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The Board of Trustees
Fulston Manor Academies Trust
Brenchley Road
SITTINGBOURNE
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Our ref: CR/GC/FUL4265
Date: 6 December 2017

Dear Sirs

AUDIT FINDINGS LETTER - YEAR ENDED 31 AUGUST 2017

We have now concluded our audit of Fulston Manor Academies Trust for the year ended 31 August 2017.

1) Audit approach

Our audit was carried out in accordance with the International Standards on Auditing (ISA's) issued by the Auditing Practises Board. The primary purpose of this audit is for us to carry out a detailed review of the accounting arrangements of the Trust, which includes internal controls and procedures. We must note that the assessment was performed solely for us to express an opinion on the financial statements and may not have revealed all the weaknesses that could have been noted, if a special review were performed. Consequently, our review should not be relied upon to disclose errors or irregularities that are not material in relation to the financial statements.

2) Audit Findings

2.1 Significant deficiencies in internal control

We can confirm that we have found the Trust's accounting and internal control systems to be appropriate to the Trust's needs.

Our recommendations regarding deficiencies in internal control are given an order of priority as follows:

High	Fundamental to the internal control environment	H
Medium	A probable risk which should be resolved in the short term	M
Low	A possible risk which should be resolved in the medium to long term	L

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Partners: Ian Pasca'll FCA John Shipley FCA Michael Whittaker FCA John Sheather FCA David Boobbyer FCA Martin Humphreys FCCA Amanda Ireland MPA MAERP
Clair Rayner FCA DCA Liam McHugh FCA Barrie Wright ACA Emma Andrews FCA Ashley Phillips FCCA Leigh Jones FCCA
Consultants: David Cork FCA CTA Nicholas Hayward FCA Associates: Alison Collier MPA MAERP Jonathan Fullarton ACA

Also at: Ashford Cranbrook Dover Herne Bay Maidstone

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales
Amanda Ireland and Alison Collier are licensed in the UK as Insolvency Practitioners by the Insolvency Practitioners Association.

2.1 Significant deficiencies in internal control - continued

We set out below a summary of the recommendations together with the respective priority ratings.

Component		Recommendations	Rating
1.1	Expense Claims	Input VAT can be claimed on mileage expenses as long as the claimant includes a suitable fuel receipt showing VAT at least equal to the amount to be reclaimed.	L
1.2	Fund balances	Reconciliations should be performed for each fund at the end of the year with costs allocated to specific funds throughout the year.	M
1.3	Petty cash controls	All transactions using petty cash should have a voucher filled out with details of the transaction with receipt of the expense attached and be signed by the claimer as well as authorised	L

This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements, which may be made and has addressed only those matters, which have come to our attention as a result of the audit procedures performed.

2.2 Follow up review of previous period internal control issues

We set out below a summary of the internal control deficiencies raised in the previous period's audit findings letter. For each point, we note whether the issue has been appropriately resolved.

Component		Recommendations	Follow up
1.1	Expense Claims	Input VAT can be claimed on mileage expenses as long as the claimant includes a suitable fuel receipt showing VAT at least equal to the amount to be reclaimed.	Further work is needed to address this point
1.2	Top Slice	There should be an agreement on how the top slice is spent during the year.	This issue has now been resolved
1.3	Fund balances	Reconciliations should be performed for each fund at the end of the year with costs allocated to specific funds throughout the year.	Further work is needed to address this point
1.4	Bank payments	BACS payment runs should be signed off by both the Head Teacher and a member of the finance team.	This issue has now been resolved

2.3 Adjusted/unadjusted misstatements

We do not disclose those items that we consider to be 'clearly trivial' in the context of our audit. For this purpose we consider 'clearly trivial' to be any individual matter less than £8,813.

There were no misstatements encountered during the course of our audit work, which exceed our triviality threshold.

3) Significant accounting policies, disclosures and estimates

We have reviewed the accounting policies and estimates in line with UK GAAP and the Charities SORP 2015. No material departures were noted.

3.1 Accounting disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with relevant accounting standards, the requirements of the Companies Act 2006 and the Academies Accounts Direction 2016 to 2017 issued by the Education and Skills Funding Agency. No departures from the relevant requirements were noted.

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3.2 Significant difficulties identified during the audit

No significant difficulties were identified during the audit.

3.3 Regularity reporting

In addition to a report expressing an opinion on the financial statements, we have also produced a report giving limited assurance on 'regularity'.

We can confirm that nothing has come to our attention, which suggests in all material respects the expenditure disbursed and income received during the period has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities, which govern them. Accordingly, we have been able to issue a clean regularity report.

3.4 Specific representations

We can confirm that we have not found it necessary to request any specific representations from the Accounting Officer or the trustees as a result of the work performed during the course of our audit. The letters of representation, which we require to be signed and provided to us prior to our signing of the audit report and reporting accountant's report, therefore contain standard representations only.

3.5 Going concern

The five year projected budget indicates that the academy trust is predicting another tight year with a projected deficit of £129,456 for 2017/18 meaning that retained reserves will need to be utilised. Reserves at 31 August 2017 were £704,052 before accounting for fixed assets and capital. There were no unspent capital funds remaining.

A small surplus is predicted for year two with larger surpluses in year's three to five because of changes to the National Funding Formula and careful budgeting, although the uncertainty surrounding the allocation of the National Funding Formula makes it very difficult for schools to budget for. It is also worth noting that a significant deficit budget was set for 2016/17 however, due to cost savings found during the year and the conservative approach to that budget, the actual result for the year whilst still a deficit was less than anticipated. The academy trust did however contribute nearly £170,000 of revenue reserves to capital projects and as a result, revenue reserves have reduced accordingly.

For this reason, we agree with the Boards assessment that the use of the Going Concern concept in preparing the financial statements is appropriate.

4) Independence

In accordance with International Standard on Auditing (UK and Ireland) 260 "Communication with those charged with governance" (Revised June 2016), we confirm that there are no changes to the details of relationships between McCabe Ford Williams and Fulston Manor Academies Trust that may reasonably be thought to bear on McCabe Ford Williams' independence and the objectivity of the audit principal, Clair Rayner, and the audit staff and the related safeguards.

McCabe Ford Williams provide non-audit services to the trust in the form of assistance in the preparation of statutory financial statements, and performed internal audit systems checks during the year. The risks to independence and objectivity are mitigated through a critical review of the financial statements by an individual external to the audit team. Internal audit systems checks are performed by a separate team to the external audit of the financial statements, including a separate Partner.

5) Future developments

5.1) ESFA Update

A recent presentation by a senior member of the ESFA highlighted that the following issues are the most frequently noted by the agency:

- Interests of trustees and members are not published on the trust's website.
- Financial reports presented to the trust's finance committee are often too basic and do not constitute appropriate management accounts.
- Some trusts do not keep minutes recording the approval of the annual budget.
- The Academies Financial Handbook requirement most frequently breached is that trustees are also members.
- Trustees rarely challenge the financial position of the trust.
- Transactions with connected parties are not always disclosed.

Our review of your governance arrangements suggests that the Board and the Senior Management Team adequately address these areas, and where there are issues to be resolved, we have included these within the "significant deficiencies in internal control" section of this letter.

Management Accounts and Forecasts

An issue that was emphasised at the ESFA presentation was that financial reports for finance committees in the academy sector are often not detailed enough. Financial reports, in particular long-term budgets and forecasts, need to be prepared based on a carefully considered set of assumptions, which takes into account the best and latest available information in terms of expected future funding and costs. The assumptions surrounding forecast staff costs are obviously some of the most crucial.

Academies are used to preparing budgets and forecasts, but the fact is that the sector is experiencing funding pressure and rising staff costs, and good quality financial reports are needed to allow the board of trustees to plan, and allocate resources appropriately. The recommendation is that academies should be preparing detailed forecasts for a five-year timeframe, so that the Board of Trustees has the financial information available to make sound long term planning decisions.

Members

The ESFA currently has no power to compel academy trusts to ensure that members are separate to trustees and the trust is operating within the terms laid down by its governing document, its Articles of Association, by having the Chair of Trustees, the Vice-Chair of Trustees and the Accounting Officer as members.

The ESFA is however endeavouring to ensure that this is becoming a more prominent consideration in determining whether appropriate governance is in place. The ESFA's recommendation is for there to be five members, with a majority of these separate from the trustees to ensure that there is proper independent oversight of the Board.

Whilst our work performed has not found any indication that the current governance structure is not operating effectively, consideration should be given to whether it would be appropriate to actively pursue additional independent members in order to satisfy the ESFA's recommendation.

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5.2) Fixed Asset Registers and Contract Registers

The Academies Financial Handbook 2017 lists amongst the financial controls that must be in place:

- Effective planning and oversight of any capital projects.
- The management and oversight of assets.
- Ensuring efficiency and value for money in the organisation's activities.

Additionally, the Academies Accounts Direction 2016-17, requires the following to be tested when considering the regularity report:

- Whether property is under proper control to prevent loss or misuse.

Active, up-to-date registers of fixed assets and contracts are invaluable tools in achieving these objectives.

Our audit findings were that during the year under review the academy trust had appropriate controls in place to prevent material loss/misuse of assets. Our recommendation for improvement to the systems in this area concerns the reconciliation of fund balances.

5.3) Executive Pay

The Academies Financial Handbook 2017 states unequivocally that:

'The board of trustees must ensure that their decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's role and responsibilities.'

In order to protect their own positions, therefore, boards should be able to produce evidence of a formal process of decision-making regarding executive pay, ideally including an assessment of performance against previously decided targets.

5.4) Teachers' Pay

One of the most common financial issues for academies is that the salary cost as a percentage of income is unsustainably high. Increasingly, trusts are having to apply to the ESFA for help and, in some cases; the ESFA does assist with a financial recovery plan.

In assessing whether a trust qualifies for help, the ESFA looks at the teaching contact ratio. The optimum ratio is considered to be 77% with anything less than 70% deemed unacceptable.

Additionally, the ESFA will consider how effectively the trust applies its performance management policy and how many teachers progressed through the salary scale at the last assessment point. The expectation is that only in schools deemed outstanding will 100% of teachers have made the progression.

We would suggest that the Board introduce these as Key Performance Indicators, which are monitored at least annually.

5.5) Teachers' Pension Scheme Costs

The actuaries at Hymans Robertson, who act for many of the Local Government Pension Schemes relevant to academies, have predicted that, from April 2019, the employer's contribution to the Teachers' Pension Scheme will rise from the current 16.4% to anything between 18 and 20%. Such an increase could cost academy trusts tens, or even hundreds of thousands of pounds, depending upon the size of their staff. Budgeting for the short to medium term will need to consider this.

Our review of budgeting procedures suggests that you will need to amend your budgets to take into account this anticipated increase.

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5.6) Getting ready for GDPR

The government is to introduce new data protection rules under the General Data Protection Regulation (GDPR), which takes effect from 25 May 2018.

Under the GDPR organisations, including academies will have increased obligations to safeguard the personal information of individuals, which is collected and stored by the organisation. These rules apply to the information about students, suppliers or employees and the GDPR applies to a wider range of personal data than that included under the current Data Protection Act (DPA).

Under GDPR, public bodies, including academies, will be required to appoint a Data Protection Officer (DPO). Although you may already have a designated DPO, you will need to assess whether they meet the much stricter qualification and experience requirements imposed by GDPR. The DPO should be an expert in the field and should have specific knowledge of the sector. Thus, a staff member who simply 'wears this hat' alongside their normal role is unlikely to be considered suitable.

Recruiting or training a suitable individual should be addressed as soon as possible as, in reality; there is a shortage of sufficiently qualified specialists in the market.

Trustees should consider setting up a committee or working party to ensure their understanding of this complex issue and all the attendant requirements, not least because failure to comply with the new regulations could result in a significant fine.

We would welcome the opportunity of discussing this letter with you. Should you require any further information or explanations please do not hesitate to contact us. We would like to take this opportunity to thank your staff for their co-operation and assistance during the course of our visit.

Yours faithfully



McCabe Ford Williams

PRESENT SYSTEM	IMPLICATION	RECOMMENDATION	ACTION TAKEN
1.1 Input VAT on mileage expenses is not currently reclaimed on VAT returns.	Failure to recover all available monies for use by the school.	Input VAT can be claimed on mileage expenses as long as the claimant includes a suitable fuel receipt showing VAT at least equal to the amount to be reclaimed.	
1.2 Fund balances are not accurately defined at the end of the year.	The year end position is not known until after audit work has been performed.	Income and costs should be allocated to the relevant funds as they occur ensuring accurate throughout the year to assist with project management & management of budgeting constraints.	
1.3 Some petty cash voucher are not correctly filled out with the relevant receipts attached.	Petty cash transactions may not be correctly recorded and reimbursed.	All transactions using petty cash should have a voucher filled out with details of the transaction with receipt of the expense attached and be signed by the claimer as well as authorised	