

**Key Issues Memorandum to the  
Trustees of Cambridgeshire  
Educational Trust for the period ended  
31 August 2016**

**Peter Howard-Jones Ltd  
Statutory Auditors  
Chartered Accountants**

## Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2016

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## **Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2016**

The purpose of this report is to bring to your attention the findings from the recent audit carried out in October 2016. This report includes matters that we are required by auditing standards to formally communicate them to you.

Our audits have been conducted on a test basis and thus we are unable to provide a comprehensive statement of all weaknesses which may exist in the accounting and internal control systems or of all improvements which may be made. We can only address those matters which have come to our attention as a result of the audit procedures which we have performed.

We would like to take this opportunity to thank your staff for the assistance they have provided to us during the course of our audit.

This report has been drafted solely to report to you, as Trustees, matters in relation to our audits. It has not been drafted with any third parties in mind and thus must not be disclosed to a third party other than the EFA, or quoted or referred to, without our written consent. We do not accept responsibility to any third party in respect of our audits or this report.

Peter Howard-Jones Limited  
Statutory Auditors  
Chartered Accountants

# **Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2016**

## **1 Independence**

We can confirm that we have evaluated our firm's independence in connection with the audits and can confirm that we are not aware of any factors affecting our independence or objectivity and thus our ability to continue to act as auditor of the Academy and its subsidiary.

## **2 Audit report**

We anticipate issuing an unqualified audit report on the 2016 financial statements.

The original audit report will be signed by Peter Howard-Jones being the Senior Statutory Auditor for these assignments, for and on behalf of Peter Howard-Jones Limited. The financial statements incorporating the original signed audit report should be retained with the Academy's other permanent documents. We will provide a dated report for publication on the Academy's website as a pdf.

### *Liability to third parties*

Our audit report have been drafted in accordance with International Standards on Auditing and the latest guidance from the Financial Reporting Council and our Institute. This involves the inclusion of a paragraph which clarifies what our responsibilities as auditors are. It does not affect our responsibilities to the company or yourselves, nor does it mean we would be unwilling to accept responsibility to any third parties, providing that our specific agreement to do so is obtained beforehand.

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### **3 Errors and significant items identified during the audit**

We are required to inform you of any errors within the financial statements presented for audit. These include the adjustments originally identified as potential adjustments during the audit. No errors requiring adjustment were identified.

The accounts reflect the outcomes of the latest LGPS actuarial valuation as at 31 August 2016. As a result of the valuation, the deficit on the LGPS pension scheme has increased from £1,034,000 to £2,220,000 over the year. In last year's report we drew to Trustees' attention the actuary's note in the 2015 valuation: *"The relative changes in membership and payroll over the last year appear inconsistent ...we believe there may have been issues in recording accurate data."*

It is possible that part of the increased deficit is the result of prior year issues. The significant increase is also in line with those of other local academies. Results of annual valuations for individual pension schemes are also volatile. The LGPS scheme has carried out a whole scheme triennial valuation in 2016 following which it will be making recommendations for future payment levels.

#### **Management response:**

Our pension provider have now completed their triennial valuation of the fund and we are currently awaiting their response to this. It is anticipated that our contributions may need to increase in order to address this deficit. If this is the case then our budget forecasts will be amended as needed in order to ensure that this shortfall is addressed and our surplus balances are maintained.

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### **4 Income and Expenditure**

The Academy accounts to 31 August 2016 show an operating deficit which, though offset by unrestricted funds brought forward, shows that pressure on the Academy's budget from pension changes; NI changes; demographic and other changes remains high. The accounts include significant restructuring costs. Budgets for the next three years show surpluses of £57,000; £8,000 and £17,000. There remains a clear need for tight management of the Academy's Finances We would recommend that expenditure in key areas such as payroll is subject to detailed budgetary control and that variance reporting and re-forecasting are carried out on a monthly basis. The Academy also needs to investigate further sources of income to replace lost income from lettings and other areas.

Formal review of current expenditure against other Academies using the EFA's benchmarking systems and review of other Academies' published value for money activities should allow areas where efficiency savings might be made to be identified.

#### **Management response:**

We are pleased that overall the audit notes that we have managed a challenging financial year within our own financial capacity without carrying forward a deficit and that following our restructuring can forecast surpluses in the coming years.

With regard to the risks around the forecasts and focussing on what we can affect, the most material factor is the number of pupils we have on roll. Whilst demographic changes can provide many challenges to schools, Chesterton is already over-subscribed. In 2016 the school received 374 applications for places in Year 7; that is, we have about two applications for every Year 7 place. Of these, 300 were first and second preferences. We typically receive around 100 In-Year applications from parents who have recently moved to Cambridge or want to move their child from a local school. To address this the Local Authority has done extensive work on demographic projections, and have concluded that by 2019 there will be 400 students per year seeking a secondary place in North Cambridge, but only 330 places per year will be available in all North Cambridge schools. This will prove positive to Chesterton in terms of supporting the school's expansion and safeguarding our overall government funding. Having restructured our team significantly and continuing to make the most of any opportunities presented by natural wastage, we are confident in our future forecasts which should continue to provide greater financial stability.

We are also looking at supplementing our income from other streams, such as lettings, but we note that we have now taken a more conservative base-line estimate on income generation which we expect to exceed. That said, we do look at regular variance and re-forecasting reporting through the year so we can manage and react appropriately to changing circumstances.

Whilst we believe our cost control measures are good, we will investigate whether benchmarking using EFA's systems could be a useful addition.

## **Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2016**

### **5 Risk register and Internal audit**

The Academy's risk register is currently being revised by the new Director of Finance. We would recommend that revision focuses on identifying major risk areas and producing an action plan. This can then form the basis of an annual internal audit plan while the risk register continues to be developed in less critical areas

#### **Management response:**

The Trust's Risk Register has been completely overhauled in order to identify far better the risks presented to us along with a more substantial action plan in order to minimise those risks. This Risk register will now be used ongoing as a working document by the management team, as well as being reviewed by the Trustees at the Resources Committee, but also as a key part of internal audit framework.

### **6 Internal control checks**

Our audit approach is risk based and does not include detailed testing of all internal control systems. No significant areas of weakness were identified which would require us to extend our main audit work.

The Financial Handbook requires Academies to choose the "most appropriate" way, in their particular circumstances, to manage a programme of risk review and check financial controls

The Academy has previously opted to use peer review, with the work being performed by the chief financial officer or a suitably qualified or experienced member of the finance team from another academy as an independent reviewer.

With the planned growth of the Trust we would recommend that the Trust looks to adopt a more rigorous approach to internal control checks and investigates the use of external provider of internal audit services.

#### **Management response:**

Having considered the alternative options, we agree that using a 3<sup>rd</sup> party for internal audit is appropriate and we are in the process of engaging an external agency to provide internal audit review for us as we believe this to be the most effective way to maintain this focus going forward. This will be dealt with by our normal procurement process and we expect to have this in place in time for the current financial year.

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### **7 Reserves policy**

At 31 August 2016 the Academy's free reserves stood at £9,789. Budgets for the next three years project only small surpluses. The current level of reserves is too small to support any planned growth. We would recommend that a policy is developed on the level of reserves that the Trust needs to aim to retain in the long term and that this is factored in to financial planning along with current spend.

#### **Management response:**

With budgets for future years now showing small in-year surpluses and the constant reviewing of the Academy's budgetary position, Chesterton is now looking to rebuild its reserves in conjunction with the Sports Centre. Whilst initial forecasts show conservative surpluses, we are confident that these will continue to improve. By constantly reviewing spend and reforecasting accordingly as well as utilising natural wastage to create opportunities that work both operationally and financially this model will continue to improve. Our new MAT status also presents further opportunities for us. We expect to document this in a reserves policy during this financial year.



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### **8 Regularity and propriety work**

The EFA have requested that we report the results of our regularity and propriety checks. The results can be summarised as follows:

Samples of expenditure, including credit card expenditure, were selected at random for detailed checking to ensure that they represented expenditure for educational purposes or, if not, that an alternative source of income, sufficient to cover the cost, was identified. In all cases the expenditure appeared to have been for educational purposes or to have been otherwise properly funded.

Checks were also made to ensure that items had been processed in accordance with the procedures laid down in the academy's Financial Handbook. Control processes appear to have been followed and adequate explanations for variances from procedures were obtained.

On one item, supply of steel drums from overseas, the invoice had been sent to the budget holder by email but not forwarded to the finance department. We would recommend that staff are reminded of the requirement to ensure that all paperwork, including e-invoices is passed through to finance.

#### **Management response:**

We are pleased that the overall the audit has noted the assurance of propriety and controls that we have in place in our financial systems.

With regard to the exceptional item mentioned, all staff have been reminded of the requirement to raise all orders through the Finance team and also to ensure that all relevant documentation is provide directly to the Finance team. As this was clearly an isolated incident and the only small problem discovered, we feel this demonstrates the strength of our current internal systems.

## **Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2016**

### **9 Qualitative aspects of the company's accounting practices and financial reporting**

As part of our audit we have considered and reviewed the company's accounting policies with UK Generally Accepted Accounting Practice and we have not encountered any material departures. In our opinion the accounting policies selected are appropriate to the circumstances of the Academy. However the Trustees need to ensure that they have formally reviewed all accounting policies, particularly those relating to the non-consolidation of the subsidiary.

### **10 Other matters required by International Standards on Auditing to be communicated to you**

Before we can complete our audit we require a letter of representation from you. The letter will provide us with additional evidence in areas where we have relied upon representations from staff members during the audits. We suggest that this letter is signed by a representative member of the Board of Trustees and that you make your own enquiries of staff to verify that you support the representations that have been made.

### **Summary**

Please note that the purpose of the audit was to enable us to express an opinion on the financial statements. Our audit did include consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in such circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. The matters being reported to you are limited to those deficiencies that we have identified during our audit, and that we have concluded are of sufficient importance to merit being reported to you, but this does not represent a comprehensive statement of all weaknesses which may exist in the accounting and internal control systems or of all improvements which may be made. We can only address those matters which have come to our attention as a result of the audit procedures which we have performed.