

Northgate Primary School Trust

Management letter to Trustees following
the audit to August 2017

November 2017



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Contents

Main report	Page
Introduction	2
Audit Approach	3
Summary of Adjustments	5
Summary of Income and Expenditure	6
Our Findings	7
Emerging Issues	10

Introduction

Introduction and Approach

This Report has been prepared for the Trustees Northgate Primary School Trust and summarises our key findings in connection with the audit and assurance work carried out for the year ended 31 August 2017. We recognise that a copy of this Report is forwarded to the ESFA but it is not to be disclosed to any other person or organisation without our written permission. For the avoidance of doubt this Report is not to be posted on the Trust's website.

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 2016 to 2017.

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 Audit Planning Report to the Trustees 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>We adjusted the calculation posted by the academy for the UIFSM during the course of our work.</p>
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>

Audit Approach continued...

Risk Identified	Planned Approach	Findings
Management override	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>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	Staff costs are a key area, with specific focus on the testing of existence to ensure staff are bona fide employees.	<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>
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>

Summary of adjustments

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 £
LGPS Pension adjustment		175,000				
Inclusion of L&B depreciation		(71,252)				
Un-capitalising washroom project VAT		(5,395)				
Capitalising canopy purchase		5,810				
Inclusion of missing construction accruals	(7,101)					
Reduce income deferred for UIFSM	1,116					
Sub Total	(5,570)	104,163				

Summary of Income and Expenditure

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 100% of its income plus £8,690 of brought forward fund reserves during the year leaving £2,259 to carry forward. Expenditure included £36,277 on fixed assets which have been capitalised on the balance sheet.

Unrestricted Funds

Unrestricted income generated in the year amounted to £106,784 and expenditure was £81,334 an in year surplus of £25,450, leaving unrestricted funds carried forward of £111,224.

Fixed Asset Fund

Capital grants of £65,020 were received in the year. £8,923 of this was spent on assets that have been capitalised. Depreciation of fixed assets amounted to £91,891. Total restricted fixed asset funds carried forward were £3,994,641.

Pension Reserve

After paying £86,000 into the LGPS the year end actuarial valuation at the year end is £429,000.

	Restricted General Funds	Unrestricted Funds	Fixed Asset Fund	Pension Reserve	Total
Incoming Resources	1,697,324	106,784	65,020		1,869,128
Resources Expended	(1,669,737)	(81,334)	(56,097)		(1,807,168)
LGPS Charge				(138,000)	(138,000)
Depreciation			(91,891)		(91,891)
Employer contributions paid				86,000	86,000
Total Resources Expended	(1,669,737)	(81,334)	(147,988)	(52,000)	(1,951,059)
Assets Purchased from GAG	(36,277)		36,277		-
Actuarial Gains				227,000	227,000
Surplus / (Deficit) for the year	(8,690)	25,450	(46,691)	175,000	145,069
Balance at 1 September 2016	10,949	85,774	4,041,332	(604,000)	3,534,055
Balance at 31 August 2017	2,259	111,224	3,994,641	(429,000)	3,679,124

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 2016 to 2017, 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 2016 management letter

2016 Findings	2016 Priority	Recommendation	2017 Position	2017 Priority
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 recommended that records are kept up to date and complete.	On our review of Local authority remittances we found no indication of missing records, income was able to be materially vouched.	
When reviewing the charge card statements it was noted that the Headteacher did not sign one of the statements as reviewed.		We recommended that the Headteacher reviews, and signs as reviewed, monthly charge card statements.	On our review of charge card transactions we found 12 complete and authorised statements from the headteacher even during the transition period.	

Matters arising from our audit of regularity

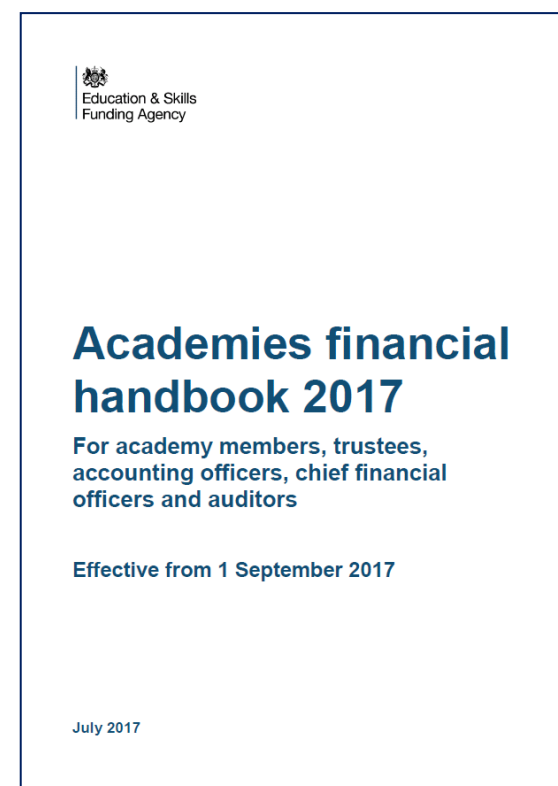
Price Bailey Findings	Priority	Recommendation	Academy Comments
Upon review of committee meeting minutes there was one meeting which had no official minutes kept on file.		The omission occurred when the official clerk was unable to attend the meeting and a member of the committee was left with the responsibility, controls should be put in place to ensure that this does not impact on the recording of official documentation.	All reasonable steps have been made to recover the minutes from the committee member and during our onsite visit they intended to send the documents over to the academy.

Emerging Issues

Academies Financial Handbook 2017

The year to August 2017 has been regulated by the 2016 Handbook. The 2017 edition came into force from 1 September 2017 and is one of the key governing documents for all academy trusts to follow. The main changes include:

- Updated information about the roles of members and trustees to provide greater understanding of expectations and emphasis on having significant separation between the roles.
- Confirmation that annual letters to Trusts' Accounting Officers from ESFA's Accounting Officer about the accountability framework must be discussed by the Board with action taken where appropriate to strengthen the Trust's systems.
- A reminder that the 'seven principles of public life' apply to everyone holding public office. These being; selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
- Emphasis on the importance of addressing any skills gaps on the board at key transition points such as growth periods in the Trust. Trusts are directed to the DfE competency framework for governance when determining skills gaps.
- Greater emphasis that Trusts' record of key individuals on Edubase must remain up to date.
- Introduced additional information about the appointment of the Trust's statutory Auditor.
- Emphasis that decisions about levels of executive pay must follow a robust evidence-based process.
- Clarification that Trusts' delegated authority to make non-statutory/non-contractual staff severance payments under £50,000 is before income tax and other deductions.



Emerging Issues

Annual Accounts Returns (AAR)

After the problems faced in 2016, the ESFA have invested considerable time testing the online form for this year. The deadline for submission has been brought forward to 19 January 2018 and we expect this to be accelerated to 31 December sometime in the future. The hope is that the process this year will be more efficient and straightforward.

Budget Forecast Returns (BFR)

The ESFA have confirmed that like this year two BFRs will be required each year. The first return must be submitted by 18 May 2018 and will focus on actual expenditure for the period up to March 2018 as well as an assessment of forecast expenditure to the end of August 2018. The second return is to be submitted by 27 July 2018 and will focus on the projected financial position of the Trust for 2018/19. At present, neither of the returns need to be audited, nevertheless, if you do require assistance please do not hesitate to contact us.

Teachers' Pension Scheme (TPS)

Teachers' Pensions has implemented Monthly Data Collection (MDC) for providing service and contribution information, which represents significant benefits to the Scheme, Employers and Members. MDC allows you to provide service and salary information to Teachers' Pensions on a monthly basis, as opposed to the Annual Return. Data collection is changing and MDC will be the only method for providing data from April 2018. The deadline for on-boarding to MDC is December 2017 but you can sign up at any time. Employers will need to complete a MDC Activation Form and submit to TPS. More information can be found on the TPS website.

Multi Academy Trusts may wish to consider the benefit of grouping their schools into one TPS submission.

Land and Building Collection Tool

This is a new online return tool introduced this year which needs to be completed by each Trust and provide land and buildings details for each academy school operated by the Trust as at 31 August 2017. The online tool will be used as the source data for the new sector land and buildings asset register maintained by the DfE to support the Sector Annual Report & Accounts (SARA). The online return needs to be completed by Trusts by 31 October each year.

Emerging Issues

Financial Notices to Improve

With pressures ever growing on Academy Trusts, we have reviewed the Financial Notices to Improve issued by the ESFA over the past 12 months to identify any recurring causes.

These can be summarised as:

- Budgets: failure to set a balance budget and maintain and provide the ESFA with accurate and robust budget forecasts.
- Management: failure to ensure robust financial management, effective internal controls and to have sufficient oversight over the governance of the Trust.
- Reporting: failure to submit financial returns by the relevant deadlines, failure to publish relevant business and pecuniary interests on the website and failure to seek prior approval from the ESFA as required by the Academies Financial Handbook on various issues.

EduBase/Get Information about Schools

The DfE has developed a replacement for EduBase which is known as Get Information about Schools (GIAS) and is now live. As a reminder the Academies Financial Handbook states that Trust's record of key individuals on EduBase (now GIAS) **must** remain up to date. GIAS should be updated for the appointment or resignation of positions as stated in the Handbook within 14 days.

New Chair of Trustees

From April 2017, new chairs of Trustees in academies, free schools and independent schools must complete the 'Identify Verification Form' in conjunction with the Disclosure and Barring Service (DBS) application form. Completed forms along with the completed DBS application form are then sent to the DfE. Further details of this requirement can be found here:

<https://www.gov.uk/government/publications/identify-verification-for-new-chairs-of-trustees>

Register of Persons with Significant Control (PSC register)

From 6 April 2016, all companies were required to keep a Register of People with Significant Control and from 1 June 2016 were required to file this information at Companies House as part of their Annual Confirmation Statement.

From 26 June 2017 companies must file changes to the PSC register with Companies House as they occur and therefore must keep the register up to date. Failure to meet the requirements is a criminal offence. This affects academy trusts and all wholly-owned trading subsidiaries trusts, plus all charitable companies limited by guarantee.

One of the measures for being a PSC is holding, either directly or indirectly, more than 25% of the voting rights. For an academy trust this means looking at the members. This will affect academy trusts where there are three or fewer members. If there are four or more members, each individual will hold no more than 25%, and hence there will be no PSC. In the event of no PSC's, the register must state this.

Emerging Issues

Members of charitable companies owe fiduciary duties

The High Court has ruled in the case of ‘The Children's Investment Fund Foundation (UK) v H.M. Attorney General and Others 2017’ that the members of a charitable company owe the charity fiduciary duties to act in its best interests and avoid conflicts of interest when deciding on resolutions that are put to them by the charity trustees. It is likely to be particularly relevant where the membership comprises key stakeholders who have an important governance role, such as in Academy Trusts.

Trusts should ensure that members understand that they need to exercise their votes in the best interests of the charity and should not vote on matters where they have a conflict of interests. This might result in the need for changes to governance structures within some Trusts, particularly where the trustees and the members are identical.

Gender Pay Reporting

From 2017, any organisation that has 250 or more employees (at 5 April) must publish and report specific figures about their gender pay gap within a year. Employers must publish their gender pay gap data and a written statement on their public-facing website and also report their data to the government online using the gender pay gap reporting service. If your organisation has fewer than 250 employees, it can publish and report voluntarily but is not obliged to do so. Further guidance on what calculations are needed and more can be found here: <https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>

General Data Protection Regulation (GDPR)

Data protection is now a major concern, for all companies. New data protection and privacy laws called the General Data Protection Regulation (GDPR) will drastically change the way you collect, store and protect the personal information of individuals. GDPR is a Europe-wide set of data protection laws designed to harmonise data privacy practice across Europe. The Regulation extends the data rights of individuals, and requires organisations to develop clear policies and procedures to protect personal data, and adopt appropriate technical and organisational measures.

The new regulations will come into force from 25 May 2018 and therefore “data cleansing” needs to start as soon as possible. The Government has confirmed that Brexit will not affect the commencement of the GDPR.

Further information can be found in the ICOs ‘Preparing for the GDPR: 12 steps to take now’ which is available on their website: <https://ico.org.uk/for-organisations/data-protection-reform/>

Emerging Issues

Off-payroll working through an intermediary (IR35)

From the 6th April 2017, there were changes to the IR35 legislation which will impact academies and the public sector as a whole. The IR35 legislation makes organisations in the public sector (such as academies) responsible for assessing employment status of contractors and where applicable deducting tax and NI for some workers.

In essence it is aimed at ensuring individuals who work through their own limited “service” company are being taxed correctly. The legislation was introduced in 2000 but the reforms this year simply mean it is now the Academy’s responsibility to determine the workers IR35 status. Further information on this specialist and emerging area of employment law can be found here: <https://www.gov.uk/guidance/ir35-find-out-if-it-applies>

Cyber Security

The National Cyber Security Centre (NCSC) state that protecting information is a board-level responsibility. Protecting key information is of critical importance to the sustainability and competitiveness of companies who need to be on the front foot in terms of their cyber preparedness.

Cyber security is not just an IT issue, but a strategic risk management issue and should be included on your risk register. It is about protecting your computer-based equipment and information from unintended or unauthorised access, change, theft or destruction.

Taking some simple actions and practising safe behaviours should reduce the risk of online threats to your academy but this takes active management.

Further information can be found on the NCSC website: <https://www.ncsc.gov.uk/guidance/10-steps-cyber-security>

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