

**Key Issues Memorandum to the  
Trustees of Cambridgeshire  
Educational Trust for the year ended  
31 August 2017**

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

## Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2017

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## **Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2017**

The purpose of this report is to bring to your attention the findings from the recent audit carried out in November 2017. This report includes matters that we are required by auditing standards to formally communicate them to you.

Our audit has 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 audit. It has not been drafted with any third parties in mind and thus must not be disclosed to a third party other than the ESFA, or quoted or referred to, without our written consent. We do not accept responsibility to any third party in respect of our audit 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 2017**

### **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 Trust.

### **2 Audit report**

We anticipate issuing an unqualified audit report on the 31 August 2017 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 Trust's other permanent documents. We will provide a dated report for publication on the Trust's website as a pdf.

#### *Liability to third parties*

Our audit report has 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 Trust 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.

### **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 decreased from £2,220,000 to £1,105,000 over the year. In last year's report we drew to Trustees' attention the increase from £1,034,000 in 2015. The figure at 31 August 2017 is more in line with this figure and the 2014 deficit of £955,000.

Results of annual valuations for individual pension schemes are clearly volatile. The LGPS scheme carried out a whole scheme triennial valuation in 2016 and the 2017 figure may reflect the less volatile results of this exercise.

#### **Management response:**

The Trust are pleased that no errors were identified during the audit process and that the pension deficit has dropped to a more reasonable figure.

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### **4 Key Performance Indicators**

The Trust manages the finances of Chesterton Community College very well and has managed, in challenging times to avoid deficits and has now a surplus to carry forward.

Only limited use is currently made of benchmarking or KPIs. The ESFA does not as yet prescribe the areas to bench mark but identifies the following as key:

- Staff pay as percentage of total expenditure
- Average teacher cost
- Pupil to teacher ratio (PTR)
- Class sizes
- Teacher contact ratio
- Proportion of budget spent on the leadership team
- Spend per pupil for non-pay expenditure lines compared to similar schools

With the introduction of HCSS accounting it should be possible to start to develop KPIs such as these for the two academies within the Trust and to then roll these out to other academies as they join the Trust. The use of such KPIs would allow the Trust to efficiently oversee the finances of a multi-academy group.

#### **Management response:**

The Trust will be monitoring these KPIs using the new accounting software over the forthcoming financial year and will be able to report back on these at the end of this period.

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### **5 Internal audit**

During the period, at the request of the Director of Finance, we carried out additional checks on the current purchasing system and on aspects of the payroll system. Both checks were driven by imminent changes to systems resulting from new accounting systems and a new academy joining the Trust. While these both served a business need we would recommend that the academies' risk registers identifying major risk areas are used to produce an action plan for each academy. These 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 continues to be developed in order to take into account a new school joining the trust within the 2017-2018 academic/financial year. This can then be further factored into our Internal Audit programme to ensure it is comprehensive and suitable.

### **6 Cloud based software**

Since the year end the Trust has transferred its accounting systems to HCSS a cloud based system. This should allow the Trust to control accounts over multiple sites and should improve controls over purchasing through online authorisation procedures. With the use of cloud based software however there is increased risk particularly in the area of data security. Academies hold in some cases sensitive information on pupils. It is important that the Trust ensures that the service provider's contract covers compliance with the Data Protection Act and from 25 May 2018 compliance with the General Data Protection Regulations. The provider should be able to provide guarantees about the technical and organisational security measures governing the processing to ensure data confidentiality and integrity.

A further risk associated with cloud based software is service availability. The Trust needs to ensure that there are sufficient back up measures in place to allow users to cope with disruptions.

#### **Management response:**

The Trust underwent a number of due diligence checks before deciding which accounting software to opt for, including assessing the provider's data security credentials. We feel confident that HCSS more than complies with current regulations and that they are ready for the new GDPR which comes into force in 2018. The new software has enabled a far greater degree of remote access already when working across multiple sites.

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### 7 Regularity and propriety work

The ESFA 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 Trust's Financial Handbook. Control processes appear to have been followed and adequate explanations for variances from procedures were obtained. The work followed on from our interim work where we made the following observations

- *Documentation is complete and forms are properly used*  
Copies of forms for each different procedure stated in the Trust Financial Regulations and Procedures Manual were obtained and checks were made through sampling and enquiries of management that each form was being properly used.  
In 4 out of 10 items sampled, items were purchased without purchase order. A blue form has been developed in the Finance Office to allow purchases to be approved retrospectively. In all cases all elements of the form were completed. In the remaining 6 out of 10 items sampled forms were properly used and fully completed.
- *Appropriate budget holder approval of orders*  
Identities of all signatories were confirmed and all signatories were budget holders. Budget holder for premises costs is also Director of Finance. Consideration should be given to obtaining a second approval signature in these circumstances.
- *Orders are made with approved suppliers*  
Many suppliers pre-date Academy status and were on Cambridgeshire County Council approved list. Others are on-line. Consideration should be given to reviewing suppliers list as part of HCSS set up.
- *Quotations are obtained for all purchases in line with Trust regulations*  
In all cases where a quotation was required it was obtained in line with Trust regulations. No sampled items were above £5,000.
- *Costs are allocated to the correct budget*  
For all sampled items the nominal coding of cost of goods/services was checked and all appeared to have been allocated to the correct budgets.

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### Regularity and propriety work (continued)

- *Goods or services have been received and matched to order and invoice*

For all appropriate sampled items, evidence was seen confirming that items received had been checked against delivery note or receipt of service confirmed and in the 6 out of 10 cases where an order was available, the delivery note was matched to the order to ensure correct items are being delivered.

- *Appropriate authorisation of purchase invoices*  
All sampled items were authorised for payment by the appropriate person before payments were made to suppliers.

General enquiries were also made regarding the appropriateness of policies and procedures and budget monitoring by budget holders.

- *Budget holder monitoring*  
General enquiries regarding budget holder monitoring had mixed responses with some, but not all, cases budget holders maintaining spreadsheets and other records to monitor spend. HCSS should make this process much more transparent and automatic thereby reducing the risk of overspend.
- *Policies and procedures*  
While the current procedures manual closely follows EFTA guidelines, the manual will need to be adapted to incorporate the new HCSS accounting systems. Adequate training for staff, in particular budget holders will be essential.

### Management response:

Our new cloud-based system has both eliminated the need for retrospective authorisation paperwork and also improved our authorisation process and orders now need to be authorised at the correct level in order to be processed. Where applicable, Site Officers sign for receipt of goods for the premises budget to provide another level of checking and to ensure that orders are undertaken legitimately.

As part of our transition to a new accounting software all unused or historical suppliers have been removed from our accounting systems to provide a cleaner base from which to continue. This has also meant that all budget-holders now have access to reports on their budget performance and can monitor expenditure themselves. There should also be little reason for transactions to be incorrectly coded due to the authorisation process followed.

Our current finance policy is in the process of being reviewed to ensure that it fully encompasses our new accounts software, electronic banking payments (and the different level of checks required) and our status as a Multi-Academy Trust.



## **Key Issues Memorandum to the Trustees of Cambridgeshire Educational Trust for the period ended 31 August 2017**

### **8 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.

#### **Management response:**

The trust is already positively engaged with legal and taxation partners to ensure that all operations and procedures relating to the Trust's trading subsidiary continue to be accounted for correctly.

### **9 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.