

ST MARY'S CATHOLIC SCHOOL TRUST

REPORT TO THE BOARD

ON THE 2016 AUDIT

Ryecroft Glenton

Chartered Accountants

The Governors
St Mary's Catholic School Trust
Benton Park Road
Longbenton
Newcastle upon Tyne
NE& 7PE

01 December 2016

Dear Sirs

Audit Summary Report for the year ended 31 August 2016

The audit of the Academy for the year ended 31 August 2016 is substantially complete, subject to the clearance of final matters with the Board.

The primary purpose of this Audit Findings Report ("the report") is to summarise our principal findings relating to judgements and estimates made by the Board and management in preparing the financial statements and to highlight the impact of accounting areas on the results of the Academy.

This report covers the following areas:

- status of the audit and any unresolved misstatements;
- matters arising from the audit including any control matters;
- the management representations that will be required from the Board in respect of the Academy; and
- developments in financial reporting and other matters that might be of general interest.

We would like to take this opportunity of thanking the Governors and staff for their assistance during the course of our audit and in particular Christine Rogerson and Louise Levy and her team.

Yours faithfully

Ryecroft Glenton

Chartered Accountants and Statutory Auditor
32 Portland Terrace
Newcastle upon Tyne NE2 1QP

ST MARY'S CATHOLIC SCHOOL

Report to the Board

CONTENTS

Page

Section 1: Status of the audit	- 1 -
Section 2: Matters arising and control matters.....	- 3 -
Section 3: Letter of representation - audit.....	- 12 -
Section 3: Letter of representation - regularity.....	- 14 -
Section 4: Developments in financial reporting matters.....	- 15 -
Appendix 1: Statement of adjustments made as agreed with Informed Management	- 19 -
Appendix 2: Schedule of Unadjusted Misstatements – Previous Period	- 20 -
Appendix 3: Extract from the Academies Financial Handbook 2016 - what has changed in this edition?	21

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Section 1: Status of the audit

Fieldwork status

Our audit of the results and financial position of the Academy is substantially complete. The following matters are currently outstanding, together with finalisation of the matters set out in this report:

- Completion of Governance statement for Value for Money.
- Receipt of signed statutory financial statements and trustees report.
- Receipt of signed letters of representation and a copy of the Board minute approving the financial statements.
- Receipt of information relating to events subsequent to the balance sheet date.
- Receipt of information relating to financial forecasts.

We are required by auditing standards to discuss with the Board known misstatements and to consider qualitative and quantitative factors when assessing materiality for each of these items.

All potential adjustments noted by us have been put through the financial statements. Adjustments have been agreed with Louise Levy of Cardinal Hume Catholic School and Christine Rogerson and are included in Appendix 1.

Unadjusted misstatements arising from last year are summarised at Appendix 2 other than those that are clearly trivial.

We anticipate being able to provide an unqualified audit opinion on the financial statements.

Communication of audit matters with those charged with governance

The International Standard on Auditing (ISA) 260 "Communication with those charged with governance" sets out those matters that must be communicated by the auditors to those charged with governance. We have set out below how each of these key areas has been addressed:

ISA 260 requirement	Ryecroft Glenton response
o Terms of engagement	o Confirmed prior to the commencement of the audit.
o Auditors' responsibility to consider misstatements in the financial statements	o Communicated within this report.
o Directors' collective and individual responsibility to report fraud	o To be confirmed through representation undertakings and Board minute.
o Confirmation of the independence of the firm and audit team members	o Confirmed within this report.
o Communication of audit scope, timing and approach	o Communicated within our pre-year end planning
o Consideration of significant accounting policies	o We confirm that this was undertaken as part of the audit fieldwork.
o Consideration of any material risks and exposures	o Included within this report.
o Consideration of audit materiality	o Included within this report.
o Schedules of adjusted and unadjusted errors	o Included within this report.
o Consideration of uncertainties casting doubt on the ability of the entity to continue as a going concern	o Included within this report.
o Significant disagreements with management	o None noted.
o Consideration of related parties and associated transactions	o Included within this report.
o Consideration of post balance sheet events	o None noted.
o Material weaknesses in accounting and internal control system	o Included within this report
o Significant difficulties encountered during the audit	o Included within this report
o How we have satisfied ourselves with regard to significant accounting estimates used in the financial statements	o Included within this report

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Section 1: Status of the audit (cont.)

Limitations of this report

This report refers only to material matters we have identified from our audit of the financial statements of the Academy for the year ended 31 August 2016 and that we think merit being brought to your attention. The matters raised in section 2 of this report are only those which came to our attention during our audit and are not necessarily a comprehensive statement of all issues affecting the financial statements of the Academy.

Any recommendations for improvements should be assessed by you for their full commercial impact before they are implemented.

We draw your attention to the fact that management is responsible for identifying, evaluating and managing risk, including new risks and those which change.

This report has been prepared solely for your use as a Board and for the Education Funding Agency (which is entitled to an electronic copy of this report in accordance with Section 1.6.2 of the Academies Accounts Direction 2015 to 2016) and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Section 2: Matters arising and control matters

Key Areas of Judgement and Audit Focus

At the planning stage of the audit of the financial statements we identified the following key judgement areas and areas of focus as being critical to the 2016 financial statements:

Risk identified	Audit implication	Audit response
<p>1. Revenue recognition</p> <p>In accordance with International Standards on Auditing (ISA), there is a presumption that there is a risk in respect of errors arising on the recognition of revenues due to the company.</p>	<p>The financial statements may contain material errors arising from inappropriate recognition of income.</p>	<p>Rycroft Glenton audit work was performed through detailed review of all grant income to satisfy ourselves that the grants received are as expected from our examination of the Academy records and DfE correspondence.</p> <p>We carried out a walkthrough test on ancillary income to ensure the system was working as documented. We reviewed post year end income to ensure satisfactory recognition of income around the year end.</p>
<p>2. Management override</p> <p>In accordance with ISA there is a presumed specific risk relating to the possibility of management override through intervention at prime entry or subsequent journal entry.</p>	<p>Accounts comprise entries from books of prime entry, being cash book and sales and purchase ledgers. Management is in a position to override entries arising from books of prime entry and by processing journals.</p>	<p>We have satisfied ourselves that there is no significant misstatement as a result of our tests on transactions arising from prime entry and our review of a sample of journals posted during the year and in the post balance sheet period.</p>
<p>3. Regulatory risk</p> <p>The Academy must comply in all respects with the funding agreement, Academies Accounts Direction 2015 to 2016 and Academies Financial Handbook 2015. The majority of the funds handled by the academy are public funds and as such the trustees are answerable to Parliament in respect of the use to which these funds are put, with the highest standard of regularity, propriety and value for money required.</p>	<p>As part of our work we examine on a risk basis, various areas of regulatory compliance to allow us to report on the financial statements and the academy's regularity.</p>	<p>We have designed and undertaken our work on a risk basis, those areas that in our opinion are likely to give rise to issues of regularity, propriety and value for money. The subsequent section titled "Accounting and Internal Control Systems" sets out the results of our testing.</p>

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Risk identified	Audit implication	Audit response
<p>4. Business environment</p> <p>Going concern risk. Going concern is a fundamental accounting concept that underlies the basis of preparation of all financial statements of entities. Under the going concern concept it is assumed that an entity will continue in operation for the foreseeable future and that there is neither the intention nor the need to liquidate or cease trading.</p>	<p>You are required to assess whether the Academy is a going concern when causing the financial statements to be prepared. Your assessment should cover a period at least twelve months beyond the date upon which you expect to sign off the financial statements. If you are unable to apply the going concern concept, the financial statements need to be prepared on a different basis to that normally adopted, and where there is some concern, and they have been prepared on the going concern basis, proper disclosure should be made as to why this concept has been adopted together with provision to us of evidence to support this assertion.</p>	<p>We have today received draft annual budgets covering the two years to August 2018. The budgets project a 2016/17 deficit of £84k and a small surplus in the 2017/18 year and we have been informed that these forecasts have been prepared on a prudent basis. At the time of writing, we have requested some further information. Once that information is received, we hope that we will be able to conclude at that point that we have examined the financial position at the balance sheet date, results since then and forecasts provided by management for at least 12 months from the date on which the financial statements are signed, together with the underlying assumptions used in preparing the forecasts, and have satisfied ourselves that these financial statements have been properly prepared using the going concern concept of accounting.</p>
<p>5. Related Party Transactions</p> <p>The suppression of information regarding related parties, whether the existence or disclosure of transactions with them, may lead to significant misstatement in the financial statements.</p> <p>The EFA requires all connected parties to be identified together with transactions with them. Where there are none, the financial statements need to state that fact.</p>	<p>Companies Act, financial reporting standards and AAD 2013 to 2014 require that entities have systems to identify existence of and establish transactions with related parties. As auditors, we are required to assess the system in operation.</p> <p>You are also required to provide full information for disclosure in the financial statements; we are required to assess the risk that the financial statements have been misstated and related party transactions have been omitted or misreported.</p>	<p>The controls associated with the identification of related parties and the transactions taking place with them, operate satisfactorily, subject to some minor comments that we make within the next section "Accounting and Internal control systems".</p> <p>We are satisfied that we have been informed of the identity of all related parties and the transactions taking place with them, and there is no significant misstatement in the financial statements, subject to comment in the Accounting and Internal Controls section below</p>

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Section 2: Matters arising and control matters (cont.)

Key Areas of Judgement and Audit Focus (cont.)

Risk identified	Audit implication	Audit response
<p>6. Accounting Estimates</p> <p>Estimates are by their nature imprecise and subjective. As such there is a high degree of uncertainty and therefore a risk that significant misstatement exists in the financial statements.</p>	<p>You are required to provide us with the identity of estimations contained in the financial statements, including:</p> <ul style="list-style-type: none"> • how these have been estimated; • the relevant controls; • use of experts; • the underlying assumptions; • any changes from previous periods; and • your assessment of the level of uncertainty. 	<p>We have examined the significant accounting estimates, including:</p> <p>Pension Provision – A liability of £932,000 has been included within the financial statements as at 31 August 2016 against £328,000 in the previous year. The actuarial calculation of the defined benefit pension liability utilises significant estimates. We have relied upon an actuarial expert to assess this provision, have compared the estimates to those used for other academies and to our expectations from externally published data and we are satisfied with the assumptions made.</p> <p>Depreciation charge – The depreciation charge against fixed assets is £305,735 and this represents a significant accounting estimate. We have reviewed the estimated economic lives and their estimated residual values at the end of their estimated economic lives, and consider them reasonable.</p>
<p>7. Incoming resources</p> <p>Income may not be applied to the purpose for which it was made available to the Multi Academy Trust.</p>	<p>The distinction between restricted and unrestricted funds is important for the reporting of incoming resources; sponsors and the Education Funding agency rely on the auditors to ensure that resources are not misapplied, although we do not acknowledge a duty of care to them.</p>	<p>We reviewed the allocation and nature of income and expenditure to ensure that incoming resources are materially complete and properly applied and that GAG resources have been correctly applied.</p>

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Section 2: Matters arising and control matters (cont.)

Accounting and Internal Control Systems

We have considered the systems and internal controls and report the following matters:

Issue raised, implication and our recommendation	Rating	Your response
<p>1) Register of business interests and transactions with connected parties The Academy has in place a register of pecuniary interests identifying those parties connected with Governors and staff.</p> <p>The Academies Financial Handbook (“AFH”) requires the register of interests to include some information not currently within the current register, including for each interest: the nature of the business, the nature of the interest, and the date the interest began. We recommend that the register is amended to include this additional information.</p> <p>We continue to recommend that you also include the interest of the Catholic Diocese of Newcastle and Hexham which is a connected party under the definition given within the AFH.</p> <p>We were pleased to note that the register of pecuniary interests is published on the academy’s website in line with EFA’s requirements.</p> <p>John Foster continues as a Trustee of Youth Ministry Trust which supported the Academy with services valued at £13k during the year. In our opinion John Foster’s role in that charity is not significant enough to meet the EFA definition of a connected party. However, given the concerns expressed by EFA over transparency and probity of connected party transactions, we recommend that Trustees ensure transactions with this charity are minuted as reviewed and approved by the Board each year.</p>	<p>Low</p>	<p>New Register is currently being completed. Suggested additional columns are being added to new declarations.</p> <p>Comments noted. Diocese of Newcastle and Hexham Interest will be included on Register – Wording to be confirmed (AL/CB).</p> <p>Noted. Before each Finance meeting Youth Ministry Trust Transactions will be identified and taken to the Meeting for approval.</p>

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Accounting and Internal Control Systems (continued)

Issue raised, implication and our recommendation	Rating	Your response
<p>2) Bank reconciliations</p> <p>Following the retirement of the Business Manager towards the end of the financial year, we noted that in three separate months the bank reconciliations showed no evidence of having been reviewed and signed off. We recommend that all bank reconciliations are signed by a reviewer in accordance with the financial procedures manual.</p>	Low	Point Noted. School Approvers are currently being reviewed. When established this will be updated in the School financial procedures manual.
<p>3) Credit card testing</p> <p>We noted that in the month of July the credit card transactions showed no evidence of having been checked by the school business manager. We anticipate that this was because of the retirement of the Business Manager in the preceding month. We recommend that all credit card statements are signed by the reviewer in accordance with the financial procedures manual.</p>	Low	Point Noted. School Approvers are currently being reviewed. When established this will be updated in the School financial procedures manual.
<p>4) Fixed asset register</p> <p>We note that although assets are recorded in the PS Financials register, depreciation is being posted by journal in line with an excel fixed asset register. The excel spreadsheet has not been updated for assets acquired during the year and therefore the depreciation charge in the accounts was initially understated. Adjustment has now been made for the additional depreciation. Although the adjustment was not significant this year, we would recommend keeping the excel register up to date to ensure that depreciation is correctly accounted for on all asset acquisitions taking place in the future.</p>	Low	Point Noted. Finance Team will keep an updated excel register for fixed assets and relevant depreciation.

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Accounting and Internal Control Systems (continued)

Issue raised, implication and our recommendation	Rating	Your response
<p>5) Fixed assets – capitalisation policy Academy's policy is to capitalise asset additions exceeding £1,000.</p> <p>Our review of items capitalised during the year revealed that one item costing less than this amount (£807) was capitalised. Whilst it is sometimes appropriate to capitalise purchases under £1,000 we wonder whether this capitalisation had been made in error.</p> <p>Our review of revenue expenditure detected several capital items, each exceeding the £1,000 limit totalling £6,319 (iPads and microphone system), which had not been capitalised. We consider this amount to be immaterial and have included in our schedule of unadjusted errors, but we would recommend that the capitalisation limit is adhered to in future or amended in the event of it no longer being appropriate.</p>	Low	Points Noted. £807 purchase was for 3 hand dryers. We agree this was Capitalised in error. Review currently taking place regarding capitalisation policy and relevant limits. £6319 Purchase should have been capitalised under current Financial Manual Policy.
<p>6) Change of supplier details The finance policy relating to changes in supplier details is as follows:</p> <p>"Amendments to the supplier details held in PS Financials will be carried out by the finance team Prior to any payments being made, a report listing the changes made to the supplier masterfile will be generated from PS Financials. The Business Manager will review the changes made against the supporting documentation"</p> <p>The Academy has found this procedure difficult to implement, as have other academies we assist. Last year, we recommended that the Academy considers an alternative control to prevent fraud in this area, such as the implementation of spot-checks of data held against supplier invoices and that the Finance Policy is updated accordingly. In fact, no change of procedure has taken place and given the prevalence of this fraud within the UK we recommend that the policy as stated within the financial procedures manual is maintained and consideration given as to whether procedures should in fact be tightened further for higher value payments.</p>	Low	Point Noted. Going forward when supplier details are amended in PS Financials, this will be approved by two authorised signatories to prevent fraudulent information being processed. We will update Financial Manual policy accordingly to reflect this change.

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Section 2: Matters arising and control matters (cont.)

Audit Adjustments

Our final planning materiality for the year to 31 August 2016 was £82,000. This was changed prior to completion of the audit to £73,000. Appendix 1 includes all those misstatements and reallocations that we consider to have been necessary, and processed in consultation and as agreed with Louise Levy Of Cardinal Hume Catholic School And Christine Rogerson, to protect or enhance the integrity of the financial statements, even though these adjustments may individually or collectively fall below this level of materiality.

All identified unadjusted misstatements have been put through the financial statements at the request of the finance management team.

Significant Difficulties Encountered during the Audit

We are pleased to report that there were no significant difficulties encountered during our audit.

Financial statement disclosures

The financial statements follow the instructions provided by EFA in their Accounts Direction 2015/16. Matters specific to this Academy include: -

- Receipt of grant funding in respect of the classrooms extension project that was carried out and completed during the year has been recorded as fixed asset funds income. The DfE £400k loan is recorded as a liability within the GAG.
- Note 20 discloses the net funds deficit of £68k arising out of the utilisation of funds for the capital project.
- There are no changes to the previous recognition of the land and buildings occupied by the Academy as an asset of the Academy.

- There are no changes to the accounting policy in respect of recognition of PFI lease payments on an annual basis.

We considered significant risks and uncertainties associated with the audit of the financial statements as follows:

- we did not identify any significant risks, exposures or uncertainties,
- our procedures have not identified any unusual transactions, including non-recurring amounts recognised during the period needing to be separately disclosed in the financial statements;
- we considered the factors affecting asset and liability carrying values, including the entity's bases for determining useful lives and residual values assigned to tangible assets; and
- we did not find any evidence of the selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Related Parties

As part of our audit we have considered disclosure of transactions associated with related parties and we set out below some comments:

- our procedures have not uncovered any instances of non-disclosure (whether intentional or not) by management to the auditor of related parties or significant related party transactions, which may alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware;
- nor have we identified any significant related party transactions that have not been appropriately authorised and approved, which may give rise to suspected fraud;
- there have been no instances of disagreement with management regarding the accounting for and disclosure of significant related party transactions in accordance with the applicable financial reporting framework;
- we have not found any examples of non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions; and
- we experienced no difficulties in identifying the party that ultimately controls the entity.

Regularity

The work we carried out to allow us to sign the regularity report consisted of:

- Enquiry with Accounting Officer as to his work done to support his statement on regularity, propriety and compliance
- Review of finance policies in place
- Review of minutes for any significant items that may affect our conclusion

- Review of reports issued by the internal auditors, the work conducted by them and their conclusions
- Enquiry into whether there have been any payments or write offs incurred under delegated authority which should be disclosed to the EFA
- Inspection of the register of pecuniary interests of the Trustees and a review of transactions to disclose any related or connected party transactions
- Review of connected and related party transactions to ensure that correct procedures had been followed and that these were appropriate transactions for the Academy to enter into
- Review of income streams for any activities which may be outside the Academy's charitable objectives
- Inspection of BACS payment reports to ensure that correct procedures and authorisations had been observed
- Review of cashbook transactions for significant or unusual transactions in the year and confirmed that these related to applicable charitable purposes
- Review of credit card expenditure for indicators of purchases being made for personal use
- Inspection of a number of purchase invoices during the year to ensure that the correct purchasing and procurement procedures had been followed
- Review of expenditure to confirm that this has been applied in line with the grant terms
- Enquiry with finance staff as to whether any borrowing has been entered into and whether this breaches the borrowing limits imposed by the funding agreement
- Inspection of payroll reports for the year and confirmed that these have been suitably authorised
- Review and confirm the adequacy of internal audit work on testing of a sample of employees from the monthly payroll reports to confirm existence and agree remuneration to supporting documentation
- Inspection of a sample of journals in the year to ensure that the correct authorisation procedures have been followed and that the adjustments relate to applicable charitable activities

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Taxation

We are satisfied that as a registered charity the Academy is exempt from corporation tax on its charitable activities, and its trading activities are in accordance with the charitable aims and objectives of the Academy.

We have reviewed the non-charitable trading income of the Academy and concluded for audit purposes that it is unlikely to breach the HMRC limit of £50k at which point the Academy would have been required to file a corporation tax return and to pay corporation tax on any non-charitable trading profits. If you would like us to perform a more detailed review, please let us know.

We assume you have not received a Notice to File Corporation Tax Return for the year to 31 August 2016. Returns are always required when a Notice to File has been issued by HMRC, even if you believe the Academy to be exempt from corporation tax. If you are in receipt of a Notice to File, you should inform us immediately.

Independence

In our professional judgement, we are independent within the meaning of APB Ethical Standards, and the objectivity and independence of the audit engagement partner and audit staff is not impaired.

We have assessed our objectivity and independence at the planning stage of the audit and have brought perceived and actual threats to your attention, together with the specific safeguards adopted by us to enable us to complete the audit of the Academy.

In addition to the fee for the preparation of accounts and audit thereof, you have paid us fees for non-audit purposes in the past year in the sum of £7,795. £350 in relation to the assurance relating to the Teachers' pension scheme return, £950 for the preparation of the financial

statements, £1,550 for the preparation of the August 2015 annual return, £3,600 for internal audit services and £1,345 for additional advice.

We have brought the existence of the non-audit fees to your attention at the planning stage of our audit, and have agreed with you that any threat to our objectivity or independence in the conduct of our audit is adequately covered by the safeguards employed.

In respect of our consideration of the retention of the audit engagement for the period commencing 1 September 2016 we confirm that we continue to comply with APB Ethical Standards.

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Section 3: Letter of representation - audit

In this section we have provided details of the representations that will be requested from you, together with a Board minute recording your consideration of these representations to us prior to the release of our opinion.

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the academy's financial statements and as, relevant, your assurance engagement on regularity for the year ended 31 August 2016. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of our knowledge and belief.

General

- 1 We have fulfilled our responsibilities as trustees as set out in the terms of your engagement letter dated 28 September 2016, under the Companies Act 2006 for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
- 2 All the transactions undertaken by the academy have been properly reflected and recorded in the accounting records.
- 3 All the accounting records have been made available to you for the purpose of your audit and regularity assurance engagement. We have provided you with unrestricted access to all appropriate persons within the academy, and with all other records and related information, including minutes of management meetings and correspondence with the Education Funding Agency, Department for Education and the Charity Commission.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 The effects of uncorrected misstatements (as set out in the appendix to this letter) are immaterial both individually and in total.

Internal control and fraud

- 6 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error and which conform to the requirements both of propriety and good financial management. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
- 7 We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 8 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

Assets and liabilities

- 9 The academy has satisfactory title to all assets and there are no liens or encumbrances on the academy's assets, except for those that are disclosed in the notes to the financial statements.
- 10 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 11 We have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Accounting estimates

- 12 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Loans and arrangements

- 13 The academy has not granted any advances or credits to, or made guarantees on behalf of trustees other than those disclosed in the financial statements.

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Legal claims

- 14 We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for, and disclosed in, the financial statements.

Law and regulations

- 15 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

Related parties

- 16 Related party relationships and transactions, comply with the academy's financial regulations, relevant requirements of the Academies Financial Handbook and have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements and guidance set out in the Companies Act 2006, the Charities SORP and the Academies Accounts Direction issued by the Education Funding Agency.

Subsequent events

- 17 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

Going concern

- 18 We believe that the academy's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the academy's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the academy's ability to continue as a going concern need to be made in the financial statements.

Grants and donations

- 19 Grants made by the Department of Education and Education Funding Agency have been applied for the purposes intended and the Accounting Officer has ensured regular and proper use and value for money of monies received from government.
- 20 All other grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such income.

Restricted grants and donations are as follows:

General Annual Grant	£5,902,309
Other DfE/EFA Grants	£736,916
Other Government grants	£78,258
Diocesan capital grants	£129,773

Reports to the Educational Funding Authority or Charity Commission

- 21 We are not aware of any matters of material significance which should be reported to the Educational Funding Authority or Charity Commission

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that so far as we are aware, there is no relevant other information needed by you in connection with preparing your reporting accountant's assurance report on regularity of which you are unaware.

Each trustee has taken all the steps that he/she ought to have taken as a trustee in order to make themselves aware of any relevant audit/other information and to establish that you are aware of that information.

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Section 3: Letter of representation - regularity

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as I consider necessary in connection with your assurance report on regularity to St Mary's Catholic School Trust and the Education Funding Agency (EFA) for the year ended 31 August 2016. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of my knowledge and belief.

General

- 1 I have fulfilled my responsibilities as accounting officer under the requirements of the funding agreement between St Mary's Catholic School Trust and the Secretary of State for Education dated 30 August 2013 and the Academies Financial Handbook 2015.
- 2 I acknowledge my personal responsibility to Parliament for the regularity and propriety of the public finances for which I am answerable; for the keeping of proper accounts; for effective internal controls; for prudent and economical administration; for the avoidance of waste and extravagance; for achieving value for money; and for the efficient and effective use of all the resources in my charge.
- 3 I acknowledge my responsibility to notify the governing body and the EFA of any instances of material irregularity or impropriety, or non-compliance with the terms of the academy trust's funding agreement and have had due regard to the requirements of the Academies Financial Handbook 2015 in performing this duty.
- 4 Any instances of material irregularity, impropriety, or non-compliance discovered to date have been notified to the governing body and the EFA.
- 5 Significant matters of which you should be aware have been brought to your attention including any instances of irregularity, impropriety or non-compliance with laws and regulations specific to the academy trust's authorising framework.
- 6 Full and free access has been granted to the all records, correspondence, information and explanations that you have considered necessary to enable you to perform your work.

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Section 4: Developments in financial reporting matters

Changes to the Academies Financial Handbook

The 2016 Academies Financial Handbook should be applied by Academies from 1 September 2016. Changes to this handbook, which are helpfully summarised in the first section include: -

- Trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee.
- Trusts must use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a MAT, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer.
- Variances between budget and actual income and expenditure must be understood and addressed.
- There is now a requirement, rather than a recommendation, for trusts to have a whistleblowing procedure.
- Emphasis that conditions must be satisfied before considering staff severance payments.
- Reminder of the distinction between members and trustees.

We enclose the full text of this section at Appendix 3. We recommend that Governors and their finance teams review and amend their financial procedures manual to ensure that it complies with the requirements of this handbook.

EFA guidance on compliance

In October 2016, EFA issued updated guidance on Academies' compliance with fraud:

1. A letter from the Chief Executive to Accounting Officers, highlighting key areas of expectations from EFA of academy Accounting Officers, including:

- Be satisfied that lines of internal accountability are appropriate;
- Establish and monitor policies that you and your trustees would be comfortable defending in public (for example, expenses policies);
- Ensure you can evidence compliance with all applicable financial frameworks;
- Have the right mix of skills on the board;
- Manage transactions with related parties appropriately.

If you are receiving this document electronically then the link to the Chief Executive's letter is:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/558296/Letter_from_Peter_Lauener_to_academy_accounting_officers_October_2016.pdf

2. New fraud awareness guidance (October 2016). This guidance summarises what fraud is and what Trusts should do. It includes 10 questions to help accounting officers and heads of finance to review their arrangements:

1. Are the trust's governors and accounting officer aware of the risk of fraud and their responsibilities regarding fraud?
2. Is fraud included within the remit of the trust's audit committee or equivalent?
3. Has the role of the trust's external auditor and responsible officer or equivalent regarding fraud been established and is it

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

understood?

4. Is fraud risk considered within the trust's risk management process?
5. Does the trust have a fraud strategy or policy and is there a 'zero tolerance' culture to fraud in the trust?
6. Is the fraud strategy or policy and 'zero tolerance' culture promoted within the trust, for example through financial regulations, disciplinary procedures, checks on new staff, induction process, staff training, vetting of contractors?
7. Does the trust have policies on whistleblowing, declaration of interests and receipt of gifts and hospitality?
8. Does the trust have appropriate segregation of duties?
9. Is it clear to whom suspicions of fraud in the trust should be reported?
10. If there has been any fraud in the trust has a 'lessons learned' exercise been undertaken?

The electronic link to this guidance is:-

https://www.gov.uk/guidance/academies-guide-to-reducing-any-risk-of-financial-irregularities?utm_source=EFA%20e-bulletin&utm_medium=email&utm_campaign=e-bulletin&mxmroi=2305-21023-60369-0

Fraud through changes in supplier details

The Charity Commission has reminded charities to be alert to a particular fraud in which criminals are able to persuade the entity to amend details of its suppliers, so that subsequent payments made to that supplier are redirected to the criminal's bank account. All entities are recommended to ensure that their controls are sufficient to prevent ad-hoc amendment of suppliers banking details.

Register of People with Significant Control

This is a reminder that when completing its PSC Register, academies will be required to record the academy members if the number of members is three or less.

15 questions Trustees should ask

The charity commission has reminded charities of their guidance issued in 2012 on the key questions that Trustees should ask about their charity. The guidance is a useful reminder of issues to be at the forefront of Trustees' and Governors' thinking

<https://www.gov.uk/government/publications/charity-trustee-meetings-15-questions-you-should-ask/charity-trustee-meetings-15-questions-you-should-ask>

Revised guidance on Reserves

Academies may be affected by the Charity Commission revised guidance on reserves – CC19. Shortly after the collapse of Kids Company, the Charity Commission issued revised guidance which required those charities with zero-reserve policies to confirm in their Annual Reports their reasons for this policy. This will affect some academies if they routinely run with negative reserves.

The revised guidance also requires Trustees to review reserves more frequently than annually and to actively address risks.

Basic controls over the use of cheques

Fraud through the abuse of cheques is on the increase. Many entities no longer use cheques but those that do should bear in mind the following advice from the Cheque and Credit Clearing Company:

- Draw a line through all unused space after both the payee name and the amount
- If posting a cheque, make sure it isn't visible through a window envelope

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

- Make sure there is as little space as possible between words when filling in a cheque
- Check your bank statements regularly for unfamiliar transactions
- Make sure that current and unused cheque books are secure.

Guidance on the Bribery Act

As well as three offences of active bribery, passive bribery and bribing a foreign public official, the Act created a fourth offence that can be committed by commercial organisations (which includes charities) if they “fail to prevent persons associated with them from bribing another person on their behalf”.

If an organisation can prove that it has “adequate procedures in place to prevent persons associated with it from bribing” it will have a defence should such an accusation be made. These procedures should include: carrying out a risk assessment; developing a proportionate anti-bribery and corruption policy; communicating this to employees; carrying out due-diligence reviews on business partners and associates; monitoring and regularly reviewing all of this; and getting top level commitment. If you need help in formulating an anti-bribery and corruption policy you should refer to the on-line guidance published by the Ministry of Justice.

<https://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf>

Cyber Security

According to a report by PwC in June 2014, 60% of small businesses suffered a security breach, 22% of which were committed by a member of staff. This reminds us to take the basic precautions – make sure passwords are strong, secure, unavailable and changed often. Before taking action with a member of staff, change access codes to avoid retaliation.

There is a requirement now for those businesses tendering for work from a government department to fulfil a certain level of cyber-security which includes an 80-item questionnaire. This is promoted by the Cyber

Essentials Scheme, which is government-backed, industry supported to help entities protect themselves against cyber attacks.

The framework concentrates on five key controls:

1. Boundary firewalls and internet gateways are designed to prevent unauthorised access to or from networks;
2. Secure configuration ensures that systems are configured in the most secure way for the needs of your organisation;
3. Access control ensuring only those at the appropriate level have access to systems;
4. Malware protection ensures that appropriate protection is installed and is it up to date;
5. Patch management ensures that the latest supported version of applications is used and all and only the necessary patches supplied by the vendor have been applied.

See, for a summary

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317480/Cyber_Essentials_Summary.pdf

Potential liabilities arising from under-paid holiday pay

Two cases heard by the Employment Appeals Tribunal (EAT), involved the inclusion of overtime in holiday pay calculations. EAT ruled that employees who derive income from overtime should not be financially disadvantaged as a consequence of their decision to take the statutory entitlement to a holiday. The decision applies to the mandatory 4 weeks' holiday required under EU law. Back-dated compensation should be for 2 years only.

Directors will need to assess the entity's exposure to liabilities in respect of this, and to make arrangements to pay the back-dated compensation.

If you as an employer have a large number of employees who derive a significant proportion of their income from overtime, the advice from the

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

legal profession is that you should adopt the new principle with immediate effect.

It is expected that the same principle will apply to employees who derive a proportion of their wage through commission payments and attendance and productivity bonuses.

Money laundering

The Charity Commission is concerned that very few charities are complying with money laundering regulations. If you have donations paid in cash, you need to be aware of your duties as a Trustee. While the money laundering regulations do not apply to many charities, as they are not a "relevant business", Trustees do need to comply with the Proceeds of Crime Act, under which it is an offence to accept cash where you know or suspect it of having arisen from criminal activities. Normal people simply do not carry thousands of pounds in cash! Thus, payments of this size must be suspect – to the extent that they could be outside the tax system – so wilful neglect (turning a blind eye) could make the charity complicit in tax evasion and thereby money laundering.

If you have any issues you wish to discuss on these or any other matters, please do not hesitate to contact Detlev Anderson at Ryecroft Glenton.

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Appendix 1: Statement of adjustments made as agreed with Informed Management

Audit adjustments that affect the surplus

	Net surplus/ (deficit)
Net surplus per Academy records before adjustments	555,990
Reversal of 2015 prepayment & accruals not reflected in client's records	-44,993
Depreciation on assets not recorded	-1,938
Aon pension adjustment	-1,000
Transfer of CIF loan, recorded as income	-400,000
Prepayment of rates	9,839
Audit accrual	-6,150
Additional accruals, agreed for posting at finance meeting	-6,049
Capitalisation of expenditure	8,163
Surplus per financial statements, before actuarial losses but including positive movements on fixed asset funds	113,862

ST MARY'S CATHOLIC SCHOOL
Report to the Board
On the 2016 Audit

Appendix 2: Schedule of Unadjusted Misstatements – Previous Period

	<u>Issue</u>	<u>Dr</u>	<u>Cr</u>	<u>Effect on result for the year</u>
Dr Cr	Prepayments SEN funding Provision for part SEN income received post year end that relates to year ended 31 August 2015	4,119.00	4,119.00	4,119.00
Dr Cr	Miscellaneous Accruals Estimate of Diocese accrual based on last year's figure (invoice not yet received by client)	3,610.00	3,610.00	-3,610.00
			Net effect on result for year	509.00

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

Appendix 3: Extract from the Academies Financial Handbook 2016 - what has changed in this edition?

The main changes in the 2016 edition are as follows:

Governance

- We are emphasising that boards of trustees should identify the skills they need and address any gaps in their skills through recruitment or training (1.5.14).
- To align with the terminology used in the Governance Handbook we are referring to the trust's publication of its governance structure and remit as its 'scheme of delegation for governance functions' (1.5.15 and 2.5.2).
- We are emphasising that all trusts must have a senior executive leader who should also be appointed as accounting officer, and that these roles must not rotate (1.5.19, 2.1.2 and 2.1.8).
- We have updated the text on registers of interests. We are confirming that trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee (2.5.2 and 3.1.20). We are confirming that local governors are included when identifying relevant interests from close family relationships (3.1.18). We have also simplified the text in 3.1.19 and 3.1.20.
- We are confirming that trusts must use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer (4.7.4).

Financial control

- We are explaining that variances between budget and actual income and expenditure must be understood and addressed (2.2.4).
- We are emphasising that exposure to investment products must be tightly controlled so that security of funds takes precedence over revenue maximisation (2.2.9).
- Where there are concerns about financial management in a trust we are explaining that the trust may be required to report information about its cash position to EFA (2.2.14).
- We are making it a requirement, rather than a recommendation, for trusts to have a whistleblowing procedure (2.3.5).
- We are emphasising that trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money (2.3.11).
- We are explaining that trusts must implement reasonable risk management audit recommendations that are made to them by risk auditors (2.3.12).
- We are emphasising that the audit committee's oversight of its trust must extend to the controls and risks at its constituent academies, where the trust has them (2.4.5). Oversight must also ensure that information submitted to DfE and EFA that affects funding is accurate and compliant (2.4.6).
- When considering a staff severance payment we are emphasising that trusts must satisfy the conditions in the handbook and obtain the required approval before making a binding commitment to staff (3.7.4, 3.7.6 and 3.7.7).

The meaning of 'member'

ST MARY'S CATHOLIC SCHOOL

Report to the Board

On the 2016 Audit

The members of an academy trust have a different status from the trustees. The members are the subscribers to the trust's memorandum of association, and any other individuals permitted to become members under its articles of association. Members have an overview of the governance arrangements of the trust and have the power to appoint trustees and remove these trustees.

Members can amend the articles and may do so to support stronger governance arrangements. For details on making changes to the articles, including circumstances in which Charity Commission approval is required, please see the Charity Commission guidance CC36: Changing your charity's governing documents.

While members can also be trustees, retaining some distinction between the two layers ensures that members, independent of trustees, provide oversight and challenge. This is especially important in multi-academy trusts in which trustees are responsible for a number of academies.

Academy trusts should be established with at least three members, although the Department for Education (DfE) encourages trusts to have at least five members in total, as this:

- ensures enough members can take decisions via special resolution (which requires 75% of members to agree) without requiring unanimity, and
- facilitates majority decisions being taken by ordinary resolution (which requires a majority of members to agree)

Governance structures in which members are also employees are not considered by DfE to be best practice. Members must not be employees of the trust unless permitted by their articles of association. The latest model articles do not allow members to be employees.

The meaning of 'trustee', 'director' and 'governor'

In this handbook there are frequent references to trustees. This is the same body of people as both the directors of the company and the 'governors' of a single academy trust; these words are used interchangeably.

They are the people responsible under the academy trust's articles of association for controlling its management and administration. They have responsibility for directing its affairs, and for ensuring that it is solvent, well-run, and delivering the trust's charitable outcomes for the benefit of the public.

Single academy trusts have members and trustees. Multi-academy trusts have different governance arrangements because they are established to oversee and manage more than one academy. They typically have members, trustees, and local governing bodies. Individuals who sit on a local governing body at a constituent academy in a multi-academy trust may not necessarily be trustees of that overall trust, but can have duties delegated to them by the trustees.

Individuals must ensure that they fully understand their duties as company directors and charity trustees. The duties of company directors are described in sections 170 to 181 of the Companies Act 2006. The role and duties of charity trustees are described by the Charity Commission in their guidance CC3: the essential trustee: what you need to know, what you need to do.

De facto trustees

Academy trusts must not have de facto trustees (as defined in appendix 1 of the Charities SORP 2015) or shadow directors (as defined in section 251(1) of the Companies Act 2006).