St Catherine of Siena Multi Academy Company

Year ended 31 August 2018

Audit Findings Report

Audit / Tax / Advisory / Risk

Smart Decisions. Lasting value.

Black Country House
Rounds Green Road
Oldbury, B69 2DG

The Trustees
St Catherine of Siena Multi Academy Company
C/O St Francis Xavier Catholic Primary School
McKean Road
Oldbury
West Midlands

B69 4BA

December 2018

Dear Trustees

Audit for the year ended 31 August 2018

Following the completion of our audit fieldwork on the financial statements of St Catherines of Siena Multi Academy Company, the trust, for the year ended 31 August 2018 we have pleasure in submitting our Audit Findings Report setting out the significant matters which have come to our attention during our audit of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with the trust's management during our audit. Danny Doyle and Sarah Bray have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant. Dave Darlaston and Edward Shields will be attending your meeting on 18th December 2018 and will be pleased to provide any further information or clarification you may require.

We would like to express our appreciation for the assistance provided to us by Sarah Bray, the finance team and the other staff at the trust during our audit.

Use of this report

This report has been provided to the Board of Trustees, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Yours sincerely

Crowe U.K. LLP

Crowe

Contents

Page

1. Audit overview

Audit scope and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of the trust prepared by management with the oversight of the trustees and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit. No restrictions or limitations were placed on our work.

Communicating significant findings from our audit

We are required by ISAs to communicate with the trustees as "those charged with governance" various matters from our audit including:

- our views about significant qualitative aspects of the trust's accounting practices, including accounting policies, accounting estimates and financial statement disclosures,
- significant difficulties, if any, encountered during the audit,
- any significant matters arising during the audit and written representations we are requesting,
- circumstances that affect the form and content of our auditor's report, if any, and
- any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process.

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention. We have reported a number of matters relating to the trust's systems and controls in Section 4.

You should note that our evaluation of the systems of control at the trust was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of systems and processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

Audit completion

We have substantially completed our audit in accordance with our Audit Planning Letter which was sent to you and the senior management team on date, subject to the matters set out below.

- Completion of the post-Balance Sheet events review.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

The final three items we have identified as outstanding are work we usually carry out just prior to us signing our audit report.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of the outstanding matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

We also expect to issue an unqualified Regularity Opinion.

Critical audit matters

We have identified completeness of income and management override of controls as being critical to the financial statements. We have considered these matters further in section 2 of this report.

Other key audit matters

In Section 3 we have also discussed in detail the findings from our work in relation to the following matters.

- Regularity and propriety reporting.
- Academies Accounts Direction ("AAD") 2017-18
- Local Government Pension Scheme
- Controls over disclosures
- Other matters
- Finance team changes

Materiality and identified misstatements

As we explained in our Audit Planning Letter, we do not seek to certify that the financial statements are 100% correct; rather we use the concept of "materiality" to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment. The assessment of materiality is a matter of professional judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

The audit materiality for the financial statements set as part of our audit planning took account of the level of activity of the trust and was set at approximately 1.5% of total incoming resources. We have reviewed this level of materiality based on the draft financial statements for year ended 31 August 2018 and are satisfied that it continues to be appropriate with 1.5% of income being approximately £85,000.

We also report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be £2,750.

We are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

Ethical Standards

We are required by the Revised Ethical Standard 2016 issued by the Financial Reporting Council ('FRC') to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.

Crowe U.K. LLP has procedures in place to ensure that its partners and professional staff comply with both the Revised Ethical Standard 2016 and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As explained in our audit planning report, in our professional judgement there are no relationships between Crowe U.K. LLP and the trust or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

Legal and regulatory requirements

In undertaking our audit work we considered compliance with the following legal and regulatory requirements, where relevant.

- Companies Act 2006
- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008 (or updated Regulations if enacted before completion of the financial statements)
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS102) (effective 1 January 2015)
- Academies Account Direction 2017 to 2018
- Academies Financial Handbook 2017
- Applicable Accounting Standards

Financial statements

The Trustees of the trust are responsible for the preparation of the financial statements on a going concern basis (unless this basis is inappropriate). The trustees are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

Trustees’ responsibilities

Under the provisions of the Companies Act, the Trustees’ Report is required to include a statement confirming for each Trustee who was a Trustee at the time of the approval of the financial statements that:

- they have each taken all the steps that they ought to have taken as a Trustee in order to make themselves aware of any relevant audit information and to establish that the trust’s auditor is aware of that information; and
- so far as they are aware there is no relevant audit information of which the trust’s auditor is unaware.

This report has been prepared for the private use of the Trustees of the trust and its contents should not be disclosed to third parties without our prior written consent. We assume no responsibility to any other person who has access to this report.

2. Significant matters from our audit

We reported in our Audit Planning Letter a number of areas we identified as having specific audit risk including the potential risk from management override of controls which auditing standards deem to be a significant risk for all audits. We have commented below on the results of our work in these areas as well as on any key additional risks, judgements or other matters in relation to the financial statements of the trust identified during our audit.

2.1 Completeness of grant and other income recorded in the financial statements

As part of our audit we have carried out the following testing and reviews on the trust's income:

- Agreement of the General Annual Grant through to the ESFA funding letter and receipts from the nominal into the bank;
- Agreement of a sample of other grant income from documentation to ensure correctly recorded and that any restrictions are adhered to;
- Review of pupil census to ensure that pupil numbers are in line with the funding numbers and that any clawback of GAG is accurate;
- Agreement of a sample of other income from supporting documents, ensuring that income is correctly accrued/deferred as applicable and that any restrictions are adhered to;
- Comparisons of income recorded to budgets and to schedule of income that we believe the trust is entitled to.

We have concluded that the trust's grant and other income recorded in the financial statements appropriately and completely reflects the income that the trust was entitled to during the year.

2.2 Management override of controls

Auditing standards require us to consider as a significant audit risk areas of potential or actual management override of controls. In completing our audit we have therefore considered the following matters.

Significant accounting estimates and judgements

Management have made a number of necessary significant accounting estimates and judgements which impact the financial statements. We identified the following for specific audit review:

- the assumptions adopted by management and used by the actuary to calculate the pension liability;

Controls around journal entries and the financial reporting process

We reviewed and carried out sample testing on the trust's controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements. We also considered the risk of potential manipulation by journal entry to mask fraud.

We did not identify any instances of management override of controls or other issues from our sample testing of the trust journals. However, we note that journal processing can be an area of potential risk and it is good practice to include consideration of this within the overall trust risk assessment.

Significant transactions outside the normal course of business

We are required to consider the impact on the financial statements if there are any significant transactions occurring outside of the normal course of the trust's business.

No such transactions were notified to us by management, nor did any such transactions come to our attention during the course of our work.

2.3 Compliance, fraud matters and significant audit difficulties

Auditing standards require us to comment if any of the following have been issues during the audit:

- Significant delays in management providing required information.
- An unnecessarily brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.
- Any occasion where management unreasonably refuse permission to obtain a confirmation request from a third party or where no other alternative audit evidence is available.
- Any breaches of laws and regulations.

We have no such matters to bring to your attention.

2.4 Going concern

The EFSA have raised concerns on the trust's ability to continue as a going concern on the basis of the three year forecast provided. The three year forecast shows projected deficits and a 67% reduction in reserves by August 2021.

Our understanding is that a revision of the three year forecast is to take place and a line of communication is open with the EFSA regarding upcoming restructuring and plans to decrease deficits.

During our audit we have reviewed the correspondence with the EFSA and also reviewed the 12 month forecast as part of our going concern review. We are also aware that this budget is currently being reviewed and updated by the Senior Management Team along with assistance from DRB. The actual budget forecast provides a worst case scenario if no action is taken and this will be addressed in the revised budget to reflect the strategic actions that are planned.

As a result of our review we have concluded that your assertion that the Trust is a going concern is valid.

3. Other matters from our audit

In addition to matters relating to the key areas of accounting and audit focus as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Regularity and propriety reporting

The types of procedure applied to obtain sufficient appropriate evidence to support the conclusion on the regularity of transactions in the financial statements of an entity are the same as those applied to provide assurance over any other financial statement assertion. However the level of work required to support a limited assurance conclusion may be less than that required to support a reasonable assurance conclusion.

The analysis needed to inform the regularity opinion goes beyond that required to support statutory audit work, but may involve normal sources of audit evidence as the evidence base is the same. In many areas, dual testing of the same sample could provide evidence to support both engagements.

An integrated approach is likely to bring efficiencies and enable a rounded picture of the trust's activities and this is the approach we have taken.

Our regularity opinion was formed from conclusions formed under the following headings:

- Delegated authorities – consideration and review of any transactions requiring prior and written approval from the Secretary of State and disclosure in the financial statements.
- Transactions with related parties – consideration and review of related party transactions, ensuring they took place at no more than "cost"; review of counter party declarations.
- Governance – review of budgeting procedures and consideration of instances of irregular activities.
- Internal control – review of authorisation procedures; tendering procedures; legitimacy of expense claims; compliance with grant terms.
- Other – consideration of "value for money".

No issues have come to our attention as a result of this work

3.2 Academies Accounts Direction ("AAD") 2017-18

There have been numerous changes in this year's version of the Accounts Direction that must be adhered to. We have summarised below the key changes that will impact on the financial statements of all trust's across the sector this year as follows:

- There is now a requirement to include information on fundraising practices within the Trustees' report in order to comply with the Charities (Protection and Social Investment) Act 2016;
- The inclusion of information on trade union facility time in the Trustees' report to comply with Trade Union (Facility Time Publication Requirements) Regulations 2017.
- Changes to the treatment of the apprenticeship levy and funded training received. The levy payments are now to be accounted for as social security expenditure through the SOFA. Any levy funded training received in the year will be recognised as notional income and expenditure;

In addition to the above, the following changes also impact on the trust:

- The disclosure of activities relating to teaching schools. GAG should not be used to support the work of the Teaching School principles. An illustrative note is to be included within the financial statements for the year ended 31 August 2018 detailing the income and expenditure generated by the Teaching School.

Further details can be found in our Further Sector Developments document which accompanies this report. The financial statements have been updated to comply with the AAD.

3.3 Local Government Pension Scheme (LGPS) deficit

The LGPS pension liability has been recognised in the financial statements following receipt of the latest actuarial valuation as at 31 August 2018. The value of the liability at the year-end is £3.177 million which represents a 10% decrease compared to the previous year.

We note that similar decreases are being experienced by many other trust's in the local area and we have performed a comparison of the key assumptions to those used in similar trust's. We consider the assumptions to be reasonable.

The change in the balance sheet position over the year is mainly dependent on the following variables:

- **The performance of scheme assets during the year to 31 August 2018**

  Generally speaking scheme assets have performed well during the year. The scheme invests largely in equities which have outperformed bond and guilt investments during the year. This has tempered the overall increase in the pension scheme liability compared to last year.

- **The price of corporate bond yields as at 31 August 2018**;

  The "present value" cost of providing employee benefits for the duration of the scheme is linked to the performance (the yield) of an AA rated corporate bond. Bond yields have slightly increased during 16/17 which means the employer's liabilities are discounted at a higher rate than that assumed by the actuary in the previous year's valuation (where typically, bond yields fell by approximately 2%). The increase in the corporate bond yield this year has had the effect of partially mitigating further increases in the deficit during the year.

- **Valuation of scheme liabilities at 31 August 2018**;

  Whilst the change in corporate bond yields is an important factor affecting the valuation of the scheme liabilities, so too is the assumed level of future inflation as this determines the rate at which benefits to members increase.

  The inflation rate this year has increased which means the markets view of future inflation has also increased. This year, the projected future inflation rate exceeds the discount rate referred to above, which means overall there has been a net increase in the overall pension scheme liability.

3.4 Controls over disclosures

We have nothing to report on the way in which disclosures have been prepared by management. Generally, disclosures provided to us were accurate and in line with the relevant legal frameworks.

3.5 Other matters

<u>St Gregory's pension expenditure:</u>

The August payroll pension cost wasn't posted to the nominal ledger resulting in the surplus for the year being overstated and liabilities understated by £3,946. We recommend that the creditor is reconciled at year end to payroll to ensure no misstatement is made.

<u>St Phillips - prepayments</u>

An invoice for Writing Adventures which should have been expensed in the year was prepaid in error. As a result the surplus and assets are overstated by £4,082. We recommend a review of prepaid invoice details to ensure they have been correctly prepaid.

<u>All Schools - School fund</u>

In all of the schools the school fund had not been posted to the nominal ledger, the MAC has understated surpluses and assets by £7,801. Holding school funds separate to the normal Trust system can lead to increased chances of fraud and a by passing of controls and authorisation procedures as a result of this omission.

<u>Our Lady St Hubert's - Devolved formula capital</u>

All of the DFC grant should be recognised at the point the Trust has entitlement and then any unused carried forward in the Restricted Fixed Asset Fund rather than deferred. This has resulted in an understatement of income and an overstatement of creditors by £4,127.

Our Lady St Hubert's - Grant income

£16,000 grant income had been included in trade debtors, this should have been held in accrued income at year end.

Missing audit accrual

No accrual was included within the trust for the audit and accountancy fees as at 31 August 2018. These costs totalled £10,700.

This accrual has been adjusted for within the financial statements.

3.6 Finance team changes

We recognise this year has been a challenge following the changes in the financial support provider. The appointment of DRB has provided financial support experience but there has been a lot to get sorted. Dave Bagley (DRB) was clear in our planning meeting that there would be challenges in completing this year end but our discussions with Dave and Sarah Bray have given us confidence that they have started to implement radical change to the procedures and controls in place which will enable accuracy and control over the finances and financial records. We will continue to work with DRB throughout the coming year to ensure this change is delivered. We expect to see significant improvements and resolution to the majority, if not all of the points raised in this report by next year end.

4. Internal control matters

We have set out below the key internal control matters identified during our audit work which we believe merit being reported to you. These matters have been categorised into the following areas:

- Matters arising in relation to regularity and propriety
- Matters arising in relation to system deficiencies and potential improvements

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken.

Our evaluation of the systems of control at the trust was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

Matters arising in relation to regularity and propriety

High	These findings are significant and will be included in the regularity report	*(0 comments in this category)*
Medium	These findings require reasonably prompt corrective action but do not require inclusion in the regularity report	*(1 comments in this category)*
Low	These findings merit attention within an agreed timescale.	*(0 comments in this category)*

Audit finding and recommendation	Priority	Management response
1. All schools – governance review The Academy Financial Handbook states that the Trustees should undertake a self-evaluation review to critically assess their effectiveness at governing the Multi Academy Company in meeting its objectives. No such review took place in the year ended 2018. We recommend that a review is done annually, and in regards to the missed 2018 review we recommend that a review be held at the earliest opportunity.	Medium	A review has been scheduled already for this year, with documents distributed for 18/12/18. A finance audit has already been conducted regarding the MAC, its 4 schools and directors. Training has been implemented already this year to close some gaps and support director capacity. These will be combined with the outcomes for the audit to inform our action plans, and strategic and operational improvement plans for the year.

Systems and controls issues

We have set out below the key internal control matters identified during our audit work which we believe merit being reported to you.

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken.

Our evaluation of the systems of control at the trust was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

High	These findings are significant and require urgent action	*(3 comments in this category)*
Medium	These findings are of a less urgent nature, but still require reasonably prompt action.	*(4 comments in this category)*
Low	These findings merit attention within an agreed timescale.	*(1 comments in this category)*

Audit finding and recommendation	Priority	Management response
2. St Philips – other grants Based on our sample testing of other grant income, it was found that the monitoring of this income was not always evidenced. It was unclear as to whether an effective review and control process was in place in order to determine that all of this type of income had been received. As per the trusts financial procedures in regards to grant income 'The main sources of income for the Academy are the grants from the DfE/ESFA – this is the General Annual Grant and is received each month. The receipt of these sums is monitored directly by the SBM who is responsible for ensuring that all grants due to the Academy are collected.' Therefore it appears as though the school may not be acting in line with the procedures as required. It should be noted that our testing has not highlighted any instance of missing grant income. We recommend that control is evidenced to confirm that all grant income is received and recorded within the financial statements.	Medium	In regards to the Income Controls moving forwards. DRB will be completing a budget monitoring service for 2018/19. We will therefore be reviewing forecast income per the budget (based upon notifications from ESFA etc) against actual income received. The current budgets will be revised on the system if and when we become aware that income will differ to current budgeted figures. A folder should already have been set up at St Philip's containing this information for 2018/19. LA funding will be reconciled against the Advance Funding Notice each month and attached to the subsequent nominal journal. This will also be checked against yearly funding notices received in relation to Early Years, DSG and High Needs Funding. Operationally, the SCOS Strategic Finance Team will be supporting operationally in each school, specifically St. Philip's (overseeing their change of office manager as well) to ensure that a thorough schedule of checks is established and completed in line with the SCOS Financial Procedures Handbook.

Audit finding and recommendation	Priority	Management response
3. St Philips and St Francis - salary letters Salary letters were not available for all members of staff (both teachers and non- teachers) due to the letters not being produced and kept in employee files. There is a risk that a member of staff could be paid incorrectly or potential for a lack of documenting evidence in the event of a dispute. We recommend that up to date salary letters are maintained in relevant staff files as evidence of a change in their terms and conditions.	Medium	A change in HR practice in line with GDPR, now means that salary award letters are now uploaded to the HR DSP portal rather than emailed or posted to schools. Salary letters will to be downloaded and maintained together with contract variation/new starter forms and kept within individual HR files. This can be addressed very quickly and will be overseen by SCOS Strategic Finance Team (SCOS SFT), but will long-term, ensure office managers maintain these records.

Audit finding and recommendation	Priority	Management response
4. Trust wide - ledger postings **St Philips - Expenditure posting** Due to the ledger code restructure some expenditure has been posted in error, notably agency costs were posted to pension nominals. This results in gross salaries being understated by £51,937 and pensions being overstated by this amount also. **All schools - Social Security and Other Taxes** PAYE has been posted to a nominal account in other creditors which includes pension. Good practice would be for PAYE to be posted to its own account to enable ease of control and identification of errors. **St Francis pupil premium posting** Expenditure relating to pupil premium was posted against the pupil premium income nominal. As a result the income was understated and expenditure was understated by £5,211. Income and expenditure should be posted to separate nominals rather than netted off. **Our Lady St Hubert's - Posting accuracy** Accrued income had been posted to accruals and vice versa, overall this left assets understated and liabilities understated by £62,795. We recommend that journals are reviewed to ensure accuracy. We recommend a review of the new nominal code structure to ensure that staff are posting expenses to the correct ledger codes.	Medium	A nominal ledger coding structure was implemented mid-point during 17/18 by previous finance provider. The structure removed Cost Centres and the ledger coding structure formed the main body of the chart of accounts. This structure lacked narrative and transparency and as a result was operationally hard to follow and ineffective. The SCOS Strategic Finance team, supported by DRB, have re-introduced a Cost Centre based coding structure, which in line with the budget restructure, will be further stripped back to provide simplicity and ease of use from an operational point of view. Office staff will be given training on the new structure and FOM and DRB will work together to re-code existing expenditure. Income and Expenditure cost centres will remain separate to mitigate the risk of understatements. OLSH accruals will be reviewed by FOM and DRB 19.12.18 and any adjustments required will be made.

Audit finding and recommendation	Priority	Management response
5. Multi Academy Company postings The figures for the Multi Academy Company have not been maintained or posted during the year and as a result an audit adjustment has been made to incorporate them into the trust. This adjustment amounted to £26,162. We recommend that the figures for the Multi Academy Company are introduced to the accounting system to allow for appropriate review of transactions and balances. It must also be noted that these figures should be incorporated into the trust wide figures regularly to ensure that they are incorporated properly into management accounts presented to the board.	High	The central MAC account was manually reconciled by Bishop Milner on a monthly basis. Following termination of the service, the reconciliation of the account ceased. The account is now controlled at OLSH and a new FMS database is currently being built. The MAC account will work in the same way as all schools, with order, invoices and bank rec being completed in FMS. This separate account will manage the MAC finances and bring centralised services under the overriding control of the SCOS SFT. This will mean a fundamental change in MAC working practice and accounting and will ensure full record of all services and transactions is managed out of the active central account and management systems.
6. St Francis - NCTL grant The Teaching School grant income and expenditure should be maintained in separate nominals and reviewed to monitor expenditure. Currently no procedures are in place for the review or reconciliation of grant expenditure. We recommend that the Teaching school income is reconciled to related expenditure to ensure that no overspends occur which may be in breach of the Academy Financial Handbook.	Medium	The St Francis Xavier Teaching School Account will be folded this year and funding will no longer be received. Therefore, this issue is resolved for St Francis Xavier and the OLSH account sits as a separate entity and is managed as such – with its own coding structure.
7. All schools - Edubase Edubase has not been kept up to date with key Academy changes. Notably the members, accounting officer and trustees listing has not been updated. We recommend that Edubase is reviewed regularly and updated within 14 days of any changes to ensure information is correct as required by section 4.7.4 of the Academy Financial Handbook.	High	EDUBASE log in details requested from previous AO 18.12.18

Audit finding and recommendation	Priority	Management response
8. All schools - payroll reconciliation It was brought to our attention that payroll postings had been reconciled to expected budget figures in total only. There is a risk that employees could be incorrectly paid if the payroll run is not checked appropriately. This has led to issues on our entire payroll sample at St Francis which highlighted discrepancies between the sample chosen and the salary spreadsheet provided. Similarly, one third of the sample at St Philips had differences between the payroll and expectations based on the information given. The total difference across the sample came to £1,461. We recommend that payroll runs are confirmed as accurate before payment to avoid any pay disputes and errors. As per point 3 above, it must also be ensured that all employees have up to date salary letters.	High	Payroll reports are currently sent to head teachers on a monthly basis to be reviewed. The LA also provide quarterly establishment reports to be reviewed by individual schools. FOM has requested access to payroll reports from Sandwell and will review each of these individually in conjunction with HR to ensure salary scales and points are correct in line with latest variations/salary letters. Monthly payroll reconciliation to be undertaken by DRB & FOM – line by line as opposed to expected budget figures. AO will oversee strategic implementation of controls and checks to transition these responsibilities over to Office Managers. A Lead Office Manager will be recruited and appointed this year to help further support and implement this regular practice across all four schools.
9. Depreciation of land Leasehold land is currently being depreciated over 50 years as opposed to being over the lease term of 125 years. This will result in the land element of each leasehold property being depreciated too quickly. As per accounting standards, leasehold land should be depreciated over the life of the lease and not the expected life of the building, which would generally be a shorter time frame. We recommend that the land element is depreciated over the life of the lease.	Low	AO to discuss with Crowe regarding best way to record valuations.

5. Update from last year

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2018 financial statements.

Recommendation fully implemented or no longer relevant		(3 comments in this category)
Recommendation partially implemented		(1 comments in this category)
No progress on recommendation		(1 comments in this category)

Please note that these colour codings are based on the status of the actions taken rather than the severity of the observation which is shown against the observation itself.

Observations in 2017		Update 2018
1. All schools – bank balances The bank balance on the trial balances provided did not agree to the August bank reconciliation. BACS payments made in September and October were posted against the bank and trade creditors in the wrong period. As a result, bank was understated by £133,757, trade creditors and accruals understated by £97,488, SSOT was understated by £31,439 and expenditure was overstated by £4,830. This has been adjusted in the financial statements. We understand this to be an issue with the system and the way BACS runs are posted. We recommend BACS payments are allocated to the period in which the payment run was processed.	Unresolved	This continued to be an issue in the current year with insufficient controls over postings and bank reconciliations. As a result in 2018 bank was understated by £80,690 and trade creditors was understated by £80,690 due to BACS runs relating to 18/19 posted to 17/18. St Gregory's bank and SSOT were further understated by £30,146 due to a double posting of the HMRC payment for June. The actual payment had only occurred once. Whilst there is no evidence of lack of control over actual payments it is important that all postings are accurate and there is adequate review so that the Board and SLT can rely on financial information provided to them for the purposes of making financial decisions for the Trust.

Observations in 2017		Update 2018
2. All schools – Cut-off The VAT balances on the trial balances provided did not agree to the August VAT reconciliation. Invoices that were received and paid in September were posted to August 2017. We identified a variance of £13,854 across the Multi Academy Company. £11,563 related to VAT on invoices received after 31 August 2017, the remaining £2,291 was held to be trivial. We recommend that invoices are posted in the correct period to reduce the risk of this occurring.	Resolved	No such issue found in the current year
3. All schools - Inter academy income and expenditure Inter academy transactions were not reconciled or eliminated. We identified net expenditure of £17,746 that had not been recharged from St Francis to the other constituent academies as per the central services policy. This has been adjusted in the financial statements.	Resolved	No such issue found in the current year. All inter academy income and expenditure had been reconciled.

Observations in 2017		Update 2018
4. All Schools- Multi Academy Company bank account There are insufficient controls over accounting for the Multi-Academy Company bank account. This account is not accounted for within the FMS accounting system and is not reconciled. We strongly recommend that monthly reconciliations are completed to ensure that the balance is as expected. We recommend that the account is introduced into the main accounting system.	Partially resolved	**Client comment in 2016** Going forwards, the Multi Academy Company bank account is only going to be used to receive monies from HMRC, which will immediately be distributed to individual schools. The balance of this account should therefore be £Nil at all times, other than immediately after receipt of cash from HMRC. The account will not be introduced into FMS, but checks will be put in place to ensure that the balance is £Nil as expected. **Client comment in prior year** This has not been entered onto FMS. Balance at year-end was £12.94 which comprises accumulated interest. The MAC account is reconciled on a monthly basis. **Status in 2017/18** See comments in section 4.5 above.

Observations in 2017		Update 2018
5. All Schools- Insurance premium tax Insurance Premium Tax (IPT) has been treated in the same way as VAT across the Multi Academy Company. IPT is unrelated to VAT and cannot be reclaimed from HMRC. As a result of this incorrect treatment, the amount declared on VAT returns in the period is incorrect (£3,527). This should be corrected in the next VAT return. We recommend that finance staff are educated to post IPT to the insurance expenses ledger code and that checks are put in place to ensure that this is not included on the month end VAT returns.	Resolved	**Comment in prior year** Credit balances relating to insurance premium tax, across all academies, were identified on the balance sheet. The amount was trivial however this should have been expensed per the recommendation. **Status in 2017/18** There were no insurance premium tax amount found the VAT returns. Some old trivial balances remain in the balance sheet rather than being expensed as recommended.

6. Reporting audit adjustments

International Standards on Auditing (UK) require that we report to you all misstatements which we identified as a result of the audit process but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

Our audit approach is based on consideration of audit materiality as explained in section 1 of this report. We determine materiality for the purposes of the trust's statutory reporting by our judgement as to what adjustments would influence the readers' perceptions of the financial statements. We do not therefore seek to review all immaterial amounts.

For the purpose of reporting non-trivial items identified as a result of our audit work which have not been adjusted in the financial statements we set out in our Audit Planning Letter that we would report unadjusted misstatements greater than £2,750 unless they are qualitatively material at a lower amount.

We are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

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