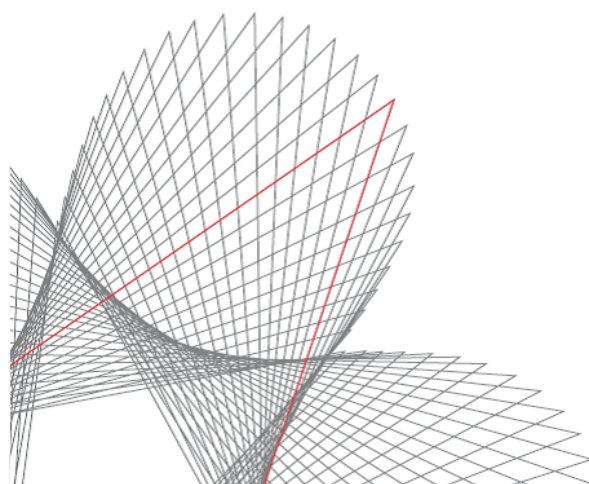


# NEWQUAY EDUCATION TRUST

Audit completion report for the period ended 31/08/15



**FRANCISCLARK**

CHARTERED ACCOUNTANTS

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of 21/09/15.

This report is made solely to the Trustees of NEWQUAY EDUCATION TRUST as a board in accordance with our engagement letter. Our work has been undertaken so that we might state to the Trustees of NEWQUAY EDUCATION TRUST those matters we are required to state to them in accordance with International Standards on Auditing (UK and Ireland) 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 of NEWQUAY EDUCATION TRUST for this report or for the opinions we have formed. Other than to the Department of Education, it should not be provided to any third-party without our prior written consent.

Francis Clark LLP  
Lowin House  
Tregolls Road  
Truro  
Cornwall TR1 2NA

## Private and Confidential

The Board of Trustees  
Newquay Education Trust  
Trevenson Road  
NEWQUAY  
Cornwall  
TR7 3BH

T 01872 276 477  
F 01872 222 783  
DX 81221 Truro  
francisclark.co.uk

Our ref:  
**5544TR-MSB/DMP**

Your ref:

15 December 2015

Dear Board of Trustees

## Audit Completion Report

We are pleased to attach our audit completion report. This report summarises the key matters that arose during the audit and the conclusions reached.

This report meets the requirements of ISA 260 – *Communication with those charged with governance* and ISA 265 – *Communicating deficiencies in internal control*. It also complies with the requirements on management letters as set out by the Education Funding Agency in the *Academies Accounts Direction 2014 to 2015*.

This report is intended solely for the information and use of the Board of Trustees, the Academy Trust'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.

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

Yours faithfully,

**FRANCIS CLARK LLP**

E-mail: [mail@francisclark.co.uk](mailto:mail@francisclark.co.uk)



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# 1. Status report

## 1.1 Scope of the audit and other work

The scope of our work, as set out in our engagement letter is to provide an opinion as auditors in accordance with the Companies Act 2006 on the financial statements of the Academy Trust and as Reporting Accountants in accordance with the Regularity requirements of the EFA.

The financial statements have been prepared by Francis Clark staff, based on the Academy Trust's management accounts and the model 'Coketown Academy' pro-forma provided by the EFA.

The work required by us in the preparation of the financial statements was as expected.

We will also assist in the preparation of the Annual Accounts Return (AAR) at 31 August 2015 and approve its submission. During the period we have also provided the annual certification of the Teachers' Pension Scheme EOYC.

## 1.2 Status of audit fieldwork and expected auditors' report

Our audit fieldwork is now complete, and we expect to issue unqualified opinions as Auditors and Reporting Accountants.

## 1.3 Significant auditing and accounting issues

We draw your attention to the following significant auditing and accounting issues which are explained more fully in section 2 of our report:

- Reserves policy and Local Government Pension Scheme deficit – the ongoing monitoring of the Trust's reserves is essential to the future prosperity of the Trust.
- Allocation of costs against funds – we have discussed the non-GAG funding streams with the finance staff and costs have been allocated against the appropriate income stream.
- Accrued and deferred income – the accounts reflect accrued and deferred income adjustments, including accrued income in respect of the ACMF / CIF capital grant income.
- Regularity – there have been no instances of non-compliance identified during the course of our audit work.

## 1.4 Unadjusted audit differences

The impact of unadjusted audit differences identified during the course of our audit, as summarised in Section 5, would increase the reported surplus by £34,653.

## 1.5 Significant outstanding matters

- The audit is now complete

## 2. Significant auditing and accounting issues

The following significant auditing issues and qualitative aspects of the Academy Trust's accounting practices and financial reporting were noted during the course of our audit.

### 2.1 Reserves

At the year end, the trust has a GAG carry forward of £237,235 and unrestricted funds not held as fixed assets of £1,739,966 which are available for use in future periods. It is important that the academy has clearly documented plans for the future use of these funds and that this is disclosed in the Trustees' Report.

#### Conclusion

We have reviewed the budget plan and minutes and have concluded that the school is considering these matters. The reserves policy in the Trustees' Report refers to the annual review of reserves and that they may be needed to soften the impact of funding cuts and increasing costs in the future. We recommend that the Trustees' set a target level of free reserves for the Trust to hold on an ongoing basis and include this in the reserves policy in future years.

### 2.2 Allocation of costs against funds

We have reviewed non-GAG income streams and the allocation of costs against this income. For a sample of these income streams we have considered the restrictions placed on the funding and assessed whether the funds have been spent in accordance with these restrictions.

#### Conclusion

Nothing has come to our attention which would suggest that cost allocations are inappropriate, or that funds have not been spent in accordance with restrictions.

### 2.3 FRS 17 pension deficit

The pension scheme liability at the year-end date is £2,234k. This is in line with the report provided by the actuary, and the primary reason for the increase in the liability from the amounts transferred from the individual academies are that returns have been below those expected at the start of the period.

#### Conclusion

We have reviewed the assumptions used by the actuary to arrive at the deficit. These assumptions have been reviewed and compared against other academies in the South West and are considered to form a reasonable basis for the actuarial report.

### 2.4 Regularity matters

No instances of non-compliance have come to our attention during the course of our work on Regularity.

During the audit it was noted that there were a number of staff severance cases. Value for money was considered and as the settlements were less than £50k individually, approval of the Secretary of State was not required. From the paperwork provided to us, it was apparent that legal advice had been sought for the cases and we did not identify anything to indicate that the payment was a reward for failure, or that the payment breached the guidance set out in the Academies Financial Handbook.

## **2.5 Accrued and deferred income**

Accrued income of £188k relates to income due to be received by the academy in respect of the year. Accrued income includes:

- £106k Academies Capital Maintenance Fund / CIF grants
- £76k Pupil Premium Funding

Deferred income of £80k relates to income received in advance for the next academic year and includes:

- £13k Summer school grant
- £22k Rates top up grant
- £40k Trips and activities

### 3. Adjustments posted to the draft financial statements

Below is a summary of the significant adjustments that were identified during our accounts and audit work, which the Multi Academy Trust has chosen to reflect in the draft financial statements.

<b>Adjustments</b>	
	<b>£000's</b>
<b>Surplus per trial balance presented for audit</b>	<b>547</b>
Reallocate funds brought forward on conversion	19,161
Allocate accruals & prepayments in the period	(90)
Depreciation adjustments	(503)
Process FRS17 adjustments re pension	(164)
Accrued income increase	88
Salix loan adjustment	(111)
<b>Net income per financial statements</b>	<b>18,928</b>
Actuarial gain in the period on FRS17 pension scheme	8
<b>Net movement in funds per financial statements</b>	<b>18,936</b>

## 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 judgemental 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, adjustments for 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 £3,330 in our summary of audit differences table below. Audit differences below this limit were considered trivial.

### Newquay Education Trust Unadjusted errors

		Profit & Loss	Balance Sheet	Profit effect
		Account		
		Dr / (Cr)	Dr / (Cr)	Cr / (Dr)
		£	£	£
<b>Profit per draft accounts</b>				
<b>Specific errors</b>				
1	Repairs and renewals	(34,653)		34,653
	Fixed asset additions		34,653	
	<i>Being capital items included in the SOFA</i>			
Total		<u>(34,653)</u>	<u>34,653</u>	<u>34,653</u>



## 5. Internal control findings

### 5.1 Scope of work

As part of our audit of the financial statements, we obtained an understanding of internal controls 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.

### 5.2 Significant deficiencies in internal control

We did not become aware of significant deficiencies in internal controls during the audit which we would consider to be material weaknesses. Section 5.3 sets out other observations and recommendations which are not considered to be material weaknesses.

### 5.3 Other observations/recommendations on internal control and other feedback points

During our work we have noted the following observations on internal controls and other feedback points. In line with the Academy Accounts Direction these matters have been categorised by risk level.

Current procedure/observation	Suggested improvement and benefit	Trustee and management response (including timescale)
Medium importance / risk		
<p>Corporation Tax</p> <p>A charity is given a range of tax exemptions, including primary purpose trading, ancillary trading, lettings income and a small trade exemption.</p> <p>Most of the income streams of the academy can be covered by these exemptions</p> <p>However other income streams are significant. For example the accounts currently show IT support of £23k during the year and £16k finance support, compared to the small trade exemption of £50k.</p> <p>There is also further teaching and training secondments income of £61k although this is likely to be considered as exempt ancillary trading.</p>	<p>Depending on the nature of the services provided, IT and finance services are expected to be a trading activity that could result in a tax liability for the academy. Whilst these specific income streams are below the small trade exemption this year, they should be carefully monitored.</p> <p>If necessary a trading subsidiary could be established to undertake trading activities so that the academy's tax exemptions can be maintained.</p>	<p>We will continue to monitor this and take advice as required in the future, however for 2015/16 there is a reduction to the services offered out.</p>

Low importance / risk		
<p>VAT Partial Exemption</p> <p>It was noted that the academy carries out activities that are exempt from a VAT point of view. As a result of the accounting software not being able to give appropriate reports, the trust decided to not carry out partial exemption calculations for VAT purposes on the basis any potential exempt income would be insignificant and would be comfortably below de-minimus limits.</p>	<p>It is suggested that the Trust carries out a partial exemption calculation on an annual basis to ensure that it is paying the correct level of VAT to HMRC.</p>	<p>We will take on an annual calculation as suggested by Francis Clark, and will take guidance from Francis Clark with regards to producing the necessary reports from our computerised accounts package to aid with this calculation.</p>
<p>Ageing analysis of trade creditors</p> <p>It was noted from a review of the trade creditor listings that a number of suppliers have minor debit balances that are older than the normal credit terms.</p> <p>Whilst this is considered trivial for audit terms, it is important to review the aged creditor balances to ensure they are accurately recorded and that there are no missing liabilities.</p>	<p>We recommend that the Trust undertakes a regular review of the trade creditor listing and ensures that the old and debit balances are investigated and resolved.</p>	<p>This is monitored on a monthly basis, and we are comfortable with the outstanding debits, however we have noted the advice and we will change our procedures to ensure that this area is improved.</p>
<p>Central Services</p> <p>As a result of being a Multi Academy Trust, there is various expenditure incurred that is for the benefit of all schools included in the Trust.</p> <p>This expenditure is classified as Central Services. Expenditure could include finance and administration costs, salary costs, legal and professional fees and IT support.</p> <p>The expenditure needs to be funded by the schools included in the Trust on a fair and reasonable basis.</p>	<p>We recommend that the Trust agrees a formal policy for reallocating an element of each school's General Annual Grant income to Central Services to cover the expenditure that has been incurred.</p>	<p>As two academies agreed to come together as a Multi Academy Trust, we are happy with the central charges at present being allocated to each academy based on time spent, however as and when we sponsor another academy we will apply a flat rate percentage change per academy to provide the central services based on a basket of services available.</p>

# Appendix A – Independence report

APB Ethical Standard 1 “Integrity, Objectivity and Independence” and ISA (UK and Ireland) 260 “Communication of audit matters to those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity.

## a) **Potential issues**

We have discussed with you the fact that we provide accounting services (the preparation of annual statutory accounts), we prepare the annual accounts return and we have reported on the Teachers’ Pension Scheme EOYC in addition to acting as auditors.

## b) **Role of informed management**

In the context of APB Ethical Standard 1, we consider Mr A Keast, as the director of finance and estate, to be deemed ‘informed management’ and it is their role to assess the non-audit services provided.

## c) **Safeguards**

We wish to confirm to you that in our opinion the provision of such services does not affect our independence as the additional services provided are of a routine compliance nature and the Board or informed management take any decisions where judgement is required.

As detailed to you in our Ethical Standards letter, the statutory accounts have been reviewed by a manager of our firm that is independent to the audit engagement. This is to ensure we have put sufficient safeguards in place to maintain our independence as auditors.

In addition we have internal quality control procedures in place to carry out cold files reviews on a sample of our files to ensure standards are properly maintained.

## **Conclusions**

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

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

## Appendix B – Financial highlights

Financial overview - period ended 31 August 2015					
£'000	Opening balance	Income	Revenue expenditure	Transfers	Closing balance
<b>Restricted income funds</b>					
GAG	-	10,192	(9,868)	(86)	238
Pupil Premium	-	513	(513)	-	-
Other EFA/DfE	-	69	(49)	-	20
SEN funding	-	86	(86)	-	-
Catering & trips	-	245	(252)	17	10
National Leader for Education	-	17	(18)	1	-
LA & other income	-	133	(110)	4	27
Pension scheme	-	(2,078)	(164)	8	(2,234)
	-	9,177	(11,060)	(56)	(1,939)
<b>Unrestricted funds</b>					
Other income	-	2,299	(344)	(18)	1,937
	-	2,299	(344)	(18)	1,937
<b>Capital funds</b>					
Fixed assets					
Devolved capital	-	124	(29)	-	95
Assets donated on conversion	-	16,553	(288)	-	16,265
Capital purchased from GAG	-	955	(123)	82	914
LA and other capital income	-	82	(9)	-	73
EFA – ACMF	-	1,644	(52)	-	1,592
	-	19,358	(501)	82	18,939
<b>Total including pension liability</b>	-	30,834	(11,905)	8	18,937

### Brief commentary on fluctuations in financial results

#### Income

- The income for GAG and National Leader for Education includes the brought forward values from Newquay Tretherras and Newquay Junior Academy on their conversion to a Multi Academy Trust, in addition to amounts received in the year. The amounts transferred to the MAT were £571k GAG and £11k NLE.
- The ACMF/CIF funding in the year related to the progression of capital projects for the Windows at Newquay Junior Academy and a Science block refurbishment for Newquay Tretherras.

#### Expenditure

- Staff costs were £9,084k in the period and represent 76% of total costs. This is broadly in line with the generally accepted level of 75% across the country.
- Depreciation was £501k and mostly relates to that charged on the buildings transferred into the MAT at the start of the financial year.

# Appendix C – Impact of accounting/legal developments

## Accounting/legal developments

We consider that the Trustees and the management team should be aware of the following accounting and legal developments, where work will be required by the Academy Trust to ensure compliance:

### New Charity SORP

This will apply to accounting periods commencing on or after 1 January 2015, so this will affect the Academy's accounts for the year ended 31 August 2016 (and 1 September 2014 will be the transition date)

The EFA have published two versions of the Accounts Direction this year, including a specific version for SORP 2015. We expect this to be expanded and revised prior to next year's accounts preparation work.

The key changes are:

- **Financial Statements Format.** The headings used on the Statement of Financial Activities have been revised and the 'governance cost' category has been removed. In future comparatives will also be required for all headings.
- **Key Management Personnel.** Academy Trusts will need to consider which staff make up the key management personnel (likely to be Trustees and Senior Management Team).

The Academy Trust will need to disclose the arrangements and policies for setting pay and remuneration of key management personnel in the Trustees Report, and disclose total employee benefits for key management personnel in the notes to the accounts. Whilst this can be presented in aggregate, trustees should consider the needs of their stakeholders and consider disclosing in more detail.

Coketown example:

*"The key management personnel of the academy trust comprise the trustees and the senior management team as listed on page 1. The total amount of employee benefits (including employer pension contributions) received by key management personnel for their services to the academy trust was £390,000."*

- **Holiday Pay.** There is now a requirement to recognise a liability in the balance sheet for any outstanding paid annual leave, if material. This is only likely to arise where the holiday year is not coterminous with the financial year. If this is the case outstanding annual leave from the transition date will need to be calculated.
- **Property Valuations.** The transitional rules give Academy Trusts the option of reflecting fixed assets (such as buildings) at fair value on transition and using this as deemed cost in the future. If the Academy Trust wishes to take up this option, a valuation at transition would be required.
- **Other Points –** Income should now be recognised when 'probable' rather than when 'virtually certain'; the accounting policy on going concern needs to confirm (or explain otherwise) that there are no material uncertainties in respect of going concern; terms and conditions surrounding related party transactions should be disclosed. For example a related party transaction should only be described as at arms length if this can be substantiated i.e. the purchase was made through a competitive tendering exercise.

# Appendix C – Impact of accounting/legal developments (continued)

## Changes to the Academies Financial Handbook for 2015/16:

- Academy Trusts must not have de facto trustees or shadow directors.
- A financial notice to improve may be issued due to governance concerns as well as financial concerns.
- Accounting officers must adhere to the 'seven principles of public life'.
- Medium-sized and larger trusts, and any undergoing a period of change, should consider more frequent board meetings than are required under their articles.
- Academy Trusts must publish on their websites up-to-date details of their governance arrangements in a readily accessible format.
- An Academy Trust's register of interests must also identify close family relationships between members or trustees, and between members or trustees and the trust's employees.
- Academy Trusts must publish relevant business and pecuniary interests of local Trustees on their website.
- Academy Trusts must notify Education Funding Agency (EFA) of the appointment of members or trustees through the EFA information exchange.
- The requirement on accounting officers to complete a separate value for money statement is being removed and instead the value for money reporting is an additional element in governance statements.
- Simplified requirements relating to budget monitoring.
- Delegated limits for Academy Trusts, to write-off debts or enter into liabilities, is subject to a ceiling of £250,000.
- There is an extension of Academy Trusts' delegated authorities to take up a leasehold or tenancy agreement on land and buildings up to 7 years.
- There is a simplification that only Academy Trusts with an annual income in excess of £50m must have a dedicated audit committee.

## Other Changes Relevant to Academies:

- **Auto enrolment** – whilst most of your employees will be members of the TPS or LGPS schemes, you need to ensure that your internal payroll systems and your payroll provider, are in a position to deal with the new legislative requirements. It is vital that management are fully aware of the Academy's staging date and that appropriate action is taken at least 6 months in advance, as there are onerous penalties for non-compliance.
- **Teachers' Pension Scheme** - employer contribution rate goes up by 2.3% from 1 September 2015, which needs to be reflected in budgets.
- **National Insurance** - employers rate will increase by 3.4% when the contracted out rate is abolished in April 2016 impacting on costs.