PKF FRANCIS CLARK
SHARED AMBITION

31 August 2020

AUDIT COMPLETION REPORT

PENAIR SCHOOL
LIVE TO LEARN
DISCE UT VIVAS

AUDIT COMPLETION REPORT

PRIVATE AND CONFIDENTIAL

FAO: Those Charged With Governance
Penair School
St Clement's Hill
Truro
TR1 1TN

Audit Completion Report

We are pleased to attach our Audit Completion Board Report for the year ended 31 August 2020. This report summarises issues that arose during the audit and the conclusions reached.

This report is intended solely for the information and use of the Board of Trustees, the Academy's management and the Department for Education, in their monitoring role. It is not intended to be and should not be used by anyone other than these specified parties.

This audit completion report meets the requirements of ISA 260 – 'Communication with those charged with governance' and ISA 265 – 'Communicating deficiencies in internal control', since we are required to communicate matters arising during the audit of the Academy Trust to you.

It also complies with the requirements on management letters as set out by the Education and Skills Funding Agency in the Academies Accounts Direction 2019 to 2020.

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

Yours faithfully
Darren Perry
Director
Darren.Perry@pkf-francisclark.co.uk

DARREN PERRY
Director

01872 246576
Darren.Perry@pkf-francisclark.co.uk

GEMMA WAITE
Manager

01752 264860
Gemma.Waite@pkf-francisclark.co.uk

CORRINA MAUGER
Senior

01872 228025
Corrina.Mauger@pkf-francisclark.co.uk

PKF FRANCIS CLARK
Lowin House, Tregolls Road,
Truro, Cornwall
TR1 2NA

+44 (0) 1872 276 477
+44 (0) 1872 222 783

CONTENTS

The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter.

This report is made solely to the Board and management of Penair School in accordance with our engagement letter. Our work has been undertaken so that we might state to the Board and management of Penair School those matters we are required to state to them in this report and for no other purpose.

To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Board and management of Penair School for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

SECTION 1

AUDIT APPROACH AND STATUS REPORT

1 AUDIT APPROACH

Scope of the audit and approach

The scope of our work, as set out in our engagement letter, is to provide an independent opinion as to whether the financial statements give a true and fair view, and whether they have been prepared in accordance with the Companies Act 2006 and the Academies Accounts Direction 2019 to 2020. We also provide a limited assurance report as Reporting Accountants in accordance with the regularity requirements of the Education and Skills Funding Agency (ESFA).

Our audit work is planned to provide the necessary level of assurance that the financial statements are free from material error, and to enable us to have a reasonable expectation of detecting material misstatements in the financial statements as a result of irregularities or fraud. However due to the inherent limitations of an audit, our work is not a comprehensive report covering all the systems and controls in place.

When planning our audit work, we assessed the inherent risk of a potential misstatement in the financial statements, as well as the control environment of the Academy Trust. We then used this assessment, together with our understanding of the Academy Trust and the environment in which it operates to develop an appropriate approach to the audit.

Based on our assessment, we identified the following areas as significant risks:

- Fraud in revenue recognition
- Management override of controls
- Regularity
- Going concern, including impact of Covid-19
- LGPS pension scheme disclosures
- Biomass boiler

Whilst our audit work was planned to cover all material areas of the financial statements, there was an increased focus in our audit testing on the significant risks set out above.

Materiality

In carrying out our work, we apply the concept of materiality to evaluate the effect of unadjusted misstatements. Overall materiality was set at £78,500 for the year ended 31 August 2020.

In general, misstatements are considered to be material if, individually or in aggregate, they would reasonably influence the decisions of those using the financial statements.

Materiality is a matter of professional judgement, and therefore different levels of materiality may be appropriate for different aspects of the financial statements. However we assessed the overall materiality for the audit by considering the income level of the Trust, together with other indicators such as the level of gross and net assets.

1 STATUS REPORT

Status of audit fieldwork and expected auditors' report

Our audit in now complete and we have issued an unqualified and unmodified audit opinion on the financial statements and an unqualified limited assurance report:

Key audit and accounting matters

We draw your attention to key audit and accounting matters which are explained more fully in section 2 of our report.

Adjustments to the financial statements

There were certain adjustments made to the accounts of the Trust during the course of the audit, and these are documented within section 3 of this report.

Unadjusted audit differences

During the course of our audit procedures we have identified certain audit differences, which at this stage remain unadjusted.

A summary of these adjustments is provided in section 4 to this report. The impact of these adjustments, if all such adjustments were to be made to the financial statements would be to increase the surplus by £13,213.

Internal control findings

Section 5 of our report summarises our findings in respect of internal financial controls.

We did not identify any deficiencies in internal control which we would consider to be material weaknesses, however other observations are discussed.

Overview of the audit

The audit process generally ran smoothly with all information provided being of a good quality and supplied on a timely basis.

SECTION 2

KEY AUDIT & ACCOUNTING MATTERS

2 KEY AUDIT & ACCOUNTING MATTERS

The following pages outline the significant auditing issues and qualitative aspects of the Academy Trust's accounting practices and financial reporting that were noted during the course of our audit. In line with the Academies Accounts Direction these matters have been categorised by level of importance/ risk as:

HIGH	Areas where the risk of potential material misstatement in the financial statements is high. This may reflect sector wide issues, the control environment of the Trust or transactions outside the normal course of business.
MEDIUM	Areas where the risk of potential material misstatement in the financial statements is moderate. This may reflect sector wide issues, the control environment of the Trust or transactions outside the normal course of business.
LOW	Areas where the underlying significant risks are addressed by the control environment or other factors, reducing the risk of potential misstatement in the financial statements.

(SIGNIFICANT AUDIT RISK)

Approach to fraud (LOW)

Description of risk

ISA 240 requires the auditor to consider the risk of fraud due to (i) management override of controls and (ii) in relation to revenue recognition. This includes the risk that management may override controls or present revenue inappropriately in order to manipulate the financial statements.

How we addressed the risk

Our audit work in this area has included:

- Testing the appropriateness of journal entries made during the year, and in adjusting the management accounts to produce the final accounts;
- Reviewing material provisions at the balance sheet date (if any) to ensure that they are included on a consistent basis with FRS102;
- Reviewing accounting estimates for potential biases;
- Review of accrued and deferred income at the year end date; and
- Reconciliation of all material grant income streams to funding remittances.

Conclusion

No material issues were noted in these areas.

(SIGNIFICANT AUDIT RISK)

Regularity (LOW)

Description of risk

There is a risk that ‘public’ funds – in the form of grants and other restricted incomes are not used appropriately and/or for the purpose intended.

How we addressed the risk

Our procedures have focused on:

- Reviewing unrestricted income streams and ensuring that costs have been appropriately allocated to these funds;
- For all significant restricted income streams, the funding conditions have been reviewed and allocation of costs to these funds has been reviewed for reasonableness; and
- Specific testing has been performed on areas carrying a higher regularity risk including credit card expenditure, expense claims, restructuring payments, transactions with connected parties, procurement etc;

Conclusion

No material issues were noted in relation to regularity and so no exceptions will be included in our report.

We refer you however to our work on the biomass boiler which remains out of use.

2 KEY AUDIT & ACCOUNTING MATTERS

(SIGNIFICANT AUDIT RISK)

Going concern, including impact of the Covid-19 pandemic (MEDIUM)

Description of risk

In approving the financial statements, it is the Trustees' responsibility to consider whether the Trust is a *going concern*. This conclusion needs to extend to a period of at least 12 months from the date of approval of the accounts and consideration will include review of budget forecasts and cash flow projections.

How we addressed the risk

Our audit work in this area has included:

- Reviewing the current year budget and future cashflow projections to assess financial viability;
- Reviewing the reasonableness of key assumptions applied in preparing the above projections and performance of sensitivity analysis thereon, including consideration of the impact of the Covid-19 pandemic;
- Review of the latest management accounts and comparison to forecast position per budget;
- Discussions with management in relation to the impact of Covid-19 on governance, activities and the financial positon, along with mitigations and actions taken to reduce the impact;
- Review of the relevant disclosures made in the Trustees' Report and accounts relating to Covid-19; and
- Discussion with management as to future plans and how financial viability will be maintained.

Conclusion

From the testing performed, we concur that the Trustees' assessment of the going concern basis is appropriate. At year end the Trust retains a £457k cash balance, having generated a positive cash-flow of £48k in year. Excluding depreciation and the LGPS pension adjustments, the Trust achieved an underlying revenue surplus of approximately £245k in 2019/20, and whilst a deficit is forecast for 2020/21 a business recovery plan is in place which should see the Trust return to a surplus position within three years.

In addition, the disclosures relating to Covid-19 in the Trustees' Report adequately reflect our understanding of the situation and the Trustees' assessment of the position and are in accordance with the ESFA guidance on going concern updated 27 October 2020. The Trustees should minute their consideration of the going concern basis when approving the accounts.

2 KEY AUDIT & ACCOUNTING MATTERS

Government Pension Scheme ('LGPS') liability (LOW)

Description of risk

The projected net liability for the LGPS is included on the balance sheet of the Trust and represents a significant balance that is calculated by the actuary, based on a number of assumptions. There is a risk that the actuarial assumptions are inaccurate which could lead to a material misstatement of the liability.

How we addressed the risk

Our procedures have focused on:

- Checking the accurate recording of the pension liability in the financial statements;
- Review of the reasonableness and consistency (with other Trusts) of the actuarial assumptions and
- Understanding the high level movement in the liability.

Conclusion

The assumptions used by the actuary have been compared and agreed as consistent with other Academy Trusts in the area. The movement in the pension liability is a £115k decrease and is predominantly due to actuarial adjustments made as a result of the valuation being based on the formal LGPS valuation to 31 March 2019, rather than the 2016 valuation used in the prior year. As a result there are significant 'other experience' adjustments this year which have reduced scheme liabilities.

2 KEY AUDIT & ACCOUNTING MATTERS

Biomass Boiler (MEDIUM)

Description of risk

It was noted in a previous audit that the Academy had a biomass boiler that was not in use and did not appear on the FAR due to historical treatment as an operating lease. There is therefore a risk that this asset is not accounted for correctly in the financial statements of the trust.

Another point to note is the academy paid £165.5k for the boiler and as it is not in current use, it is questionable whether good Value for Money has been achieved.

How we addressed the risk

Our audit work in this area has included:

- Reviewing historic documents to ascertain the correct treatment of the asset;
- Considering the need to impair this asset; and
- Considering whether Value for Money has been achieved in the purchase of the asset.

Conclusion

Our review of historic documents concluded that the lease entered in to on initial acquisition of the asset was in substance a finance lease and as such the asset should have been capitalised and subsequently depreciated. Given that the biomass boiler is not in operational use however, and is thus impaired, this would not have a material impact on the financial statements at the present time.

We also understand that following works undertaken in the year, management have the intention of bringing this asset back in to operation in the very near future. Clearly the longer the biomass boiler remains non-functional the more difficult it becomes for the Academy Trust to justify that Value for Money was achieved in the original acquisition of the asset. Therefore it would be appropriate for the Academy Trust to bring the biomass boiler in to operation, unless a strong justification exists as to why this would no longer represent Value for Money.

2 KEY AUDIT & ACCOUNTING MATTERS

Private School Fund (MEDIUM)

Description of risk

In previous audits we identified a 'Private School Fund' (PSF) which was effectively school income and expenditure which was not accounted for on the academy's accounting software, FMS. The PSF was linked to an electronic payment system called Tucasi and the main income and expenditure that went through the PSF was for extra curricular school trips. It was also noted in the prior year that the year end balance per the bank did not agree to the balance per Tucasi, (£4k difference), and this difference was not reconciled and was included as an unadjusted misstatement in the prior year. There is therefore a risk that these balances are not included correctly in the financial statements of the Trust.

How we addressed the risk

Our audit work in this area has included:

- Reviewing the movement on the PSF during the year; and
- Reviewing the journals used to transfer the balance across to FMS.

Conclusion

Our review of the movement on the PSF during the year and subsequent closure of the account did not identify any issues with the process.

However it was noted that following closure of the account and transfer of the balance into FMS, a balance of £5,052 remained on the Tucasi system. It is our understanding that the Trustees believe the difference has arisen as a result of historic recording errors due to staff with insufficient knowledge and understanding having previously been responsible for making postings to this system and having considered the balance, did not believe that any amounts were owed to third parties and as such it was agreed to adjust the remaining balance and corresponding creditor.

A point has been included in the Letter of Representation to confirm the Trustees belief that the difference is the result of historic accounting errors, rather than an omitted liability or loss of funds.

2 KEY AUDIT & ACCOUNTING MATTERS

CIF projects (LOW)

Description of risk

Our planning procedures identified that two CIF projects had been successfully bid for in the year with works commencing before the year end. There is a risk that CIF project income and expenditure is not accounted for correctly in the accounts due to the timing of the work and income received.

How we addressed the risk

Our audit work in this area has included:

- Reviewing CIF project funding documents to ascertain whether income should be accrued for; and
- Reviewing works documentation to determine what, if any, accruals and capital commitments should be disclosed in the accounts.

Conclusion

In line with the Academies Accounts Direction and the accounting policies of the Academy Trust, capital grants are recognised in full when there is unconditional entitlement to the grant, and unspent amounts of capital grant are reflected in the fixed asset fund. Entitlement arises when control over the rights or other access to the economic benefit has passed to the academy trust. Since the CIF grant offer had been made and accepted before the year end, control over access to the funds has passed to the Academy Trust and the relevant accrued income has been reflected in the accounts (section 3 of this report). A capital commitment for the works contracted for but not yet complete at the year end has also been disclosed in the financial statements.

2 KEY AUDIT & ACCOUNTING MATTERS

Use of Data Analytics ('DA') (LOW)

DA is a new, innovative approach to audit testing which focuses on testing whole sets of data through use of computer software rather than limited sample tests. DA seeks to identify anomalies in the data sets upon which further testing can be performed. DA is particularly strong at helping to identify any potential fraud.

We have used DA in the following areas of testing at the Trust:

- Journal testing – checking for round number journals, journals posted by unauthorised/ irregular personnel, journals posted at unusual times
- Checking payroll masterfile data – to check for potential fictitious employees

Conclusion

No issues were identified.

Valuation of land and buildings (LOW)

The freehold land and buildings which the school occupies have been included in the accounts at the value provided by an ESFA desktop valuation undertaken on conversion to an academy.

We feel that the costs to the school for obtaining any further valuation would be unnecessary as it would be for accounting purposes only and would thus not be considered Value for Money. As the valuation was provided by the ESFA and used various assumptions (e.g. area and size of building etc.) we have deemed it to be the best available valuation, and as such we have not performed any additional work.

Conclusion

We cannot be completely satisfied that the building valuations are in accordance with the AFH. However due to the nature of the assets the risk of material misstatement is low. We have thus relied on the Trustees' opinion that this valuation is sufficient for the purpose of inclusion within the financial statements.

SECTION 3

ADJUSTMENTS POSTED TO THE FINANCIAL STATEMENTS

3 ADJUSTMENTS POSTED TO THE FINANCIAL STATEMENTS

Below is a summary of the adjustments posted during the audit that impact the Statement of Financial Activity ('SOFA') and have been reflected in the draft financial statements.

	Effect on surplus £'000
Net expenditure per trial balance presented for audit	(32)
Capitalise fixed asset additions	275
Reflect depreciation charge	(435)
FRS 102 Pension movements – service cost	(105)
FRS 102 Pension movements – net finance charge	(42)
Accrue CIF income for roof and windows projects	736
Additional creditors identified	(8)
Additional debtors identified	38
Account for Salix loan balance	(8)
Net income per final accounts	**419**

SECTION 4

UNADJUSTED AUDIT DIFFERENCES

4 UNADJUSTED AUDIT DIFFERENCES

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These may be specific errors (a single error on a financial statement balance), extrapolated (a statistical projection of known errors in a sample), or judgmental differences relating to accounting estimates (e.g. provisions) and facts or circumstances that are uncertain or open to interpretation.

Our audit identified the following differences which have not been made on the basis that the Trustees do not consider them to be material to the financial statements, whether considered individually or in aggregate.

We have included all known amounts greater than triviality in our summary of audit differences.

	Effect on surplus £'000
Net income per draft accounts	419
CCF storage unit not capitalised	8
Clawback of Covid-19 funding ineligible for	(8)
Recognition of donated fixed assets	13
Net income taking into account unadjusted errors	**432**

SECTION 5

INTERNAL CONTROL FINDINGS

5 INTERNAL CONTROL FINDINGS

Scope of work

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

We are required to communicate to you in writing significant deficiencies in the design or operation of accounting and internal control systems which were identified during the course of our audit and which we consider are of sufficient importance to merit reporting to you.

Significant deficiencies in internal control

We did not become aware of any significant deficiencies in internal control during the audit which we would consider to be material weaknesses.

Other control findings

In performing our audit procedures we identified other observations which we hope you find useful. These matters are summarised in the following pages.

Priority Key

- High: Issues that should be addressed immediately due to a risk of significant financial impact or where they refer to key or contentious regularity matters.
- Medium: Issues that should be addressed as a matter of urgency due to a risk of moderate financial impact or where they refer to important regularity matters.
- Low: Issues that relate to minor control deficiencies or enhancements in control efficiency. These should be addressed within an agreed timescale.

5 INTERNAL CONTROL FINDINGS

Other internal control findings

Deficiency / observation	Priority	Suggested improvement and benefit	Management response
It was noted that the Spring (visit 2) RO report was not shared with the B&E committee during the year and was not discussed at any meeting of the committee. We understand that this was due to the cancellation of the scheduled meeting due to Covid-19 lockdown restrictions, and that the Chair of Trustees was provided with a copy.		Per the AFH, the Trust must have in place a system for checking its financial systems and controls. We recommend that RO reports are distributed to the relevant Trustees and discussed on a timely basis such that any issues identified can be addressed immediately.	It is normal practice that the RO reports are presented to the business and enterprise committee at the next calendared meeting after publication. The reports are circulated to trustees and filed in a shared area accessible to all trustees and members.
We noted that two of the three Members are also Trustees. The ESFA's view is that the most robust governance structures will have a significant degree of separation between the individuals who are members and those who are trustees. If members also sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's recommendation is for a majority of members to be independent of the board of trustees.		We recommend that you review the structure of the Board and seek to introduce separation between the Members and Trustees, as recommended by the ESFA.	A current member is due to resign in December 2020. The trust will ensure there is sufficient separation between members and trustees when appointing a new member.

Other internal control findings

Deficiency / observation	Priority	Suggested improvement and benefit	Management response
Our audit work identified that a claim was made for exceptional funding relating to Covid-19. We understand that academies were only eligible to claim if they were forecasting a deficit, which we understand was not the case.		The ESFA reserves the right to clawback money if claims have not been made in accordance with the guidance, in order to protect public spending, and we recommend that the ESFA is contacted in respect of the incorrect claim.	The management will make contact with the ESFA.
It was noted that prior year audited accounts had not been shared with one of the Members of the Trust.		Under the Companies Act a copy of the audited accounts must be provided to every member. We recommend that procedures for communicating with Members are reviewed to ensure this requirement is met.	The management will ensure that year end audited accounts are distributed to all members and trustees and made available in the governors shared area.
We noted that the Clerk to the Trustees operates on a self-employed basis. However as there is a legal requirement to have a Clerk, the HMRC guidance considers them to be an officeholder.		As an officeholder, they should either be an employee of the academy and taxed through the payroll in the normal way, or alternatively treated as an employee for tax purposes, with payments being processed through the payroll and appropriate deductions made. We can provide further guidance on this as required.	The management carried out a HMRC “check employment status for tax” assessment which returned an “unable to make a determination” status. The management will seek further advice on this point.

5 INTERNAL CONTROL FINDINGS

Other internal control findings

Deficiency / observation	Priority	Suggested improvement and benefit	Management response
The year end bank reconciliation contained an unidentified difference of £229. Whilst this is trivial to our audit work any differences on the bank reconciliation should be fully investigated and corrected on a regular basis.		The bank is a key fraud risk area and it is important that controls including reconciliations are in place and working, so the Accounting Officer can sign off on regularity.	The difference of £229 was due to a credit card expenditure being posted in the 19/20 year which was then part credited as some products were not available. The entry had to be deleted and because the year had been closed, the correct entry was made in the 20/21 year resulting in a difference on the 19/20 bank reconciliation.
From a sample of 10 credit card purchases tested, we found 2 instances where the invoice/receipt for the goods/ services had not been provided and filed with the credit card statement.		Retaining evidence of purchases on credit cards is a key part of the controls for this system and helps to ensure that all expenditure is in line with educational purposes and is correctly recorded within the accounting system. These records should also be retained for VAT purposes. We recommend that this is reviewed as part of the monthly statement reconciliation.	Management will ensure that during the reconciliation of credit card statements all expenditure has a corresponding invoice or receipt.

INTERNAL CONTROL FINDINGS

Other internal control findings

Deficiency / observation	Priority	Suggested improvement and benefit	Management response
Our testing identified that some staff personnel files do not contain ID or copies of contracts – most notably for long standing employees. From our sample of 12 employees we also found 1 instance where up to date salary information was not on file.		We recommend that personnel files are kept up to date and contain copies of key documents such as contracts and up to date salary information. This can then be relied upon as a complete record in the event of a HR or pay dispute, or as part of payroll assurance tests.	Management will ensure a review of staff personnel files is carried out and that all key documents are present.
Our testing found that changes to the Board of Trustees were not always promptly notified to Companies House.		We recommend that all Governor appointments and resignations are promptly notified to the ESFA and Companies House to ensure compliance with the Academies Financial Handbook.	Management will put in place a checklist of procedures to follow to report changes within the trust.

5 INTERNAL CONTROL FINDINGS

Update on prior year matters

Deficiency / observation	Priority	Suggested improvement and benefit	Current year update
A Trustee's Register of Interests was found to have been completed but was found to be missing a related party which was identified from Companies House searches. Despite the omission on the form, no related party transactions were identified.		We recommend that Governors ensure all related parties are included on the Register of Interests and that management periodically check for completeness by running Directorship searches on Companies House. Failure to accurately and completely record all potential related partied could lead to the Trust unwittingly entering into related party transactions.	No missing related parties were identified from our testing. The omitted relationship from the prior year had been subsequently declared.
In a recent case the Court of Appeal determined that the correct way for holiday to be calculated for part year workers is as an average of the prior twelve weeks of work. Historically this has been calculated based on a multiplier of 12.07%. This will apply to some staff employed by the Trust e.g. invigilators.		As any liability that may arise from differences in historic treatment is expected to be immaterial and difficult to estimate, no adjustments have been proposed. Going forward, we recommend that holiday pay for part year workers is calculated in line with the new guidance.	The Trust has followed advice to continue to calculate holiday pay based on a multiplier of 12.07%. The basis for this is that the court of appeal did note as part of its ruling that odd results would be produced from the 12 week method in extreme circumstances such as invigilators.

5 INTERNAL CONTROL FINDINGS

Update on prior year matters

Deficiency / observation	Priority	Suggested improvement and benefit	Current year update
Details of Trustees and their pecuniary interests published on the Trust website were last updated in 2017. Per the AFH for each Trustee who has served at any point over the last 12 months, relevant business and pecuniary interest must be published on the website.		To ensure the Trust remains compliant with the AFH, Trustees pecuniary interests posted on the website must be kept up to date.	Whilst the register published to the Trust website had been updated during the year, it was found not to be up-to-date as at the audit visit. The AFH requires that registers of interest must be up-to-date at all times.
Per the AFH, the Board and its committees must meet regularly enough to discharge their responsibilities and ensure robust governance. If there are less than 6 meetings in the year, additional disclosure is needed in the Governance Statement to describe how the Board has maintained effective oversight of funds.		The Board did meet less than 6 times this year and so additional disclosure has been added to the Governance Statement. Going forward, we recommend that the Board and its committees should plan to meet at least 6 times per year in order to appropriately discharge their responsibilities.	The board again met less than 6 times this year and additional disclosure has been added to the Governance Statement. We continue to recommend that the Board and its committees should plan to meet at least 6 times per year in order to appropriately discharge their responsibilities.
Included within the PSF closing balance was £8k of income collected for charities but not disbursed. This had not changed from the prior year.		We recommend that these funds should be reconciled and disbursed to the related charities as soon as possible.	These funds had been appropriately distributed during the year.

5 INTERNAL CONTROL FINDINGS

Update on prior year matters

Deficiency / observation	Priority	Suggested improvement and benefit	Current year update
Management accounts were not shared with the Chair of Trustees monthly in the current year.		To ensure the Trust remains compliant with the AFH and that there is an appropriate level of financial scrutiny we recommend that management accounts are shared with the Chair of trustees monthly and with other trustees six times a year.	The Chair of Trustees received management accounts on a monthly basis during the year.
No cash flow information was prepared during the year.		We recommend preparing cash flow statements as part of the monthly management accounts to help monitor the financial performance of the Trust. This will also ensure compliance with the Academies Financial Handbook which lists this requirement as a 'must.'	A cash flow forecast is now produced on a monthly basis as part of the management accounts.
During testing of staff expenses it was noted that staff members often make purchases and then seek authorisation instead of seeking approval before the expenditure is incurred.		To mitigate the risk of fraudulent and/or error purchases, we recommend that all staff must seek authorisation before making orders/purchases.	The majority of expenses this year did have evidence of prior approval however 2 items from our sample of 10 did not show evidence of being approved prior to the expenditure being incurred.

SECTION 6

APPENDICES

APPENDIX A: INDEPENDENCE REPORT

We are required to comply with both ISA (UK) 260 “Communication of audit matters to those charged with governance”, as well as the revised Ethical Standard 2019 (December 2019) as issued by the FRC. In addition we communicate any matters or relationships which we believe may have a bearing on our independence or the objectivity of our audit team.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- On an annual basis all partners and staff are required to complete an annual independence declaration;
- Our trainee staff undertake an ethics training programme as part of their ACA qualification;
- Non audit services provided to audit clients are subject to approval before being undertaken. Such requests are made through an online portal which is sent directly to the engagement principal.

We have listed below what are considered to be the principal threats to the firm’s objectivity and independence in carrying out the audit, along with the safeguards that are going to be implemented to mitigate any such threats. We have also included reasons as to why these safeguards are considered to be effective.

Principal threats

Provision of non-audit services to the Trust during the year as follows:

- Preparation of statutory accounts
- Preparation of Academies Accounts Return
- General accounting assistance
- Audit of the End of Year Certificate (‘EOYC’) for the Teachers’ Pension Scheme
- VAT advice re deregistration of the trust

Safeguards

- Gill Hakin is deemed to be informed management
- Quality control procedures, including ad hoc cold file reviews
- Evaluation of the significance of the non-audit engagement and its fee
- Surplus reconciliation provided – with all judgemental decisions undertaken by management
- Independent partner oversight of the Covid 19 / going concern disclosures and consideration

Conclusion

We are not aware of any relationships between PKF Francis Clark and the Trust that, in our professional judgment, may reasonably be thought to bear on our independence or the objectivity of the audit engagement team.

We are satisfied that we have adequately mitigated the principal threats on our independence arising from non-audit services.

We confirm that we have complied with the FRC Ethical Standard, and in our professional judgment, the firm is independent and the objectivity of the audit engagement principal and audit staff has not been compromised.

6 APPENDIX B: FINANCIAL HIGHLIGHTS

Statement of Financial Activity	Aug 20	Aug 19	Movement	
	£'000	£'000	£'000	%
Income				
Donations and capital grants	756	64	692	108%
Funding for educational operations	5,284	4,809	475	10%
Other trading activities	87	111	(24)	-22%
Investments	1	1	-	0%
	6,128	**4,985**		
Expenditure				
Raising funds	-	3	(3)	-100%
Educational operations:				
Staff costs	4,133	4,050	83	2%
Other costs	1,576	1,515	61	4%
	5,709	**5,568**		
Net income/ (expenditure)	**419**	**(583)**		

Commentary

Income

Donations and capital income increased significantly due to two large CIF projects being successfully bid for during the year. Income amounting to £736k has been accrued for in respect of these projects.

Educational operations income increased due to a rise in the teachers pay grant as well as the introduction of the teachers pension grant received to support the increase in teacher pension contributions. GAG funding also increased by £260k as a result of rising pupil numbers. There was a reduction in income for educational visits as a result of the cancellation of most planned trips due to Covid-19 restrictions.

Income from other trading activities reduced primarily as a result of less income from SCITT placements, again as a result of Covid-19.

Expenditure

Staff costs have increased as a result of an increase in employers pension contributions from 16.48% to 23.68% for the TPS scheme. This was offset in part by a reduction in staff numbers from 103 to 97. Additionally, the non-cash LGPS interest and service costs adjustments increased from £72k to £105k (46%).

Other costs increased overall but this masks several variances on the prior year in opposite directions. For example educational supplies costs reduced by £54k as a result of closures for Covid-19, whilst catering costs increased by £61k having now been contracted out to Chartwells and thus including costs for labour which would previously have been part of staff costs when catering was done in house.

6 APPENDIX B: FINANCIAL HIGHLIGHTS

Balance sheet	Aug-20	Aug-19	Movement	
	£'000	£'000	£'000	%
Fixed assets				
Tangible assets	13,377	13,536	(159)	1%
	13,377	**13,536**		
Current assets				
Debtors	1,002	332	670	202%
Cash	457	409	48	12%
	1,459	**741**		
Creditors due within one year	(479)	(485)	6	1%
Net current assets	**980**	**256**		
Non current liabilities	(7)	(7)	(-)	0%
Defined benefit pension liability	(2,125)	(2,240)	115	5%
Total assets	**12,225**	**11,545**	**680**	**6%**

Commentary

Fixed assets have decreased this year due to the fact that additions of £276k, primarily on CIF projects and ICT equipment, were outweighed by a depreciation charge of £435k.

Debtors have increased most notably as a result of a significant amount of CIF income (£736k) being accrued in the year, and the VAT owed to the school at the year end rising from £6k to £71k due to large invoices for the CIF works and ICT purchases being received in August. Prepayments decreased as in the prior year there was £31k prepaid for the Orlando trip which had reduced to nil this year.

The cash balance has increased by £48k as a result of the underlying operational surplus.

Creditors have decreased overall this year as a result of several opposing movements. Trade creditors rose by £61k due to the inclusion of the unpaid ICT purchases invoice, whereas accruals fell by £42k as a result of the differing CIF projects underway at each year end. Other creditors rose by £53k due to refunds being owed to parents for cancelled trips, and deferred income decreased by £89k due to a fall in income received in advance for future trips, offset by the deferral of the £50k Cornwall Council growth funding received prior to the year end for the 20/21 academic year. Pension creditors increased by £13k due to the rise in employer pension contributions for the TPS.

6 APPENDIX C: BENCHMARKING

Below we compare the Trust against average balances from our academy client base across a range of metrics. This is an interesting comparison as the data is geographically focussed on the South West and hence more relevant. We note however, that there are inherent limitations with these comparisons where our average data includes both primary and secondary schools and the Trust's 2020 data is being compared against average data from 2019. We note further that the metrics calculated are isolated pieces of financial information that do not take other factors into account. Notwithstanding these limitations, the analysis is presented for your information.

Metric	2020 Trust Data	2019 Benchmark data	2018 Benchmark data
Average surplus/(deficit) per school [1]	£98,332	£(146,414)	£(149,216)
Average payroll cost as a % of total expenditure	78%	77%	76%
Average payroll cost per member of staff [2]	£44,442	£44,186	£45,392
Pupil : teacher ratio [3]	14.8:1	16.1:1	17.1:1
Average cash balance per school	£457,129	£549,906	£590,025
Average unrestricted reserves per school	£216,805	£326,236	£355,739
Average free reserves per school [4]	£216,805	£297,891	

1. Calculated after exclusion of all capital income and expenditure and exceptional transactions such as transfers in / conversions.
2. Calculated on FTE head count and after exclusion of any exceptional costs such as restructuring.
3. Pupil numbers have been sourced from pupil census information from government website https://www.compare-school-performance.service.gov.uk/school
4. Taken as year end unrestricted reserves, less any designated funds and any unrestricted funds held as fixed assets, divided by the number of schools in the trust.

6 APPENDIX D: TOPICAL REGULATORY CHANGES

Academies Financial Handbook 2020

From 1 September 2020, the new Academies Financial Handbook 2020 came into effect. Full detail of the changes can be found at: https://assets.publishing.service.gov.uk/media/5ef0a9a5d3bf7f6c03ed25b7/Academies_Financial_Handbook_2020.pdf but a summary of the changes is as follows:

- Removal of the option for internal audit to be performed by the external auditor and confirmation that trusts can use additional individuals or organisations to support internal scrutiny where specialist non financial knowledge is required.
- Clarification that internal scrutiny covers both financial and non-financial controls.
- Further information on governance arrangements including trustees' responsibility to maintain the trust as a going concern, confirmation that members must not be employees or occupy unpaid staff roles, that members must remain informed about trust business and that trusts must appoint a clerk to the board.
- Confirmation that both the accounting officer and chief financial officer (CFO) should be employees, and a requirement for ESFA approval if, exceptionally, they are not.
- Encouraging larger trusts to consider relevant accountancy qualifications for their CFO, and for all CFOs to maintain professional development.
- More on the audit and risk committee's role in relation to external audit.
- Updated clarifications including maintenance of a fixed asset register, termly review of pupil number projections, use of integrated curriculum and financial planning], avoidance of overdrafts, publication of information about high pay and whistleblowing.
- Confirmation that the trust's funds must not be used to purchase alcohol, board and committee responsibilities for risk management and completion of the School resource management self-assessment tool.
- Clarification that trusts must keep their register of interests up to date.

Exeter 01392 667000	**Plymouth** 01752 301010	**Poole** 01202 663600	**Salisbury** 01722 337661
Taunton 01823 275925	**Torquay** 01803 320100	**Truro** 01872 276477	**Bristol** 01174 039800

1919 – 2019
CELEBRATING 100 YEARS

www.pkf-francisclark.co.uk

PKF FRANCISCLARK
SHAREDAMBITION