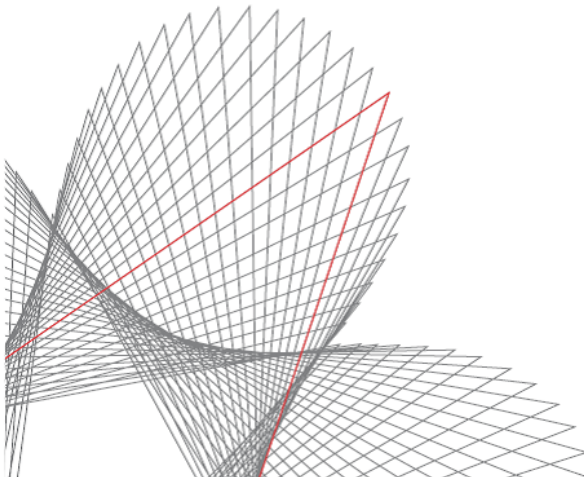


Newquay Education Trust

Audit completion report for the year period ended 31 August 2016



PKF FRANCISCLARK

Chartered accountants & business advisers

Contents

1. Status report	4
2. Audit approach and materiality	6
3. Significant auditing and accounting issues	7
4. Adjustments posted to the draft financial statements	9
5. Unadjusted audit differences	10
6. Internal control findings	11
Appendix A – Independence report	15
Appendix B – Financial highlights	16
Appendix C – Impact of accounting/legal developments	17

The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of 24 October 2016.

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
pkf-francisclark.co.uk

Our ref:
5544TR-MSB/DMP

Your ref

16 December 2016

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*, since we are required to communicate matters arising from the audit of the Academy Trust to you. It also complies with the requirements on management letters as set out by the Education Funding Agency in the *Academies Accounts Direction 2015 to 2016*.

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,

PKF FRANCIS CLARK LLP
E-mail: mail@pkf-francisclark.co.uk

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 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 2015 to 2016. We also provide a limited assurance report as Reporting Accountants in accordance with the regularity requirements of the EFA.

Our approach to the audit is summarised in section 2.

The financial statements have been prepared by PKF 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 2016 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 work is now complete.

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 3 of our report:

- This is the first accounting period under which the accounts have been required to be prepared under FRS 102.
- Regularity – there have been no instances of non-compliance identified during the course of our audit work.
- Accrued and deferred income – the accounts reflect accrued and deferred income adjustments, including accrued income in respect of the ACMF / CIF capital grant income.
- 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. Notably this year there has been a significant actuarial loss calculated by the actuary in the valuation of the Local Government Pension Scheme.

1.4 Internal control findings

Section 6 of our report summarises our findings on internal financial controls.

We did not identify deficiencies in internal financial control which we would consider to be material weaknesses, but we have made some recommendations for improvements in the following areas:

- Debit balances showing on trade creditor list.
- Aged transactions showing as outstanding on the latest bank reconciliations.

- Missing signed employee contracts and documentation confirming salary increases.

1.5 Unadjusted audit differences

Section 5 of our report sets out the unadjusted audit differences (above a trivial value) recorded during the audit work.

2. Audit approach and materiality

As stated previously, we are engaged 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 2015 to 2016.

We also provide a limited assurance report as Reporting Accountants in accordance with the regularity requirements of the EFA.

Audit approach

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:

- Revenue recognition, particularly in respect of the General Annual Grant
- Management override of controls
- Misallocation of costs against restricted funds
- Undisclosed related party transactions
- Valuation of the defined benefit pension scheme deficit

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.

In general, misstatements would be 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 academy, together with other indicators such as the level of gross and net assets.

3. 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.

3.1 Implementation of Charity SORP 2015 (FRS 102)

Following changes to UK accounting standards, this is the first year that the accounts have been prepared under the new Charity SORP 2015 (FRS 102). We have assisted your finance staff with revising the accounts and disclosures accordingly. The key changes made to the format of the accounts are:

- **Financial Statements Format.** The headings used on the Statement of Financial Activities have been revised, the 'governance cost' category has been removed and capital grants reallocated. A separate note has also been included to show the full comparatives split for all items on the Statement of Financial Activities.
- **Key Management Personnel.** The Academy Trust has considered which staff make up the key management personnel of the academy, and considers these to be the Trustees and Senior Management Team. This has been disclosed in the accounts, along with the aggregate remuneration paid to them.
- **Pension comparatives.** The previous SORP recognised finance income measured as the expected return on scheme assets and finance costs based on the discount rate and the present value of the scheme liabilities. FRS 102 recognises a net finance cost calculated by multiplying the net defined benefit liability by the discount rate.
- **Operating lease commitments.** The total commitment of such leases is now disclosed rather than the annual commitment.
- **Staff numbers.** The staff numbers disclosed in the accounts is now disclosed on an average headcount basis rather than full time equivalents.

As a result of the implementation of the Charity SORP 2015 it was not necessary to restate the opening funds balance.

3.2 Reserves

The Multi Academy Trust has made an overall surplus of £43k on unrestricted funds and a deficit of £386k on restricted general funds in the year (before actuarial losses on the pension scheme).

Conclusion

Unrestricted current assets stand at £1,774k at the year-end showing the trust in a strong financial position. However significant deficits are being budgeted for over the next few years. Whilst reserves are significant enough to cover these deficits for the foreseeable future and we understand that the academy is making redundancies to reduce the deficit, the trustees should continue to carefully monitor the position and consider whether the level of reserves going forward will keep in line with 5% of GAG income reserves policy.

3.3 Allocation of costs against funds

We have reviewed non-GAG income 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.

3. Significant auditing and accounting issues

(continued)

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.

3.4 Local Government Pension Scheme deficit

The pension scheme liability has increased from £2,234k to £4,403k. This is in line with the report provided by the actuary and represents a significant increase in the deficit. We have considered the reasonableness of the actuary's assumptions and compared the results with those of other academies.

Conclusion

The significant increase in the attributable deficit is consistent with other schools we act for in the South West. The primary reason for the deterioration in the liability is due to the reduction in the net discount rate used in the actuarial assumptions. This has increased the assessed value of liabilities as a higher value is placed on benefits paid in the future.

3.5 Accrued and deferred income

Additional income of £81,920 has been accrued in relation to Pupil Premium funding. This accrued income reflects the fact that the July to September 2016 allocation was not received until October 2016 and therefore the accrued income adjustment aims to recognise the income in the accounts over the period to which it relates.

In addition £36,299 of Trip income was received in the period and has been recognised as deferred income as it relates to trips due to be taken in the next financial year, along with other deferred income such as the rates top up grant.

3.6 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 was two severance payments made to 2 members of staff totalling £12,880. We have reviewed the documentation provided and there is evidence that value for money was considered and the procedures for these were in accordance with the Academies Financial Handbook.

4. Adjustments posted to the draft financial statements

Below is a summary of the significant adjustments that arose during the audit and that with the agreement of management, have been reflected in the draft financial statements.

	SOFA	Balance Sheet	Surplus effect
	Dr / (Cr)	Dr / (Cr)	Cr / (Dr)
	£	£	£
Surplus per draft accounts			1,059,761
Specific adjustments			
1	Pupil Premium Income Accrued Income	7,177 (7,177)	(7,177)
2	IT depreciation Furniture & equipment depreciation Land & buildings depreciation Motor vehicle depreciation IT depreciation Furniture & equipment depreciation Land & buildings depreciation Motor vehicle depreciation	137,436 23,122 239,533 781 (137,436) (23,122) (239,533) (781)	(137,436) (23,122) (239,533) (781)
3	IT depreciation Furniture & equipment depreciation Land & buildings depreciation IT depreciation Furniture & equipment depreciation Land & buildings depreciation	25,741 6,354 91,196 (21,741) (6,354) (91,196)	(25,741) (6,354) (91,196)
	Bank - Bank current account Lettings income	(1,010) 1,010	1,010
4	Defined benefit pension interest charge Defined benefit pension expected return Defined benefit pension service costs Defined benefit pension actuarial gain/(loss) LGPS pension deficit	87,000 (265,000) 104,000 2,243,000 (2,169,000)	(87,000) 265,000 (104,000) (2,243,000)
5	Post 16 Funding Disadvantaged expenses Other Creditors	35,114 (27,164) (7,950)	(7,950)
6	Loan Other DfE capital grant	100,000 (100,000)	(100,000)
Total			(2,807,280)
Deficit post adjustments			(1,747,519)

5. 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 to the accounts. Within the letter of representation, the trustees are asked to confirm that that they do not consider them to be material to the financial statements, whether considered individually or in aggregate.

Audit errors below £3,720 were considered trivial and not recorded.

		SOFA		Balance sheet		Deficit effect Cr / (Dr) £
		Dr £	Cr £	Dr £	Cr £	
Specific errors						
1	Accruals			4,392		
	Trade creditors				4,392	
	<i>Accrual recorded which was actually a trade creditor (Gloweth Fire Precaution Work)</i>					
Total		-	-	4,392	4,392	-

6. Internal control findings

6.1 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.

6.2 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 6.3 sets out other observations and recommendations which are not considered to be material weaknesses.

6.3 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, as summarised below:

High Matters that are so fundamental to the system of internal control that management should take immediate action to minimise the risk of a material misstatement within the financial statements.

Medium Matters that have an important impact on the system of internal control, and if left unaddressed, they could lead to a material misstatement within the financial statements.

Low Matters that if addressed would improve the systems of internal control and represent good practice, but are unlikely to have a material impact on the financial statements.

We have noted the following observations on internal controls:

Current procedure/observation	Suggested Improvement and benefit	Management response and timescale
Low importance / risk		
Debit balances showing on trade creditor list.	Whilst the position appears to have improved on the previous year, there are some debit balances remaining which should be investigated for their accuracy on a monthly basis.	NET is fully aware of these very small debit balances and will be working over the next couple of months to resolve these balances. The outstanding creditors are reviewed every month.
Aged transactions outstanding on the bank reconciliations	Our review of the current account bank reconciliations, showed some aged transactions which are yet to clear the bank accounts. We advise that after each bank reconciliation outstanding transactions are reviewed to ensure	These items have been rectified now, however NET will put in place a monthly procedure to review this area and remove old items as appropriate during the year.

6. Internal control findings

	they are still genuine transactions processed through the bank account, and not transactions requiring correction.	
<p>Staff contracts</p> <p>During employee existence testing it was noted that there were missing signed employee contracts.</p>	<p>We have been informed Cornwall Council hold signed copies of employee contracts that were in place before the MAT was formed.</p> <p>We recommend that copies of the signed contracts should be requested from Cornwall Council, so that the MAT holds signed employee contracts for all staff.</p> <p>The contracts should then be reviewed periodically to ensure they remain up to date.</p>	<p>NET will put together a process from January to obtain a signed copy of new contracts. To obtain a copy of all previously signed contracts would be both time consuming and costly to NET and Cornwall Council.</p>
<p>Evidence of employee pay increases</p> <p>On a number of staff files reviewed, there was no evidence of salary increases or the current level of an employees salary. Therefore we were not able to ensure current salary payments were correct.</p>	<p>We recommend that all staff pay increases should be advised to staff in writing and a copy retained on the personnel file. This will then ensure that accurate information on pay levels is available to those authorising the payroll.</p>	<p>NET will put together a process to ensure that all staff receive a written letter for any changes to their salary from January 2017.</p>

6.4 Status of observations/recommendations on internal control raised in the previous year

Procedure/observation in prior year	Suggested improvement and benefit	Status
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</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</p>	<p>There has been a significant fall in the level of trading activities carried out by the MAT during the current year.</p>

6. Internal control findings

<p>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>to undertake trading activities so that the academy's tax exemptions can be maintained.</p>	
<p>Low importance / risk</p>		
<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>This has been discussed with the VAT team at Francis Clark LLP who are reviewing the current reports produced by PS Financials in order to assist with obtaining and identifying the necessary information to complete the annual calculation spreadsheet.</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>The level of these types of balances has decreased though still apparent, however they are of trivial amounts as indicated above.</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</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>During 2015/16 central costs were allocated to schools based on pupil numbers. Going into 2016/17 the trustees have reviewed this position and have decided to circle 5% of income against central services costs.</p>

6. Internal control findings

<p>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>		
--	--	--

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 Sue Martin, as accounting officer, and Andy Keast / Tracey Cartmel as the Director of Finance and Estate, and assistant 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 of Trustees takes any decisions where judgement is required. In addition we also have quality control procedures in place to undertake cold file reviews on a sample basis to ensure appropriate standards are maintained. In addition a high level partner review of the accounts and audit files has taken place to mitigate any self review threat.

Conclusions

We are not aware of any relationships between PKF Francis Clark 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 2016					
£'000	Opening balance	Income	Revenue expenditure	Transfers	Closing balance
Restricted income funds					
GAG	237	9,813	(9,566)	(484)	-
Pupil Premium	-	446	(446)	-	-
Pupil Premium - LA	-	30	(30)	-	-
Other EFA/DfE	20	162	(117)	-	65
SEN funding	-	51	(51)	-	-
Catering & trips	10	32	(31)	(8)	3
National Leader for Education	-	55	(35)	11	31
LA & other income	27	12	(39)	-	-
Pension scheme	(2,234)	-	(191)	(1,978)	(4,403)
	(1,939)	10,601	(10,506)	(2,459)	(4,304)
Unrestricted funds					
Other income	1,937	972	(882)	(45)	1,982
	1,937	972	(882)	(45)	1,982
Capital funds					
Devolved capital	95	43	(31)	-	107
Assets donated on conversion	16,265	-	(268)	-	15,997
Capital purchased from GAG	915	-	(123)	494	1,286
LA and other capital income	72	55	(10)	-	117
EFA – ACMF	1,592	460	(77)	31	2,006
	18,939	558	(509)	525	19,513
Total including pension liability	18,937	12,131	(11,897)	(1,979)	17,192

Brief commentary on fluctuations in financial results

Income

- Total income has decreased significantly on the previous year as the land, buildings and other assets of Newquay Junior academy and Newquay Tretherras academy were transferred to the multi academy trust in the prior period and recognised as income.
- Income reported in the current and future years is expected to show more consistent, regular income streams.

Expenditure

- Staff costs were £9,148k in the period and represent 77% of total costs. This is broadly in the range typically seen across the country.
- Depreciation was £524k and mostly relates to that charged on the school buildings.

Appendix C – Impact of accounting/legal developments

Changes to the Academies Financial Handbook for 2016/17:

Governance

- Boards of trustees should identify the skills they need and address any gaps in their skills through recruitment or training.
- To align with the terminology used in the Governance Handbook, the AFH is referring to the trust's publication of its governance structure and remit as its 'scheme of delegation for governance functions'.
- All trusts must have a senior executive leader who should also be appointed as accounting officer, and that these roles must not rotate.
- Trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee. Local governors are also included when identifying relevant interests from close family relationships.
- Trusts must use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer.

Financial control

- Variances between budget and actual income and expenditure must be understood and addressed.
- Exposure to investment products must be tightly controlled so that security of funds takes precedence over revenue maximisation.
- Where there are concerns about financial management in a trust, the trust may be required to report information about its cash position to EFA.
- It is a requirement, rather than a recommendation, for trusts to have a whistleblowing procedure.
- Trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money.
- Trusts must implement reasonable risk management audit recommendations that are made to them by risk auditors.
- The audit committee's oversight of its trust must extend to the controls and risks at its constituent academies, where the trust has them. Oversight must also ensure that information submitted to DfE and EFA that affects funding is accurate and compliant.
- When considering a staff severance payment, trusts must satisfy the conditions in the handbook and obtain the required approval before making a binding commitment to staff.