


# The St Lawrence Academy, Scunthorpe



the **ST LAWRENCE** academy

## **Audit Report Encompassing the Management Letter, Systems Findings and Other Audit Matters**

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# 1. Audit introduction and general comments

The audit was completed successfully and without any problems.

We found your team helpful and not evasive in any way, which allowed us to obtain information freely and easily.

It is also worth noting that our audit work is only conducted on a sample basis, so is unable to guarantee that all errors are found. As it is completed on a test basis, you may feel that certain areas, such as review of specific controls, especially in connection with wages, tax and VAT obtain a further review.

There has been a recommendation generally across our academy clients to review their procedures surrounding expense claims of Accounting Officers. In most cases the School Business Manager and Accounting Officer authorise each other's expense claims, which does allow for collusion. We would recommend that a Trustee authorises expense claims for the Accounting Officer. If this is impractical in all cases, a de minimis limit could be introduced.

The finance team need to be aware that the Accounts Return needs to be completed and then checked by Forrester Boyd by the deadline of 19 January 2018.

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

## 2. Key audit areas

Key Audit Areas	Our Approach
Income recognition	<p>We will reconcile any GAG funding to the funding document provided by ESFA. All other material grant funding will be agreed to funding documentation.</p> <p>Other material income streams will have controls testing completed.</p>
Completeness and accuracy of payroll	<p>As payroll is the main cost in the accounts a proof in total will be completed, agreeing the wages per the payroll provider back to the accounts. We will also test controls surrounding authorisation of payroll and ensure deductions surrounding PAYE and NI are made correctly.</p>
Compliance with the ESFA requirements to ensure there are no regularity issues.	<p>We will ensure the academy is complying with the 'musts' in the Academies Financial Handbook and that purchases made are deemed to be appropriate academy expenditure.</p>
Statement of Financial Activities and fund allocations	<p>We will review the major classification of income and expenditure to confirm they are consistent with expectations and to consider whether explanations are reasonable.</p> <p>We will review the allocation of funds in the statement of financial activities and ensure that this appears appropriate and in line with our expectations.</p>

### 3. Overview of the year

We can make the following summary comments in connection with the year end accounts:

#### Income

The income is made up of the following:

	2017 £	% of income	2016 £	% of income
Funding for the Academy's educational operations (Note 4)	4,215,010	96.53%	4,276,660	96.82%
Other income	151,684	3.47%	140,562	3.18%
<b>Total</b>	<b>4,366,694</b>		<b>4,417,222</b>	

97% (2016: 97%) of the total income is made up of Government Funding. This % can vary dependent on the types of income received by an Academy. The split of Government Funding and Other Income is in line with our Academies and is in line with our expectations.

These Government funding income streams have been proved in total, by reviewing agreements from funding providers.

Other income can be broken down as follows:

	2017 £	2016 £
<b>Donations and capital grants (Note 3)</b>		
Endowment Funds	5,000	5,000
Capital grants	16,201	15,762
Educational Trips & Visits	46,366	42,801
	<u>67,567</u>	<u>63,563</u>

#### Other trading activities (note 5)

Hire of facilities	33,568	23,747
Recharges & Reimbursements	16,370	34,706
Other sales	7,024	3,805
	<u>56,962</u>	<u>62,258</u>
Investment income (note 6)		
Bank interest	27,155	14,741
	<u>151,684</u>	<u>140,562</u>

School Trips income has increased both in volume and costs which is the main reason for the increase in donations and capital grants.

Included within investment income are dividends received of £24,214 (2016: £11,682). The remainder of Investment Income relates to interest received of £2,941 (2016: £3,059).

Not included in these figures is a revaluation on the investments held, giving an overall increase in valuation of £7,296 (2016 Gain: £41,544). The gain has reduced due to the Academy withdrawing £47,000 to fund capital projects.

It is pleasing to see that your investment return is much healthier this year, with the gain and return being greater than inflation, which is a key target. It is also pleasing to see that the gain on investment is going to good use through funding the external canopy and umbrellas.

Our audit work has not highlighted any systems issues or cut off concerns in respect to other income.

#### Expenditure

The main costs relating to the Academy are salaries at £3,350,391 (2016: £3,316,062) being 79% (2016: 79%) of your total expenditure (less depreciation and the pension adjustment) and 74% (2016: 74%) of your total income (less fixed asset income).

The percentage of wage costs against income is high, with the ESFA expecting the percentages to be between 70% and 80%. They also state that an Academy Trust with a percentage above 80% could be giving an indication that it is not financially viable.

These costs have been reconciled to your payroll provider's reports with no material errors.

The average gross salary per staff member is £27,319 (2016: £28,208). The average gross salary per full time equivalent teacher is £41,001 (2016: £43,049). The reason behind the decrease in FTE teacher salary is due to three UPS teachers leaving during the year and being replaced by NQT's.

Other sizeable costs or costs worthy of note, relating to Academy's educational operations are as follows:

	2017	2016
Educational Supplies	£92,604	£109,576
Exam Fees	£56,405	£54,524
Educational Consultancy	£91,669	£105,543
Depreciation	£488,906	£550,563
Maintenance	£58,681	£62,727
Cleaning	£89,620	£85,375
Rent, rates and utilities	£108,917	£114,557
Catering	£95,011	£94,476
Other support costs	£119,742	£113,372
Legal and Professional	£47,883	£44,271

Unfortunately due to updates in the accounting formats, the specific headings and amounts cannot always be directly seen.

Educational supplies have remained fairly consistent and this cost can vary depending on the requirements.

Exam fees have remained consistent.

Educational consultancy has decreased slightly due to the Academy to purchasing more bespoke SLA's for students in the prior year.

Depreciation has now decreased due to several fixed assets reaching a £nil NBV.

Cleaning costs are up this year due to inflation factors passed on by North Lincolnshire Council.

Rates and utilities have decreased due to less biomass pellets having to be purchased thanks to the boiler now working more efficiently with the Building Management system.

Catering has increased based on the increase in pupil numbers at the academy.







Creditors due within one year                      £256,605 (2016: £245,414)

Creditors due in one year include trade creditors, accrued costs, deferred income and the payroll taxes/pension contributions paid after the year end. These figures have been confirmed to supporting information and do not indicate there are any material errors. The increase is mainly attributable to a creditor of £27k due to A&S Landscapes for the canopy and umbrella fixed assets. We have also completed cut off work to ensure that all creditors are included in the accounts and no material problems have been encountered.

Pension Liability    £891,000 (2016: £1,379,000)

The balance sheet shows the pension liability has decreased by £488,000. This balance is based on work done by Hymans Robertson, the academy's actuary and can move up and down based on a number of Actuary assumptions. The change in the assumptions by the Actuary has decreased the liability by £109,000 in the period (2016: £614,000 increase).

This decrease in deficit is consistent with other Academies during the year.

The liability is underwritten by the DfE so should never become payable by the Academy. However, it is possible that your annual contribution could increase.

#### **Overall**

The total amount of free reserves available for the Academy to spend in the future is £682,880 (2016: £558,368) and is made up of:

- Unrestricted funds total carry forward of £524,323 which have increased by £49,764.
- Restricted general funds have increased by £74,748; giving a total carry forward of £158,557.

This gives adequate reserves to cover nearly 1.5 months of expenditure.

This figure is greater than your policy of holding 12% (+/- 0.5%) of total funding, therefore you may need to make a comment as to why you are holding such a great amount, and ensure the funds are spent. The other option is to amend your policy, which we would suggest is set too low.

## 4. Independence and ethical matters

As discussed in the pre-year end meeting and as confirmed in our letter, there is a potential ethical issue, i.e. a self-review threat arising from our firm being involved in completing the accounts and internal review work, and not just the audit. We therefore need to ensure that you have informed management.

In order to mitigate these risks we will ensure that any individual used to complete the internal review work will not be part of the audit team. We will also mitigate the self-review threat in relation to the production of the Financial Statements by having another member of our Academy team, not involved in the audit, reviewing the accounts and completing the required accounts production checklist.

We believe the Academy has individuals and groups within its management that can make decisions and understand the finances of the Academy, including the Financial Statements. We note this group of people as being 'informed management' and can actively approve any adjustments that we make to the accounts.

By informed management we mean that "a member of the management of the Academy who is capable of making independent decisions or judgements on the basis of information provided".

We believe the following people are informed:

- Michael Adnitt (Accounting Officer)
- Tony Wood (Finance Director)

We also believe that the trustees as a body are informed, due to the nature of their roles and the financial reports that they obtain.

If you do not believe that the above group of people our informed, please inform us immediately as it will potentially mean that we have to ensure further safeguards are put in place and a second partner completes a review of the file.

Our files are reviewed internally and externally as part of our quality control reviews and procedures. These files are picked on a risk basis and helps ensure that the quality of our files is high and that any ethical issues are reduced. Any significant issues or adjustments made to the accounts of the Trust as a whole will be discussed with you, and will require your approval prior to finalisation, which may be in the form of a profit reconciliation to your original figures.

If you would like to discuss this matter further please do not hesitate to contact your engagement partner, Kevin Hopper.

## 5. Formal matters to be reported

In accordance with our normal practice we are writing to draw your attention to various matters which arose during the course of our audit of the academy accounts for the period ended 31<sup>st</sup> August 2017.

a) ***Expected modifications to the auditors' report and regularity report***

There are no expected modifications to the auditors' report or the regularity report

b) ***Unadjusted misstatements***

A schedule is included at section 8 of all the unadjusted misstatements determined during the course of our audit, except for those considered to be clearly trifling. As confirmed in your letter of representation to us, you believe that these adjustments are not material and therefore no amendments to the financial statements are required.

You have confirmed in the Letter of Representation that any amounts below £2,500 are trivial and do not need reporting to you.

c) ***Material weaknesses in the accounting and internal control systems***

As you are aware from our letter of engagement, our audit procedures were directed towards testing the accounting systems in operation upon which we have based our assessment of the accounts.

Section 6 of this report includes specific audit points and also contains details of actual and potential weaknesses identified during the course of our audit and our recommendations for improvements. It is not meant to be a full and accurate reflection of all weaknesses that may be present in your system.

In making our recommendations, we have considered the size of the academy and the number of staff you employ. We shall be glad if you will let us know what steps have been taken in connection with the above.

d) ***Qualitative aspects of the entity's accounting practices and financial reporting***

We have no comments to make concerning the qualitative aspects of the academy's accounting practices and financial reporting.

**e) Identification of Fraud**

We are pleased to report that our audit has not found any instances of fraud.

**f) Compliance with key laws and regulations**

Our audit is required to consider and assess the academy's compliance with central laws and regulations, and consider the existence of breaches that could lead to a fundamental event, such as excessive fines that have a material impact on the financial statements, that threaten the going concern status of the entity, or legislation that could lead to the forced closure of operations.

Our work has not identified any instances of material breach, and the academy appears to have devoted sufficient resources, experience, skills and training to all key regulatory aspects of its affairs.

We did note during our work that you complete the VAT 126 form to reclaim your educational VAT. This appears appropriate. However, HMRC expect that a fair and reasonable adjustment is made for any VAT incurred, not wholly in relation to education.

We are happy to offer any assistance necessary to ensure that this is the case.

**g) Compliance with key laws and regulations**

Our work has not identified any instances of material breach, and the academy appears to have devoted sufficient resources, experience, skills and training to all key regulatory aspects of its affairs.

We are happy to offer any assistance necessary to ensure that this is the case.

**h) Other information connected with the financial statements**

Auditors are required to review any other information issued with audited financial statements, such as an annual review, web site announcement or trustees' report, and determine if such reports are consistent with the financial statements.

You have chosen to make public comment on the financial statements.

We are pleased to report that the trustees' report content is consistent with the financial statements.

**i) Other matters required by Auditing Standards to be communicated**

There are no other formal matters to be reported to you and the other details included within the report are above and beyond our requirements to report.

**j) Other relevant matters relating to the audit**

There are no other matters which we wish to draw to your attention.

## 6. Specific audit and control points

Following our recent audit visit, we have set out below the key observations of a systems and internal control nature that have arisen from the audit work undertaken.

The points are raised to assist the management team in strengthening and formalising the internal control environment, something which is essential and often overlooked in a small company environment.





These issues raised are not intended as, nor should they be construed as, criticism of management or individual persons. They are intended to be of assistance in establishing an appropriate system of internal control, essential to the academy if it is to grow.

Our audit focuses only on those aspects of internal control that are material to the production of accurate financial statements and safeguarding assets of the academy, and therefore is not exhaustive.

We only give consideration to peripheral areas if they directly support other systems of internal control or provide compensating controls to an area with potential weaknesses.

Where matters of efficiency come to our attention, we shall of course report these to you. However, the audit should not be relied upon to identify all matters of duplication or inefficiency in the allocation of responsibilities or the processing of transactions.

### Key

-  Key concern - Action required immediately.
-  Moderate concern - Action believed to be required.
-  Minor concern - Action believed to be required, but not considered a significant issue.
-  No concern - Action not required but the suggested improvement should be considered.



Points noted	Suggested improvement	Benefit of control	Action and comments by the academy, including timescale for action
None.			

### Summary and conclusion

It is pleasing to report that our audit work has not identified any fundamental weaknesses in internal control systems, nor have we found any evidence of fraud.

We shall be pleased to discuss or advise on any of the above matters as required.



## 7. Surplus reconciliation and adjustments made

Please find detailed below the adjustments made during our audit work, which form part of the journals you approve within your letter of representation to us.

<u>Surplus Reconciliation</u>	£
<b>Net movement in funds per T. Wood draft accounts</b>	<b>139,686</b>
Rounding difference	(2)
M&G Investment Adjustment	2,700
<b>Net movement in funds per Forrester Boyd accounts</b>	<b><u>142,384</u></b>

If you require any clarification on the above adjustments please do not hesitate to contact us.

## 8. Unadjusted misstatements

Detailed below are the non-trivial misstatements found during the audit.

	<b>Affect on Surplus £</b>	<b>Affect on Balance sheet £</b>
<b>Potential audit adjustments from 2016</b>		
Potential items not capitalised	- 7,593	- -
<b>Potential audit adjustments from 2017</b>		
Potential items not capitalised	(2,730)	(2,730)
Bank understated	(5,000)	(5,000)
Creditors understated	2,930	2,930
<b>Net affect</b>	<u>2,793</u>	<u>(4,800)</u>

You have confirmed in your letter of representation to us that

- a) £2,500 is deemed to be trivial and any adjustment under this amount does not need to be reported on
- b) The above items do not require adjustment, as they are individually and in total not material.