

## Key Audit Issues Memorandum

St John Fisher Catholic Voluntary Academy

For the year ended 31 August 2017

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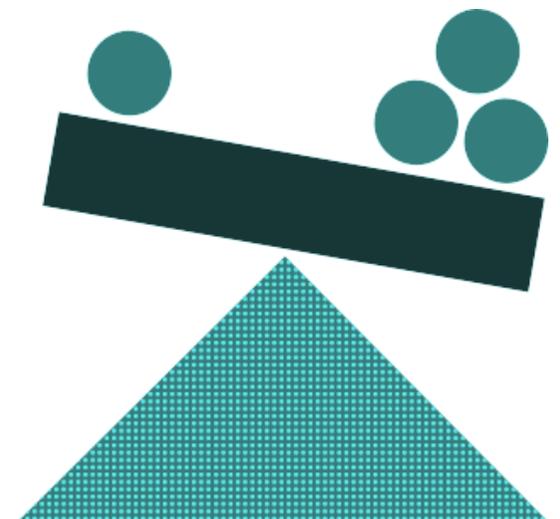
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The purpose of this memorandum is to highlight the key issues arising from the audit of St John Fisher Catholic Voluntary Academy and the preparation of the financial statements for the year ended 31 August 2017. It is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'Terms and Conditions Limitations' (Section 8).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the staff of St John Fisher Catholic Voluntary Academy during our audit.

UHY Hacker Young (Birmingham) LLP

This memorandum has been prepared for the benefit of discussion between UHY Hacker Young (Birmingham) LLP and St John Fisher Catholic Voluntary Academy. This memorandum should not be disclosed to third parties without our prior written consent.

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# 1. Audit Scope, Objectives and Strategy

## 1.1 Engagement objectives

Our engagement objectives are as follows:

- to carry out a statutory audit of the financial statements of St John Fisher Catholic Voluntary Academy in accordance with International Standards on Auditing (UK and Ireland), with the aim of forming an opinion whether:
  - the financial statements give a true and fair view of the state of the academy trust's affairs as at 31 August 2017 and of the academy trust's result for the year then ended;
  - the financial statements have been properly prepared in accordance with FRS 102;
  - the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and the Annual Academies Accounts Direction issued by the Education and Skills Funding Agency; and
  - the information given in the Trustees' Report for the financial year is consistent with the financial statements.
- to produce a concise and constructive report of key issues (our Key Audit Issues Memorandum) to St John Fisher Catholic Voluntary Academy; and
- to draw to your attention to any material weaknesses in internal control that come to our attention during our audit work.

## 1.2 Risk-based audit

We carried out a risk-based audit approach used throughout the audit to efficiently and effectively focus the nature, timing and extent of audit procedures to those areas that have the most potential for causing material misstatement(s) in the financial reports.

The risk-based approach required us as auditors to first understand the entity and its environment in order to identify risks that may result in material misstatement in the financial reports. We performed an assessment of those risks at both the financial report and assertion levels. The assessment involved considering a number of factors such as the nature of the risks, relevant internal controls and the required level of audit evidence.

## 1.3 Risk-based limited assurance engagement

In addition to our audit opinion we are also required to perform a limited scope assurance engagement, reporting both to you and to the Education and Skills Funding Agency (ESFA), considering whether the expenditure disbursed and the income received by the trust during the period 1 September 2016 to 31 August 2017 has been applied to the purposes identified by Parliament and that the financial transactions undertaken by the trust conform to the authorities which govern them. This latter point is concerned with looking at compliance with the requirements of the various frameworks that apply to trust, including your memorandum and articles, your funding agreements, the Academies Financial Handbook extant for the relevant period, the Accounts Direction 2016 to 2017, the Charities Act 2011 and the Companies Act 2006.

## **1. Audit Scope, Objectives and Strategy (cont'd)**

Our approach was once again risk-based. We began by developing our understanding of the trust's own approach to ensuring the proper application of funds received and to ensuring compliance with relevant legal and contractual frameworks. We developed an understanding of the trust's governance arrangements and internal control procedures, planning our work accordingly to allow us to gain sufficient evidence to give the required limited assurance opinion. Our assurance procedures included reviewing and commenting on the Accounting Officer's Statement on Regularity, Propriety and Compliance, and the trustees' report and governance statement.

### **1.4 Materiality**

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

### **1.5 Internal controls**

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high-risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements on internal control that a more extensive control review exercise might identify.

## 1. Audit Scope, Objectives and Strategy (Continued)

### 1.6 Significant Risks

As part of our audit procedures we are required to consider the significant risks that require special audit attention. Auditing Standards require us to consider:

- Whether there is a risk of fraud;
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- The complexity of transactions;
- Whether the risk involves significant transactions with related parties;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Significant Risk	Explanation of the Risk	Audit Work Performed	Conclusion
Revenue Recognition	<p>The auditor has a responsibility to consider fraud in an audit of financial statements and there is an assumption that revenue recognition is a fraud risk.</p> <p>Income from grants should be recognised when the conditions of recognition have been satisfied.</p> <p>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</p> <p>Management exercise judgment in determining when income from grants should be recognised.</p> <p>There is also potentially management judgment in the classification of income between restricted and unrestricted funds.</p>	<p>We documented the income systems and carried out audit procedures to gain assurance over the operation of internal financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We enquired as to whether there were any cases of fraud occurring during the year. We also reviewed Board of Governors minutes, as well as the Finance and Facilities Committee minutes.</p> <p>Our audit testing involving sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income recognition, whether relating to fraud or error.</p>

## 1. Audit Scope, Objectives and Strategy (cont'd)

Significant Risk	Explanation of the Risk	Audit Work Performed	Conclusion
Management override	<p>The trustees and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Trustees should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where potentially could override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly.</p> <p>During our audit, we considered the possibility of manipulation of financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>Our audit procedures have not identified any instances of management override.</p>

## 1. Audit Scope, Objectives and Strategy (cont'd)

Significant Risk	Explanation of the Risk	Audit Work Performed	Conclusion
<p>Regularity of income and expenditure</p>	<p>We are required to obtain limited assurance about whether the expenditure disbursed and income received by the trust during the financial year have been applied to the purposes intended, and whether the financial transactions conform to the authorities which govern them.</p> <p>The Academies Accounts Direction 2016 to 2017 lists the following potential triggers for an increased likelihood of irregularity in an established academy trust:</p> <ul style="list-style-type: none"> <li>• culture (attitude and values) within the academy trust;</li> <li>• a change in accounting officer, principal finance officer or significant changes in the board of trustees;</li> <li>• an expansion of the number of academies within the academy trust; and</li> <li>• changes to the scheme of delegation or major accounting systems.</li> </ul>	<p>We documented income systems and carried out audit procedures to gain assurance over the operation of financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and academy finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed Board of Governors and Finance and Facilities Committee minutes. We have not been made aware of any significant frauds that occurred during the year.</p> <p>Our audit testing involving sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income or expenditure recognition, whether relating to fraud or error.</p>

## 1. Audit Scope, Objectives and Strategy (cont'd)

Significant Risk	Explanation of the Risk	Audit Work Performed	Conclusion
<p>Related and connected parties</p>	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the Companies Act 2006 and Academies Accounts Direction 2016 to 2017. In particular, section 9.4.12 of the Academies Accounts Direction 2016 to 2017 requires that:</p> <ul style="list-style-type: none"> <li>• declarations of business interests have been completed (for those in a position to influence the academy trust, including key staff) and published on the academy trust's website</li> <li>• contracts with connected parties have been procured following the academy trust's procurement and tendering process</li> <li>• where contracts are entered into or renewed on or after 7 November 2013 the academy trust has obtained statements of assurance (confirming no profit element was charged) and the academy trust has followed their internal processes in reviewing this</li> <li>• the academy trust has requested, under the open book arrangement, a clear demonstration that the charges do not exceed the cost of supply</li> <li>• governors who provide consultancy services to the academy trust are not receiving a profit for their services and the correct procurement and tendering process is being followed</li> <li>• no connected party gains from their position by receiving payments under terms that are preferential</li> <li>• if employees are providing external consultancy that the income is being received into the academy trusts accounts if the work was performed within the academy trusts normal working hours</li> </ul>	<p>We discussed with management and reviewed trustee and other senior management declarations to ensure there are no potential related party transactions which have not been disclosed.</p> <p>Internal procedures in place for the identification of related party transactions were reviewed and assessed, and any relevant information concerning any such identified transactions was reviewed.</p> <p>A Companies House search was completed for each of the trustees to identify possible related parties with which the trust may have transacted.</p> <p>We have requested written management representations from you confirming the full disclosure of related party transactions.</p>	<p>No related party transactions have taken place between the trust and parties connected to the trustees during the year.</p> <p>Our audit work has provided assurance that there are no related party transactions to be disclosed in the financial statements.</p>

## **2. Audit Opinion and Regularity Conclusion**

### **2.1 Audit Opinion**

In our opinion the financial statements:

- Give a true and fair view of the state of the Academy Trust's affairs as at 31 August 2017 and of its incoming resource and application of resources including its income and expenditure for the year ended;
- Have been properly prepared in accordance with the FRS 102;
- Have been prepared in accordance with the requirements of the Companies Act 2006 and the Annual Accounts Direction 2016 to 2017 issues by the Education and Skills Funding Agency (ESFA).

### **2.1 Assurance Report on Regularity**

During the course of our work, nothing has come to our attention that suggests that in all material respects the expenditure disbursed and income received during the period 1 September 2016 to 31 August 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

### 3. Issues Identified During the External Audit

Ref	Issue	Recommendation	Academy Response	Timescale for Action	Risk / Severity
3.1	<p>One director, J Monaghan, did not disclose an interest in a company of which she is a director (BJM Education Consultancy Ltd). This contravenes the related party disclosures.</p> <p>It is noted that there were no transactions with this company in the year.</p>	<p>The details of J Monaghan should be included in the Register of Interests.</p> <p>It is recommended that all governors ensure all interests are declared, irrespective of whether or not they believe there to be a link to education or not.</p>	<p>Trust Governor online system used. Directors are prompted to keep business interest and personal details up to date during meetings.</p>	January 2018	Low
3.2	<p>BACs code change transfers are signed by the Headteacher using a data form. However, the signing of the data form cannot confirm all transactions are reviewed.</p> <p>The PS Financial Changes report, which automatically produces when changes are made, is not currently used.</p> <p>Changing of bank account and sort codes just before payment, then reverting back to the original codes is the most frequent of fraud transactions.</p> <p>It is noted that there is no evidence of this taking place at St John Fisher Catholic Voluntary Academy.</p>	<p>It is recommended that the academy use the 'audit trail' function available through PS Financials.</p> <p>A sample check should be made by a member of staff who has no access to BACs payments. Records of these reviews should be maintained for a year.</p>	<p>Function was unavailable on the PSF system to the academy users. This has now been made available.</p> <p>Senior leader will make a sample check each term for 17/18.</p>	December 2017	Low

## 4. Independence

### 4.1 Independence

We confirm that:

- there are no changes in our assessment of independence;
- we complied with the Auditing Practices Board's Ethical Standards for and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- 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. If you wish to discuss any matters concerning our independence, we will be pleased to do so.
- we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance.

## **5. Corrected Audit Misstatements**

There were no corrected audit misstatements.

## **6. Uncorrected Audit Misstatements**

There were no further misstatements identified during the course of our audit. All misstatements have been accounted for in the audited financial statements.

## 7. Emerging and Topical Issues for Academies

### TPS Employer rate update

Last year we reported a likely rise in TPS Employer Contribution rates from April 2019 from the current rate of 16.4% to between 18% -20%. There is still no definitive news, however we understand this 2-4% rise remains the most likely scenario.

### 3 year budget forecasts?

A Dear Accounting Officer letter back in the summer intimated a possible move to 3 year forecasts in the future. ESFA appear to be assessing the benefits of moving to a 3 year return and a pilot study will be completed this year. This would be an interesting development following on from the introduction of the May BFRO return (to collect information on likely current year outturns earlier) in addition to the usual July BFR.

One can assume that by going public on their intentions at this stage the 3 year forecast is very much the ESFA's preference, and it is now probable that this will be introduced.

Many academy trusts already prepare 3 year or longer term forecasts, since this is very much best practice. A forecast extending to at least 3 years is, in our view, vital and especially so for any trust that is not blessed with a high level of reserves and cash.

### Due diligence

Increasingly we are seeing multi-academy trusts expand, mergers and more transfers between trusts. It remains important that both the transferring academy or trust, and the recipient trust, are fully aware of each other's financial positions, and it is wise to complete some financial due diligence.

### National Funding Formula (NFF)

This has been a long running saga, and to many the situation remains unclear. The media in recent months have covered numerous articles on the subject, and groups of Headteachers have been campaigning to highlight the impact and, in their view, continuing unfairness in the funding system. The government do appear committed to the NFF, despite the opposition to it, and the intention is still for the NFF to come into effect in 2018-19.

You should by now have seen your trust's provisional allocation, available on the DfE's website.

### Apprenticeship levy

The levy was introduced in April 2017 and applies to all employers who have paybills of over £3 million; employers affected are required to pay 0.5% (of paybill) levy, subject to a £15k allowance.

The funds collected will be held by the government and can be accessed, plus an extra 10% top-up, by drawing down funding to use for training and assessment of apprentices. Please note that if funds are not used within 24 months an organisation will lose access to them.

We understand a new teaching apprenticeship may be available soon, and trusts can also employ apprentices in certain support and admin roles.

One interesting question is whether the ESFA would ever question the value for money aspect should a trust not take advantage of the levy funding available?

### Gender pay gap reporting (GDPR)

New requirements were introduced from 6 April 2017 for all companies with more than 250 employees, and many academy trusts are caught by these changes. Trusts affected will have to publish their gender pay gap statistics on their websites, and must do so by April 2018; if affected you should be working with your payroll provider now to ensure you can meet your obligations. GDPR will become an annual requirement thereafter.

### IR35 – guidance for working in the public sector

Changes to the legislation in April 2017 have prompted many questions on this subject, which applies where an individual is not employed by the trust, but is engaged via an 'intermediary' such as their own limited company. Trusts have an obligation to check the employment status of any contractor that is invoicing, rather than being paid a salary through the payroll.

### Monthly Data Collection (MDC)

The deadline for on-boarding is this December so this should by now be in hand with your payroll provider. MDC allows schools to provide service and salary information to Teachers' Pensions on a monthly basis, as opposed to the Annual Return. MDC will be the only method for providing data from April 2018.

The benefits of MDC include:

- Real time accurate information for members;
- Easier submission process; and

A likely reduction in the amount of service errors on member records, reducing re-work for employers.

## 8. Terms and Conditions Limitations

The matters raised in this report are only those which came to our attention during our external audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of St John Fisher Catholic Voluntary Academy. Details may not be made available to specified external agencies. No responsibility to any third party is accepted as the report has been prepared, and is not intended for any other purposes.