



Key Issues Discussion Document

Period end 31 August 2018

Strictly private & confidential

Note : This is a draft report issued in advance of the completion of our work. The comments in this draft report are subject to modification or withdrawal, and there may be further material matters which this draft does not address.

The Board of Trustees
Dartmoor Multi Academy Trust
Okehampton Community College
Mill Road
Okehampton
EX20 1PW

Ref: PT/JJS/SP
Date: 21 Dec 2018

Dear Sirs

**Dartmoor Multi Academy Trust
Key Issues Discussion Document for the period ended 31 August 2018**

This Key Issues Discussion Document (KIDD) has been prepared in order to record the key matters arising from the audit of the financial statements for the period ended 31 August 2018. We have discussed our report with your finance team who confirm its factual accuracy, although the views expressed are those of Bishop Fleming. The purpose of this document is further detailed in Section 1.

We would like to take this opportunity to thank the finance team for the co-operation and assistance afforded to us during the course of the audit.

Yours faithfully



BISHOP FLEMING

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1. Introduction

Purpose of memorandum

The KIDD has been prepared for the benefit of discussion between Bishop Fleming and the Multi Academy Trust (MAT).

The purpose of the KIDD is to highlight the key issues affecting the audit of the MAT and the preparation of the MAT's financial statements for the period ended 31 August 2018.

The document is also used to report to management our mandatory requirements as set out in International Standard on Auditing (UK & Ireland) 260 (ISA 260).

Our fieldwork is complete and we propose to issue an unmodified audit report for the period.

Our Approach to the Audit

Our work was planned to provide a focused and robust audit, so as to:

- Provide an independent opinion as to whether the financial statements give a true and fair view; and;
- State whether the financial statements have been properly prepared in accordance with the Companies Act 2006 and Academies Accounts Direction (AAD).

Our work was also planned to provide a "limited assurance" report on regularity in accordance with the AAD.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.

When planning our audit work, we sought to minimise the risk of material misstatements occurring in the financial statements. To do this, we considered both the risk inherent in the financial statements themselves and the control environment in which your MAT operates. We then used this assessment to develop an effective approach to the audit.

Based on our knowledge of the MAT, we assessed the risks to the MAT and planned our audit with regard to these risks. Our auditing standards require us to include the following as significant risks:

- Management override
- Revenue recognition
- Valuation of assets and liabilities transferred in on conversion (from Local Authority and the Diocese of Exeter)

We also identified some additional audit risks as per our audit planning document which have been detailed in Section 2.

Responsibilities of the Trustees

The Trustees are responsible for the preparation of the financial statements and for making available to us all the information and explanations we consider necessary.

The matters dealt with in this KIDD came to our attention during the conduct of our normal audit and assurance procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the above MAT and providing a limited assurance conclusion on regularity.

In consequence our work did not encompass a detailed review of all aspects of the systems and controls and cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might reveal.

We would be pleased to discuss any further work in this regard with Trustees and/or management.

1. Introduction (continued)

Status of audit

Our audit work was carried out in accordance with our audit plan in response to the perceived audit risks, and no matters were identified which required us to change our approach and no additional risks were identified.

Audit Materiality

In carrying out our audit work we considered whether the financial statements are free from 'material misstatement'.

Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. An item will normally be considered material if its omission would reasonably influence the decisions of those using the financial statements.

The assessment of whether a misstatement is material in the context of the financial statements is a matter of professional judgement and will have regard to both the amount and the nature of the misstatement. Thus different materiality levels may be appropriate when considering different aspects of the financial statements.

The assessment of whether a misstatement is material in the context of the regularity assurance report has been evaluated in the same way as the "true and fair" audit of the financial statements, as noted above.

Unadjusted items

We do not deem the total of the unadjusted items to be material to the financial statements. Within our letter of representation, we request you confirm that the effects of not recording such misstatements identified in the financial statements are, both individually and in the aggregate, immaterial to the financial statements of the MAT as a whole.

Audit adjustments

During the course of our audit, we have identified adjustments which have been processed in the financial statements, on the agreement of management. These are attached to the letter of representation.

Internal financial controls

Our review of the MAT's system of internal control is carried out to assist us in expressing an opinion on the financial statements of the MAT as a whole. This work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities (other than those which would influence us in forming that opinion) and should not therefore be relied upon to show that no other weaknesses exist. Accordingly, we refer only to significant matters which have come to our attention during the course of our normal audit work and do not attempt to indicate all possible improvements which a special review might reveal.

Included in this KIDD is a memorandum noting our significant control observations together with any recommendations we have for possible improvements which could be made.

1. Introduction (continued)

Regularity assurance engagement findings

We conducted our regularity assurance engagement in accordance with the AAD. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that may be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion. Our engagement included examination, on a test basis, of evidence relevant to the regularity and propriety of the MAT's income and expenditure.

We propose to issue an unmodified regularity assurance report for the period.

Independence confirmation

APB Ethical Standard 1 "Integrity, Objectivity and Independence" and ISA 260 requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The aim of these communications is to ensure full and fair disclosure by us to those charged with governance on matters in which you have an interest.

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence or the objectivity of the audit engagement team.

Additional accounting support has been provided by Bishop Fleming during the course of the audit process. All adjustments have been processed at the request of management who have retained the overall decision making.

Subsequent to the external audit work, Bishop Fleming was asked to undertake some internal assurance procedures to review the Trust's compliance against the musts

outlined in Annex C: Schedule of requirements (the 'musts') of the Academies Financial Handbook 2017. The Trust has already appointed a separate internal auditor, so this internal assurance assignment is purely additional checks by the external auditor. We have addressed the threat to independence by ensuring that these additional checks were reviewed by a separate manager and partner to those reviewing the external audit work.

We confirm that in our professional judgement, Bishop Fleming is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff has not been compromised. A full list of all identified ethical threats and the appropriate safeguards was included within our audit plan document.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. Should you have any specific matters that you wish to discuss, please contact us.

Your comments

We would be grateful if you could enter your comments against each point under the "management response" header of the management letter point section and return it to us in due course. The management letter section of this KIDD letter will be submitted to the Education and Skills Funding Agency (ESFA) with the Financial Statements.

This KIDD has been prepared for the sole use of the Board of Trustees, management and others of the MAT. We understand that you are required to provide a copy of the management letter section of this report to the ESFA. With the exception of this, no reports may be provided to third parties without our prior consent. No responsibilities are accepted by Bishop Fleming towards any party acting or refraining from action as a result of this report.



2. Key audit risks

1. Significant risk - Management override

Risk

- Risk of management override and manual adjustments which may impact on the financial statements.
- We consider this risk may be heightened this period due to the complexities in adding in new schools to the organisation.

Work done and conclusion

- Perform analytical procedures as to the overall consistency and reasonableness of the financial statements and individual school results against our expectations.
- Review subjective accounting areas (property and pension valuations, accounting estimates).
- Review the overall control environment and high level financial controls operating.
- Review manual journal entries to ensure proper authorisation and purpose.

No material issues were identified and therefore we have concluded that the financial statements are materially correct with regard to this matter.

2. Significant risk - Revenue recognition

Risk

- Income is received from a number of different sources and in certain cases relates to specific periods or specific items which may be subject to differing recognition requirements.

Work done and conclusion

- Performed analytical procedures as to the overall consistency and reasonableness of the financial statements and individual school income against our expectations.
- For a sample of significant transactions, we performed substantive testing.
- Reviewed capital funding received or granted and recognition criteria.
- Performed cut off testing.

Our testing has highlighted some issues with the posting of income received in arrears or in advance, which we have adjusted. See Section 6 for further details.

We have concluded that the financial statements are materially correct in relation to this matter.

2. Key audit risks (continued)

3. Significant risk – Valuation of assets and liabilities transferred in on conversion (from Local Authority and the Diocese of Exeter)

Risk

- As the MAT is newly formed. There have been 15 new schools from 1 January 2018.
- The take-on of new schools leads to various accounting complexities as to the fair value of take-on assets, agreed transfer balances and any specific items to be considered under the transfer agreements.

Work done and conclusion

- Review of the transfer agreements undertaken.
- All schools converted from Local Authority (LA) control. The assets and liabilities transferred were valued at their fair value and appropriately recognised in the Balance Sheet and as a donation in the Statement of Financial Activities. (see Section 4 for further details).
- For Church of England schools, the land & buildings have not been recognised in the Balance Sheet. This has been discussed further in Section 4.
- The valuation of both land and buildings and other assets have been benchmarked against other similar Academies.
- Pension deficit valuations on conversion for LA schools have been received from the respective pension actuaries and the existing Academy deficit as been included within the MAT central pension valuation.

We determined that the value of assets and liabilities recognised on conversion were materially correct. We have included an unadjusted potential error, please see Section 5 for details.

4. Additional risk – Allocation of overheads to other restricted and unrestricted funds

Risk

- There is a risk that expenditure has been allocated incorrectly between restricted and unrestricted funds, which could in turn cause a material misstatement of the year end funds position.

Work done and conclusion

- As part of our substantive testing on samples of expenditure, we have checked whether the allocation of expenditure between funds is appropriate.

No material issues were identified and therefore we have concluded that the financial statements are materially correct with regard to this matter.

2. Key audit risks (continued)

5. Additional risk – Identification and treatment of transactions between Academies within the Academy Trust

Risk

There is a risk that income and expenditure is being recorded within the wrong academy and therefore misstating the carried forward position by academy.

Work done and conclusion

- As part of our normal audit testing we have reviewed source documents to ensure that income and expenditure has been allocated to the correct academy.
- We have reviewed a sample of recharge journals to ensure that these are being made on a reasonable basis.
- We have reviewed and recalculated the expected split of fund inherited on conversion from academies that were part of a federation.

We did not identify any material issues in respect of this matter.

6. Additional risk – Accuracy of payroll costs including treatment of supply staff

Risk

- There is a risk that the payroll costs are materially misstated or that incorrect payroll related disclosures have been made in the financial statements.
- The risk is increased given the size of payroll costs compared to total expenditure.

Work done and conclusion

- Payroll reconciliation reviewed against source documents from the payroll provider.
- Existence testing carried out on a sample of Trust employees.
- Rationalisation carried out to determine if costs are in line with expectations.
- Staff disclosures audited for accuracy using source payroll records.

We have determined that payroll expenditure and related disclosures in the financial statements are materially correct. We note however that there were accounting differences relating to control accounts. Please see Section 6 for more details.

2. Key audit risks (continued)

7. Additional risk – Identification and treatment of capital grants spanning the period end

Risk

- There is a risk that income and expenditure relating to capital projects that straddle the period end are misstated.
- There is a risk that capital grants have not been spent in line with the terms and conditions attached to them.

Work done and conclusion

- We have reviewed the CIF projects undertaken during the period by:
 - Reviewing income recognised to ESFA payment schedules
 - Reviewing expenditure to ensure costs are materially complete
 - Reviewed tendering procedures
 - Reviewed end of project forms submitted to the ESFA

We have concluded that the financial statements are materially correct. No material issues were noted in relation to this matter.

8. Additional risk – GAG deficits

Risk

- There is a risk that individual academies are operating in a GAG deficit position.
- This can have implications for going concern and for disclosure purposes in the financial statements.

Work done and conclusion

- We have reviewed funds by academy and in particular GAG funds to determine unspent balances carried forward and specifically, the level of GAG funds carried forward.

It was noted that there are currently 4 academies that have overall GAG deficits in the period along with another 7 who had initial GAG deficits but had sufficient unrestricted funds to fund these deficits. See Section 4 for further details.

2. Key audit risks (continued)

9. Key risk – Compliance with Regularity

Risk

The Academy environment requires a specific focus to ensure proper use and best value for public money. The Accounting Officer is required to confirm compliance in this regard.

This risk is increased for the MAT due to its large size, and multiple locations.

The risks are as follows:

- Unauthorised activities or expenditure being incurred.
- Related party transactions occurring and not being detected.
- Unauthorised borrowings and leases being in place.

Work done and conclusion

We have tested the following at each location in our sample as previously agreed, including where differing systems have been used:

- Detailed substantive testing was undertaken on the specific areas required to ensure compliance with regularity guidelines and internal finance procedures.
- Review a sample of significant transactions to ensure that tendering guidelines adhered to.
- Review and confirm whether any transactions with connected parties have taken place, and where this is the case, consider the implications carefully.
- Review for any lease agreements, borrowing or other unusual transactions which may have been entered into.
- Reviewed and documented the systems to identify potential related and connected party transactions (e.g. declarations of pecuniary interests).
- Obtained confirmation from key management and Trustees as to their knowledge of related party transactions.
- Reviewed Board minutes.
- Reviewed risk areas of the financial accounts for any related party transactions.
- Ensured the correct calculation and disclosure of Key Management Personnel costs.

We have not identified any material issues with regard to regularity.

3. Data Analytics

Data Analytics - Journal Testing Summary

As part of our auditing standards we are required to consider management override as a significant risk. To assist our audit of this risk and to provide Trustees with assurance, we have carried out detailed testing of manual journals posted to your accounting system. The results are as follows:

Posting Day

A review of the days that journals were posted has been undertaken:

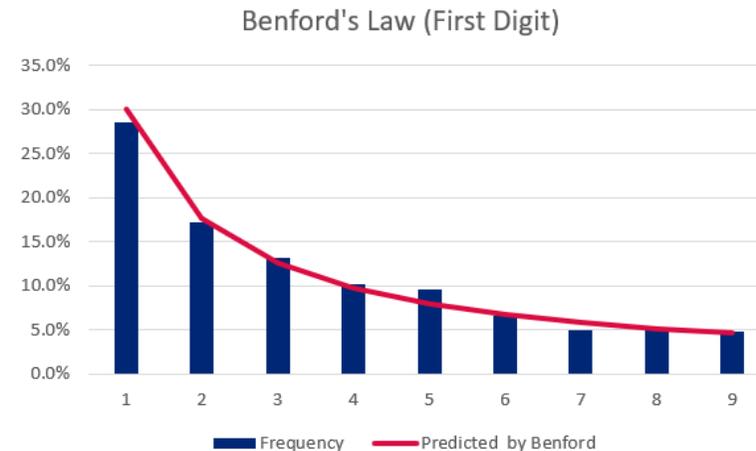
Day	Number of entries
Monday	632
Tuesday	454
Wednesday	913
Thursday	1,545
Friday	1,453
Saturday	0
Sunday	21
	5,018

Results are in line with expectations:

- We noted that there were 21 journals that were posted at the weekend. These were posted across February, April and September. These journals did not appear to be anything other than genuine business related journals.

Normality

The normality of the journal postings have been reviewed in line with Benford's Law. This states that in natural collections of numbers, the leading significant digit is likely to be small and follow a logarithmic curve.



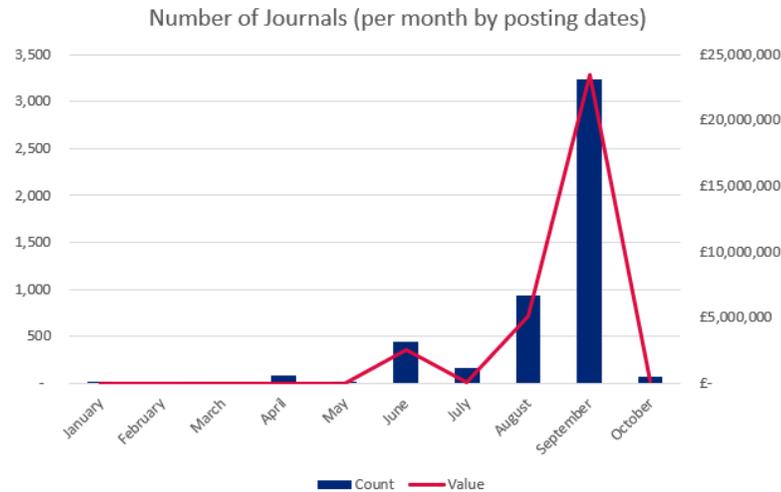
This test did not identify any issues that indicate that unusual transactions were being posted.

3. Data Analytics (continued)

Data analytics - Journal Testing Summary (continued)

Transactions by Month

We have examined the volume and value of transactions and the month in which they were posted to the accounting system. We expect transactions to occur evenly throughout the period.



As you can see from the graph above, the majority of journals posted to the system were posted in August and September, despite the journals relating to transactions occurring throughout January to August. On enquiry with management, this was due to issues with PS Financials and the fact that the central team were not in place until mid-year. This meant that bank transactions and payroll journals, amongst other journals, were not being posted in a timely manner and therefore accurate management information cannot have been reported to the Board. We have raised a control point in respect of this in section 6.

Material Journals

Journals over the level of audit materiality have been investigated to ensure they are genuine and in line with our expectations given the knowledge of the Trust, with no material issues noted.

Key Word Testing

We have also reviewed the journals including key words that could require further investigation. This review did not highlight any concerns.

Conclusion

Journals appear reasonable and are not indicative of management override. As such, reasonable assurance can be gained that journals appear free of material misstatement.

Management comment

The Trust acknowledges that the processing of journals is not evenly spread throughout the year as would be expected. The Trust had significant issues with the finance system it purchased, resulting in severe delays with the ability to process some transactions. The central team were not appointed until Easter of 2018. So for the first 4 months, the CFO was working on her own undertaking many of the tasks required. The Trust has now resolved the finance system issues with the provider and a central team is in place and monthly journals, including payroll journals, are now taking place.

4. Audit and Financial Reporting issues

1. FRS102 Pension valuations - outstanding

The MAT has received its FRS102 LGPS pension valuations for all schools. The results of which have been summarised below (000's):

	Deficits on conversion	Pension expense	Actuarial (gain) / loss	2018 £
Trust Total	8,366,000	966,000	(867,000)	8,465,000

As can be seen above, pension deficits have been taken on at all the joining schools of £8,465,000. The movement from date of conversion to the period end shows a £99,000 increase in the liability which is driven by a £966,000 expense in the period, offset by a large actuarial gain on the Local Authority pension fund.

The Trust has opted to use the standard assumptions offered by the actuary in the valuations provided. We have benchmarked these assumptions and they appear to be within reasonable parameters.

Management Comment

Noted

4. Audit and Financial Reporting issues (continued)

2. Going concern and individual deficits

As can be seen from the table below, Chagford, Lydford, Northlew & Ashbury and Tavistock College are currently showing a negative carry forward (excluding pension reserves and fixed asset funds), for which further detail can be found in Note 18 to the accounts.

This table shows a summary of the Trust performance by school over the next 3 years based on the Trusts' budgeted figures.

	Conversion balance	Surplus/ (Deficit) in year	2017/18 C/Fwd	2018/19 C/Fwd	2019/20 C/Fwd	2020/21 C/Fwd
BCP	17,399	- 12,525	4,874	44,590	48,390	29,783
BGD	57,477	17,516	74,993	84,536	85,926	72,737
BRD	22,286	7,521	29,807	39,119	28,653	8,012
BST	24,530	17,064	41,594	60,500	42,340	- 7,621
BTP	17,747	17,070	34,817	35,275	43,244	31,859
CHA	- 25,986	- 11,158	- 37,144	- 34,950	- 112,472	- 215,606
EXP	19,966	6,801	26,767	67,151	78,999	85,861
HCC	514,096	60,836	574,932	522,764	376,741	88,966
LYP	12,312	- 14,217	- 1,905	- 13,900	- 35,943	- 56,942
NAP	9,983	- 19,929	- 9,946	- 15,351	- 18,292	- 33,204
NTP	26,781	- 4,046	22,735	40,468	108,645	154,944
OKE	656,616	- 48,842	607,774	751,064	730,589	453,794
OPS	335,052	101,117	436,169	557,474	569,089	473,664
STP	18,455	5,081	23,536	22,968	601	- 75,736
TAV	52,339	- 142,464	- 90,125	- 36,082	60,419	239,159
	1,759,052	- 20,174	1,738,878	2,125,626	2,006,929	1,249,670
MAT	-	493,150	493,150	588,653	574,495	535,156
TOTAL	1,759,052	472,976	2,232,028	2,714,279	2,581,424	1,784,826

It is clear that the overall funds position of the Trust is projected to decrease based on current budgets by £500k over the next 3 years with 3 of the 4 Academies in deficit at 2017/18 being in a larger deficit by 2020/21. 5 year budgets prepared by management show a steeper decrease with the Trust in an overall deficit position by 2023.

The Trustees should consider preparing/update an internal recovery plan to return the Academies to an overall surplus to prevent them from diverting resources from other Academies within the Trust.

At the end of the current period, it was also noted that a further 7 academies had initial GAG deficits but had sufficient unrestricted funds to fund these deficits. This indicates that these academies are not currently able to fund their educational operations from GAG alone. A detailed review of the budgets should take place and the Trust should consider the results of Integrated Curriculum Financial Planning as part of this process.

The Trust must consider the need for informing the ESFA in line with the AFH.

We will be happy to discuss this matter with you in further detail.

Management Comment

The Trust is aware that a number of the Academies face financial challenges in the coming years. Trustees have challenged Local Governing Bodies to review budgets of their schools and come up with management action that can be taken to address future deficits. Trustees have an expectation that all schools should be setting balanced in-year budgets and reviews are taking place across the Trust to ensure that this is possible going forward. Trustees have instructed Bishop Fleming to undertake an ICFP review and the Accounting Officer and CFO have written to the ESFA requesting a SRMA visit to review our practice going forward.

4. Audit and Financial Reporting issues (continued)

3. Accounting for buildings legally owned by the Diocese

Following clarification from the ESFA via the Academies Accounts Direction, the Trust and the Diocese have agreed a revised treatment, under which the Diocese of Exeter legally owned buildings are accounted for in the financial statements.

As the Trust does not have ultimate control over Diocesan land and buildings and only a licence to occupy, the Trust has not recognised these as fixed assets on its balance sheet.

The licence to occupy whereby the Diocese permit the Trust to use the premises on a rolling basis for the two year notice period set out in the supplemental agreement is considered similar to a situation where rent is paid in advance to secure the use of the premises for two years. The Trust's occupation for this period is therefore recognisable by the Trust as a notional donation (since it pays no actual rent) for the two year notice period and a notional rental expense for its use of the premises for the current year. As no amount has been calculated by management at the date of this report we have included an estimate in the unadjusted errors schedule in section 5.

In the future, when the Trust is in receipt of SCA funding for Diocesan owned premises, this income will be treated as a restricted donation from non-charitable activities. Any expenditure that is improving property (i.e. any amount that would previously have been capitalised, had the Trust been recognising the property, will be treated as "grant expenditure" in the SOFA.

Management Comment

The Trust are currently awaiting an independent valuation for the notional rent on all of the Church Schools. We have instructed an independent Estate Agent to do this on our behalf. We confirm that the notional rent value is not materially different to that included on the schedule of unadjusted items in section 5.

4. Audit and Financial Reporting issues (continued)

4. Accounting for land and buildings of Tavistock College, Okehampton College and Okehampton Primary

The legal transfer for the land and buildings at Tavistock College, Okehampton College and at Okehampton Primary School has not yet been completed.

For all of these academies, the commercial transfer agreement has been signed by the local authority which states that they will transfer the land and buildings to the Trust.

As it is considered that the transfer of these assets is virtually certain, the fair value of the land and buildings has been recognised as fixed assets in the financial statements in line with FRS 102 Section 17.

We will need an update from management on the status of the transfer prior to signing of the financial statements and letter of representation.

Management Comment

Due to an oversight on the behalf of the Trust's solicitors, the transfer of 3 school's lands and buildings has not been completed. The transfer is progressing now and the solicitors have made progress on this now, we are confident this will be resolved very soon.

4. Audit and Financial Reporting issues (continued)

5. Non-primary purpose income and corporation tax

Academy Trusts do not have to pay corporation tax on any surplus' generated from their primary purpose (the objects per their Articles of Association) and are generally exempt from filing corporation tax returns once they submit a CHA1 to HMRC.

However, where an Academy Trust generates income from transactions that are not considered to be related to their "primary purpose", a corporation tax return may need to be completed and corporation tax paid over to HMRC.

Dartmoor MAT operates four nurseries (North Tawton, South Tawton, Okehampton Primary, Chagford CofE) and also operates a sports centre at Tavistock College. All these activities are covered by the objects in the Trust's Articles of Association and are therefore exempt from corporation tax. However income generated from such activities as feed in tariffs, sale of staff for non educational purposes and external catering are all subject to corporation tax if the total income generated exceeds £50k.

If the total value of this income is over £50,000 a corporation tax return will need to be completed. This will be due for filing 12 months after the Trust's year end, 31/08/19, with any tax payable falling due for payment 9 months and 1 day after the period end, 01/06/19.

It is possible that the threshold may be exceeded next year, however the threshold is due to increase to £80k as detailed in the recent Budget, but the Trust should monitor this.

We recommend that management review income streams to determine the total value of non primary purpose income and whether this does exceed the threshold.

We will be happy to discuss this matter with you in further detail.

Management Comment

The Trust will undertake a full review of all income streams to determine the total value of non-primary purpose income to determine the value of this and whether corporation tax is due. We will seek further support from Bishop Fleming should we need it.

5. Audit adjustments and unadjusted items

In accordance with the requirements of International Standards on Auditing, we must communicate all adjusted and unadjusted items identified during our audit work, other than those which we believe to be clearly insignificant.

Adjusted items

After discussion, it has been agreed that the following audit differences have been adjusted in the financial statements.

Adjusted Items	Balance Sheet		SoFA	
	Dr	Cr	Dr	Cr
Surplus/(Deficit) per Trial Balance (trading codes)				1,716,058
To reclassify capital additions to the balance sheet	175,932			175,932
To reclassify Bursary Payments to the balance sheet		94,005	94,005	
Additional LGPS payment reclassified to the SOFA		38,800	38,800	
To correct posting of prepayments	622,575			622,575
To recognise DFC in full	78,409			78,409
To accrue pupil premium for July and Aug for all academies	182,674			182,674
To defer additional UIFSM for 2 schools		11,727	11,727	
To adjust additional LGPS payments included in period "Reg"		53,232	53,232	
To reverse child care vouchers posted twice	40,825			40,825
To post fixed assets donated on conversion	63,614,260			63,614,260
To post depreciation on fixed assets		1,288,027	1,288,027	
To post pension deficit on conversion and in year movement		8,465,000	8,465,000	
Surplus/(Deficit) per Draft Financial Statements				56,479,942

5. Audit adjustments and unadjusted items (continued)

Unadjusted items

In total the unadjusted items arising are not deemed material to the financial statements. Within our letter of representation, we request you confirm that the effects of not recording such misstatements identified in the financial statements are, both individually and in aggregate, immaterial to the financial statements of the Trust as a whole. The unadjusted items are as follows:

Unadjusted items	Balance Sheet		SoFA		Management Comment
	Dr	Cr	Dr	Cr	
<u>Revenue</u>					
Overstatement of other income (miscoding of staffing costs recharge)		65,793	65,793		
Overstatement of staff costs (miscoding of staffing costs recharge)	65,793			65,793	
Under accrual of CIF project costs (Bridestowe and South Tawton)		19,421	19,421		
Potential overstatement of payment run clearing account		34,216	34,216		
Potential overstatement of wages	49,128			49,128	
Understatement of notional rental donation on church schools				48,848	
Understatement of notional rental charge on church schools			48,848		
<u>Capital</u>					
Potential overstatement of other assets transferred on conversion	697,870			697,870	
Potential overstatement of land and buildings transferred on conversion		615,624	615,624		
Total	812,791	735,054	783,902	861,639	
Net decrease in surplus				77,737	

6. Management letter points and internal control systems

The MAT's management is responsible for the identification, assessment and monitoring of risk, for developing, operating and monitoring the systems of internal control and for providing assurance to the Board that it has done so.

In accordance with the terms of our engagement we have not provided a comprehensive statement of all issues which may exist in the accounting and internal control systems or of all improvements which may be made, but outline below our observations arising from the audit, none of which are considered significant.

We would be pleased to discuss further work in this regard with the Board.

Summary of progress against control points raised:

Risk rating of issue	Period ended 31/08/18
	2
	9
	4

KEY:

-  Observations refer to issues that are so fundamental to the system of internal control that management should address them immediately to minimise the risk of a material misstatement within the financial statements.
-  Observations refer mainly to issues that have an important effect on the system of internal control and, if left uncorrected could potentially lead to a material misstatement within the financial statements.
-  Observations refer to issues that would, if corrected, improve internal control in general and engender good practice, but is unlikely to have a material impact on the financial statements.

6. Management letter points and internal control systems (continued)

1. Reporting of management information to the Board

We understand that comprehensive management information was not always presented to the Board during the period. We also note that due to the lateness of posting journal entries and the bank processing, any financial information that was available would not have been materially correct. The Academies Financial Handbook for 2017/18 states that management information must be presented and considered by the Board at least 3 times per year.

For 2018/19, the Academies Financial Handbook states that the Trust must prepare management accounts every month. Management accounts must also be shared with the Chair of Trustees every month irrespective of the size of the Trust, and with the other Trustees six times per year. The Board must consider these when it meets.

As detailed in Section 4, there were a number of journal adjustments posted in August and September which related to transactions as far back as January 2018. The highest posting gap noted was 254 days (posting gap being the difference in days between the posting date and the transaction date). This meant that the financial information available throughout the period could not have been materially accurate. We understand the Board have not been able to properly scrutinise the financials for the period as a result.

Of the journal adjustments detailed above we also noted that there are a significant number of manual journal entries being posted in the bank current account ledger code with a number of transactions being posted with an incorrect period attached to them. With bank entries being included in the wrong period, a bank reconciliation report cannot be retrospectively run.

We noted that the bank account was not reconciled in PS Financials until the year end. We noted that the bank reconciliation report at the period end included a number of transactions that had occurred post period end and were therefore incorrectly being shown as unreconciled items, such as BACS runs for September and PAYE and Pension payments for August, paid in September. This also indicates that reporting on trade creditors at the period end is also inaccurate.

Recommendation

We recommend that this requirement of the AFH are adhered to and that sufficient documentation of this happening and of scrutiny by the Trustees is recorded in the Board meeting minutes.

Continued...

6. Management letter points and internal control systems (continued)

1. Reporting of management information to the Board (continued)

Recommendation (continued)

We recommend that the Trust implements a timetable for month end procedures to be completed and for the monthly management information to be prepared and provided to the Chair and Board when required.

We recommend that the procedures for posting the bank is revised to ensure that bank transactions are posted using the correct date and period to which the bank transaction falls into and not with reference to the date of the transaction it is receipting or paying.

The Trust should reconcile the bank on a monthly basis as this will help to ensure that accurate monthly management accounts can be prepared.

We recommend that journals are posted in a timely manner with journals being posted where relevant at each month end. Bank reconciliations should be performed at each month end as should the posting of the payroll.

Management comment

Many of the concerns raised in this section are due to the issues the Trust faced with the financial package it bought. These have been addressed now. The Trustees are now in receipt of monthly management accounts. A timetable for month end procedures has been introduced at school and central level and are being adhered too. The bank account is now being reconciled monthly ensuring that transactions are posted in the correct month and period, along with giving us the ability to produce accurate management accounts. Journals are posted in a timely manner and payroll journals are posted on a monthly basis. We are confident these actions address the issues raised.

6. Management letter points and internal control systems (continued)

2. Year end adjustment for prepayments, accrued income, accruals and deferred income

There were a number of issues with the accounting entries made for the above period end balances. As a result a net adjustment of £622k had to be made to the accounts. Issues included, prepayments posted the wrong way round, accruals posted which were supposed to be adjusted and posted as prepayments and deferred income posted as accruals. We also noted that the pupil premium accrued income had not been accrued in the accounts.

Given that the Trust is required to prepare monthly management information to the Chair and regular management information to the Board, it is important for these adjustments to be made on a regular basis so that they are provided with accurate information with which they can base decisions.

Recommendation

We recommend that the procedure for posting these adjustments is centralised in order to reduce the number of potential errors.

The Trust should also consider whether additional training is required that could mitigate futures errors with regard to this matter.

Management comment

The Trust recognises that there were a number of errors with year-end postings, this is due to inexperienced staff in schools undertaking this procedure and issues with the finance system and the year-end process. Going forward this task will be centralised and staff working in the central function will undertake proper training to ensure that they are aware of the process ready for next year. By ensuring this is centralised we are confident this will minimise issues next year.

6. Management letter points and internal control systems (continued)

3. Payroll control accounts

We noted that the payroll control accounts are misstated at the period end, although the remaining balance is trivial following correction of errors identified, it was apparent that the matching of bank payments against payroll was not consistent.

We noted that the childcare voucher control account was not being cleared and therefore the cost of childcare vouchers were being included in the Statement of Financial Activities (SOFA) twice. We also noted that the February payroll payment was incorrectly processed in PSF with TPS and LGPS pension payments being posted the wrong way around. We also noted that incorrect journals had been posted between control accounts to account for the apprenticeship levy.

Recommendation

We recommend that all payroll control accounts are reconciled monthly to ensure that the balance remaining at the month end and ultimately at the year end is reflective of the amounts owed at that time. This will also ensure that the payroll costs are correctly accounted for in the SOFA.

Management comment

The payroll control accounts were not being cleared monthly, some of the issues were due to the finance system not working correctly. These have been addressed and control accounts will be reconciled as part of the month end procedures going forward.

6. Management letter points and internal control systems (continued)

4. 16-19 Bursary income

16-19 bursary income from the ESFA represents an agency arrangement, whereby, the Trust is acting as agent for the ESFA in passing bursaries on to students.

We noted that there was a significant balance of funds brought forward for both Tavistock and Okehampton Colleges.

The Trust should ensure that these funds are passed on in line with the purpose intended and should not look to hold on to these funds for long periods of time.

In accordance with the Academies Accounts Direction and the Charity SORP, these balances have been included on the balance sheet as creditors as the Trust is not deemed to have control over this income.

Recommendation

We recommend that the Trust implements a plan to ensure that the 16-19 bursary funding (b/fwd. and ongoing) is passed on to students in accordance with the terms and conditions of the funding in a timely manner.

Management comment

Trustees are aware that bursary income is an agency arrangement. The schools will ensure they review the process they use for allocating the bursary income to students to ensure that the money is passed on to students in accordance with the terms and conditions of the funding and in a timely manner. This review has already been started in the schools.

6. Management letter points and internal control systems (continued)

5. Segregation of duties

On sample testing of central function expenditure we noted that in some instances there were insufficient segregation of duties, with the same person authorising both orders and invoices.

Per the Finance Policy Para 5.4 - "At least two different people must be involved in the process of agreeing invoices and authorising payment".

Recommendation

We recommend that sufficient segregation of duties is adhered to during the purchasing process.

Management comment

The Trust recognises the need to ensure that there is a segregation of duties and will ensure that this is adhered to going forward

6. Management letter points and internal control systems (continued)

6. Inconsistent use of expense claim forms

During our visits to a sample of the academies within the Trust, we noted that many of the academies were using different expense claim forms.

In particular, Bradford Primary only appeared to use an expense claim form dating back to 2015 and the schools previous payroll providers before Devon County Council.

We also noted that in two schools visited we sampled claim forms that had not been signed as authorised, one of which did not have a claim form completed for it at all.

Recommendation

We recommend that the same expense claims are being used across the Trust to ensure that policies and procedures, including authorisations are being consistently applied.

We recommend that the Trust ensures that the authorisation procedures as set out in the Trust's policies are adhered to, through regular monitoring and the provision of training if necessary.

Management comment

All schools have been issued with the correct claim form to use, with instructions to destroy all previous versions.

All schools have also had the expenses policy reissued, with a reminder of the process for ensuring claims are authorised correctly. This will be monitored to ensure that schools are following the policy.

6. Management letter points and internal control systems (continued)

7. Inconsistent use of purchase orders and posting of purchase invoices

During our sample testing of both credit card purchases and invoiced purchases, we noted the following points:

- Four credit card transactions were identified which did not have requisitions/procurement card expense forms completed. One of these purchases was for over £500 so would have required two authorising signatures.
- Two invoices were entered into PSF with incorrect dates, putting them into the wrong month.
- No requisitions or POs completed for 4 purchases tested, 2 of these would have required extra authorisation due to their values, however this would have been skipped by entering them as Non-Order invoices into PSF.
- We noted one instance where the purchase order had been raised after the goods, services and invoice was received.
- One instance where a requisition form shows different authorisation limits on it to those listed in the Scheme of Delegation.

Recommendation

We recommend that the Trust communicate to the academies within the Trust the importance of using purchase orders and applying the authorisation procedures as stated in the finance policy. We also recommend that spot checks are made to ensure that academies are consistently applying the correct procedures, and operating in adherence with the Trusts policies and Scheme of Delegation.

Management comment

All finance staff within the Trust have undertaken finance training at the beginning of the New academic year to reaffirm the importance of raising purchase orders and the authorisation procedures for raising orders. Head teachers have been reminded of the process also. This will be an ongoing process. Spot checks will be made by the central team also to ensure that the correct process is being followed.

6. Management letter points and internal control systems (continued)

8. Reconciliation of catering income

During our sample testing of catering income at Holsworthy Community College we noted that the catering team count any cash received and summarise this for the finance department. This summary is then used by finance for entry into PSF and for banking purposes.

However, it appears that no reconciliation is performed by the finance team or the catering staff to ensure that cash counted agrees to the till reports.

Therefore there is a potential fraud risk whereby cash from the tills could be misappropriated.

Recommendation

We recommend that procedures are put in place to ensure that cash income from the tills is reconciled to the till reports, thus identifying any differences and ensuring that all academy income is banked, and misappropriation is deterred and mitigated.

Management comment

Trustees recognise that the process for reconciling catering income within Holsworthy Community College has risks. The school is in the process of implementing a cashless catering system, but have also reviewed the process of reconciling the cash counted to the actual tills. A new process has been implemented and this also ensures an independent check happens to ensure the cash received and banked is verified.

6. Management letter points and internal control systems (continued)

9. VAT partial exemption

The Trust is required to comply with VAT Notice 706, partial exemption.

Initially, the Trust had not been performing VAT partial exemption calculations, so these were not done for the months ending March and April 2018.

On the confirmation that partial exemption calculations were required, the Trust has started to perform these calculations. It was noted that the calculations performed were not correct, but HMRC indicated that the exempt income tax would fall below the de-minimis limit under section 11, so funds were released.

The Trust is now aware that these calculations are required, along with an annual calculation.

The Trust needs to ensure they are compliant with these VAT rules and undertake the calculations correctly to ensure that the VAT position is correctly stated in the financial system.

Recommendation

We recommend that the Trust ensures that those responsible for calculating and reviewing the partial exemption calculation are suitably trained to ensure that they are performed correctly.

Management comment

The Trust has ensured that staff carrying out partial exemption calculations have undertaken suitable training since the audit took place. This will enable the Trust to ensure they are compliant going forward.

6. Management letter points and internal control systems (continued)

10. Authorisation of payroll

It was noted that there is no evidence of the payroll report being reviewed, agreed or authorised.

Given that the payroll is the Trust's largest cost, controls need to be robust and adhered to in order to ensure that payroll costs are checked and authorised prior to payment to ensure that only bona-fide payroll expenditure is incurred,

It was also noted that the payroll provider will go ahead and make the payroll payment if they do not hear anything from the Trust. There is a risk that payments are made that have not been reviewed or authorised.

Recommendation

We recommend that the Trust implements new procedures to ensure that the review and authorisation of the payroll is documented.

We also recommend that the Trust looks into developing a new process to confirm that authorisation is provided to go ahead and process the payroll and make the necessary payments.

Management comment

Payroll is reviewed prior to payment to staff, with reconciliation to Orovia. This will be independently signed off each month prior to payment. The Trust is also discussing with its payroll provider a process for ensuring authorisation is given before the payments are processed.

6. Management letter points and internal control systems (continued)

11. Register of business interests and transactions with connected parties

On review of the register of business interests as published on the Trust's website we noted that The Dartmoor Co-Operative Learning Trust was not listed as an interest for Ian Courtney MBE. Per Companies House, Ian Courtney is a director of this company.

As part of our audit work, we identified purchases made from a connected party, Exeter University, that had not been indicated to us. The Trust have confirmed that the transactions were made at no more than cost, with a statement of assurance provided.

Recommendation

We recommend that declarations of interest made by both Trustees and Members are checked to ensure that the information disclosed is complete and adheres to the requirements of the Academies Financial Handbook.

We recommend that the Trust ensures it is aware of all transactions with connected parties and ensures that they are provided to the Trust at no more than cost and that a statement of assurance is sought.

Management comment

The Governance Manager ensures that the register of business interests is completed and it is a standing agenda item at all trustee meetings to ensure trustees declare any changes to their circumstances. The current declarations in place have been reviewed and checked to ensure they are correct.

The Trust is aware of the requirement to disclose connected party transactions and will ensure that they are reviewing all transactions as they happen.

6. Management letter points and internal control systems (continued)

12. Schoolcomms income posted to expenditure ledger codes

During our visits to individual academies, we sample tested the procedures regarding cash income. During the visit to Tavistock College, we noted that Trips and School Meals income received had been posted to expenditure codes for the sample tested

£450 of income received towards a trip was posted to TAV6500 (Trips Expenditure) as opposed to TAV1130 (Trips Income). As well as this, £306.60 was posted to TAV5000 (Catering Costs) as opposed to TAV1126 (Pupil Meals Income).

Although the amounts are trivial in these cases, if this is consistently occurring, this could cause a significant classification error between income and expenditure.

Recommendation

We recommend that income and expenditure is correctly coded to the ledger codes to which they relate. Regular reconciliations between the source report and the ledger codes will identify any possible errors. The Trust should consider providing training to those using the system and stress the importance of correct coding.

Management comment

All finance staff have undertaken training this academic year and the importance of coding has been stressed to them. Reconciliations will take place to ensure that errors are spotted and rectified going forward.

6. Management letter points and internal control systems (continued)

13. Debit balances – Trade creditors

We noted that there were a number of debit balances reported at the period end for individual academies. It appeared that this was due to credit notes in the accounting system that had not been allocated to subsequent purchase invoices.

Recommendation

We recommend that the purchase ledger is tidied up to ensure that credit notes are allocated against the future invoices.

Management comment

A review of the purchase ledger has been undertaken and this will be monitored going forward to ensure that credit notes are being allocated accordingly.

6. Management letter points and internal control systems (continued)

14. Late filing of statutory documents and Companies House

We noted that a number of documents at Companies House relating to the appointments and resignations of Trustees were filed particularly late.

Filing deadlines for event driven notices are generally 14 days after the event.

We noted that some of the notices to appoint Directors were over 10 months late. There was also one instance where a Trustee was appointed and then resigned before being registered as a Director at Companies House.

Our review of the 'Get information about schools' website indicates that the information does not agree to that held at Companies House and are therefore in breach of section 4.7.4 of the AFH (2017) as this states that any appointments or resignations need to be notified within 14 days.

Recommendation

We recommend that all submissions to Companies House are made within the published deadlines.

We also recommend that the 'Get information about schools' website is updated and checked to ensure that it is complete and in-line with the information recorded at Companies House.

Management comment

The Trust has been using Michelmores to undertake the company secretary role. This has resulted in late filing of documents. This has been addressed with Michelmores. Going forward the role of Company Secretary will be undertaken by the Governance Manager which will mean that deadlines are adhered to.

6. Management letter points and internal control systems (continued)

15. Internal assurance reports – scope of work

On review of the internal assurance reports carried out by Thompson Jenner we noted that the scope of work during the period does not fully address the “musts” of the Academies Financial Handbook.

The testing should be driven by your Audit Committee, reviewing the risks of the Trusts and addressing the risks in your risk register.

The Accounting Officer will require evidence that the Trust has assessed itself against the “musts”, to enable them to sign the statutory accounts.

UPDATE: Subsequent work has been undertaken to review the Trust against all of the “musts”.

Recommendation

We recommend that the scope of work covered as part of this engagement is reviewed to ensure that the testing required by the Trust is covered and therefore meets the requirements of the Academies Financial Handbook.

Management comment

The Trust acknowledges that the internal assurance reviews did not cover all aspects of the Academies Financial Handbook. Subsequently, the scope of work has been reviewed and going forward all aspects will be covered. Trustees have instructed a separate review of the missing aspects which has been carried out since the Audit visit.

Our audit service to you

Here at Bishop Fleming we are passionate about delivering a first class service for you, combined with ensuring value for money. We are the number one Academy auditor in the country and bring a wealth of experience to every one of our audit clients. Some of the extra services we offer free of charge include:

- Free helpline for audit queries throughout the year to the CFO
- Seminars, forums and networking events throughout the year
- Monthly newsletters and blogs on relevant sector issues
- Annual Benchmark report including a bespoke report for your Trust

Other services

We offer a range of other services that you may not be aware of, all of which are here to help you, whatever stage you are in.

Training

We regularly deliver training to Academy Trusts to support the governance of the Trust. Topics we have presented on recently include:

- Trustee induction and introduction to the academy sector
- Sector updates (AFH update etc)
- Budgeting and the Board responsibilities
- MATs and reserves - an introduction for Local Heads and LGB's
- Risk Management and the Audit Committee

Governance Reviews

Using our in house National Leader of Governance, and our financial expertise we have undertaken many financial governance reviews for Trusts, including items such as:

- Skills review of Board and LGB members
- Review of Scheme of Delegation
- Review for compliance with AFH
- Structure and strategy advice

Assurance Testing (Internal Audit)

We can undertake a full suite of assurance work for the Trust, to ensure key risks are addressed and ensuring compliance with the Academies Financial Handbook internal audit requirements.

Management information

We can assist with:

- ICFP
- Monthly management information
- Review of finance function

Strategic advice

We can advise on strategy, including:

- Growth
- Structure (trading subsidiaries)
- GAG pooling
- Due diligence
- Centralisation
- Deal negotiation

