,055. Total restricted fixed asset funds carried forward were £4,041,332.

Unrestricted Funds

Unrestricted income generated in the year amounted to £88,224 and expenditure was £174,797 leaving unrestricted funds to carry forward of £85,774.

Our Findings

Deficiencies to be brought to the attention of the Directors

We are required to report to you in writing, significant deficiencies in the Academy's internal control environment that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to be reported to you. Our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

As required by the Academies Accounts Direction 2015 to 2016, all findings have been given a priority rating based on their importance as follows:



The Directors must ensure this recommendation is addressed as a matter of priority.



Internal controls should be strengthened to enhance operational efficiency but action is not time critical.









Internal controls could be strengthened but there is little risk of material loss. This may be a point for future consideration as risks faced by the Trust evolve over time.




This point is either for information only or relates to a recommendation made last year where action has been taken and is no longer of concern.

Points raised in the 2015 management letter

2015 Findings	2015 Priority	Recommendation	2016 Position	2016 Priority
When performing a wages walkthrough it was noted that there was no external information on the chosen employee's personnel file other than education certificates. There is therefore insufficient evidence to support an employees right to work in the UK.		We recommend that the school follows the guidance set out in the Home Office publication "An employers guide to right to work checks". Potential failure to keep this information could result in fines of up to £20,000 per employee.	Point now clear.	
When reviewing the charge card statements it was noted that the Headteacher signed the statements as reviewed for the first three months of the year only.		We recommend that the Headteacher reviews, and signs as reviewed, monthly charge card statements.	Point now clear as statements are reviewed and signed by Headteacher.	
During the Teachers' Pension Scheme audit it was noted that opt-out forms have not been retained for all employees.		We recommend that copies of all opt-out forms are retained by the school.	Point now clear.	


Matters arising from our work

From the Audit of the Financial Statements

Price Bailey Findings	Priority	Recommendation	Academy Comments
When reviewing the remittances received from in regards to the Local Authority Funding it was noted that the remittances were omitted for the first three months of the year.		We recommend that records are kept up to date and complete.	The LA reported a system error for the first 3 monthly remittances and after constant chasing by the Finance Officer this was finally rectified. All further remittances for the year were received.

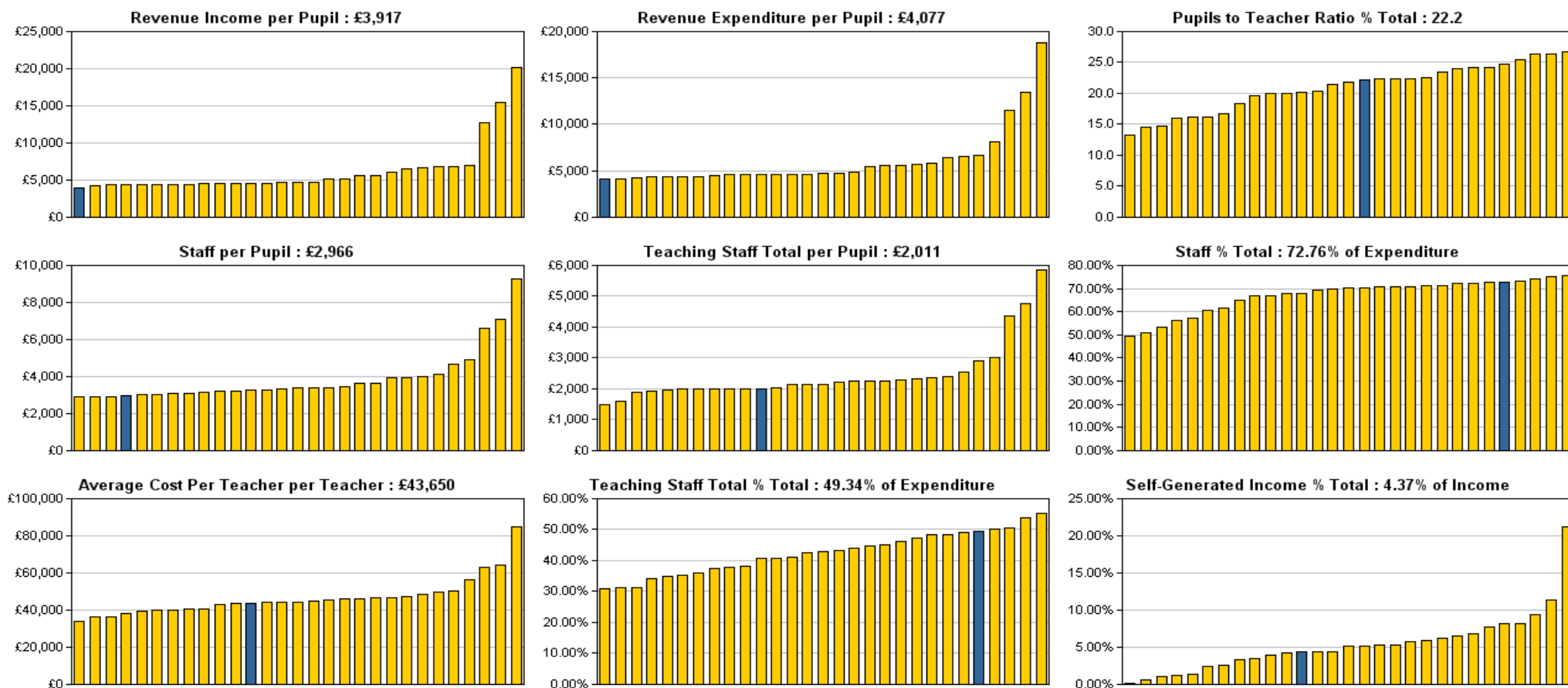
Matters arising from our work

From the Audit of Regularity Propriety and Compliance

Price Bailey Findings	Priority	Recommendation	Academy Comments
When reviewing the charge card statements it was noted that the Headteacher did not sign one of the statements as reviewed.		We recommend that the Headteacher reviews, and signs as reviewed, monthly charge card statements.	The Finance Officer meets with the Headteacher once a month to verify all statements. This meeting had not yet been held for the statement in question. Finance Officer will ensure that the time between receiving the statements and getting them verified is shorter in the future.

Benchmarking and Ratios

School – Northgate Primary School



The charts have been extracted from the Academies Financial Benchmarking website at <http://www.education.gov.uk/afb/login.aspx> and are based on accounts return information submitted for 2014/5. We have selected 9 charts out of a possible 225 available.

The comparator schools are all academies in the same school phase and the same local authority.

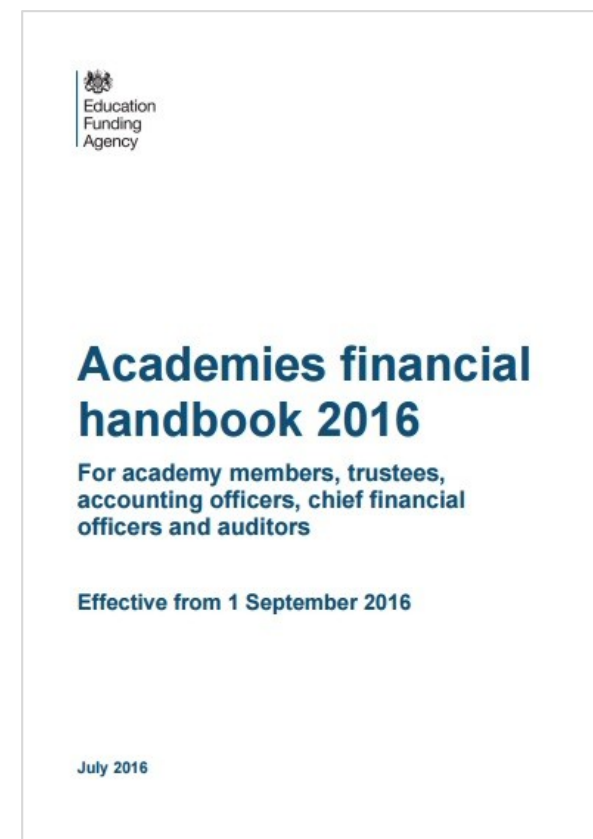
Emerging Issues

The Academies Financial Handbook 2016

The year to August 2016 has been regulated by the 2015 Handbook. The 2016 edition came into force from 1 September 2016 and is now one of the key governing documents for all academy trusts to follow.

Although there are fewer changes than in previous years some of the main changes include:

- A strengthening of the guidance in place to emphasise that Boards of Trustees should identify the skills they need and address any gaps in their skills through recruitment and training.
- Updated guidance on registers of interests, including confirmation that “Local Governors” should be included when identifying relevant interests of close family relationships.
- Confirmation that Trusts **must** use Edubase to notify DfE of changes in personnel.
- It is now a requirement, rather than a recommendation for Academy Trusts to have a whistleblowing procedure.
- When considering staff severance payments Trusts **must** satisfy the conditions set out in section 3.7 of the Handbook and obtain all necessary approvals before making any binding commitments to staff.
- The role of the risk auditor has been strengthened and Trusts **must** implement reasonable risk management recommendations made by them.
- Emphasis that Trusts should only use commercial insurance if it provides better value for money than the Risk Protection Arrangement.
- Trusts are reminded that EFA can require information about its cash position to be forwarded on a regular basis should there be concerns about financial management issues.
- Trustees have a greater responsibility to ensure that variances between budget and actual income and expenditure **must** be understood and addressed.



Emerging Issues - Pensions

LGPS

Uncertainty in the financial markets is flowing through the annual calculations of LGPS liabilities and we are seeing significant increases across all schools and all LA's. Trustees should remember that Government has guaranteed to meet any deficit should a school close but that cash contributions to fund these deficits only change every three years.

However the latest triennial valuations are nearly complete and LGPS rates are expected to increase from 1 April 2017. The revised rates are due to be announced by pension scheme actuaries soon.

TPS

It is predicted that, from April 2019, the TPS employer rate may increase from the current level of 16.48% to at least 18% and probably nearer to 20%! Contribution levels are subject to key assumptions used by actuaries and a predicted much lower discount rate is likely to be the main factor for the expected significant increase.

Although not yet confirmed, an increase on the scale noted above would result in a significant increased cost. For example, a 3% increase for an Trust with annual gross teacher's pay of £4m could see an additional annual contribution of £120k.

Auto-Enrolment

The Pension Regulator administers staging for auto-enrolment, with staging dates starting from October 2012. For academies this has an impact on the TPS and LGPS obligations to ensure full compliance. We are aware that this is a particularly sensitive area where employees do not wish to contribute to the schemes.

The majority of employers have either staged or their staging date is within the next 6 months. Certain employers who staged in 2012/13 will soon reach the cyclical automatic re-employment that occurs after 3 years, at which point all employees not contributing should be re-enrolled and then are required to opt out (this may be particularly pertinent for MATs with new academies that had not previously staged).

If the Trust has not yet staged, you can check your staging date online at:

<http://www.thepensionsregulator.gov.uk/employers/staging-date.aspx>

Budgets

Trust's should already have in place, three year budget forecasts and those that currently run to the end of August 2019 will need to be updated to take into account these potential pension cost increases effective from April 2017 and 2019 respectively.

Personal Pensions

Due to seeing an increasing number of senior staff who are falling foul of the changes in pension annual and lifetime allowances for individuals, we repeat a point made last year.

These changes can have a significant effect on higher paid or very long serving members of final salary pension schemes. If not monitored, large personal tax liabilities could accrue.

We recommend that long serving and higher paid employees request a personal statement from their scheme administrators and review their pension situation with their own financial advisor.

Emerging Issues

Annual Accounts Return

The Annual Accounts Return is changing. This will be an online form with the submission date remaining (for this year only as 31 January).

Current proposals are that the Accounting Officer has to set up individuals with various authorities to prepare, review and audit the submission, each with unique e-mail addresses and log-ins.

Auditors (including ourselves) have pointed out that this cannot work for them as staff working on a number of client will require a different email address for every client they work on.

In mid October this whole process is still being worked upon and tested. We await the final outcome.

VAT Treatment of Nurseries

If a Trust operates a pre-school/nursery, careful analysis will be required to determine the correct VAT treatment of such provision and associated costs. Grant funded provision may have a different VAT treatment from parent funding.

Multi Academy Trusts

The national schools commissioner has started piloting multi-academy trust “health checks” and it is expected that checks to assess Trust’s growth capacity will be rolled out across the country from January 2017. A recent Education Select Committee session indicated that it will more likely be September 2017 before most Trusts are contacted.

Checks are expected to involve discussions with the Accounting Officer, Chief Finance Officer and a representative from the Trust Board. They will focus on five broad areas; history of school improvement (including results and progress data), leadership capacity, governance, financial sustainability and risk management.

Results of the checks will be used to indicate to regional schools commissioners, the capacity for growth of each trust in their region.

Agency Worker Regulations

Introduced in 2011, these have proved to be very unpopular with employers. We understand that these regulations may be repealed which would be good news to Trusts that recruit temporary staff on a regular basis.

Apprenticeship Levy

From April 2017, employers whose annual payroll (earnings subject to Class 1 secondary National Insurance Contributions) exceed £3m. will have to pay the apprenticeship levy of 0.5%.

Employers paying the levy will have access to funding for apprenticeships to pay for training and assessment.

While this may result in a seemingly unnecessary burden, it is thought to encourage more employers to consider additional apprenticeship places, along with a raft of other incentives including grants and exemption from employer’s national insurance contributions on earnings below £827 per week. Another cost to take account of in next years budget.

Senior Statutory Auditor

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