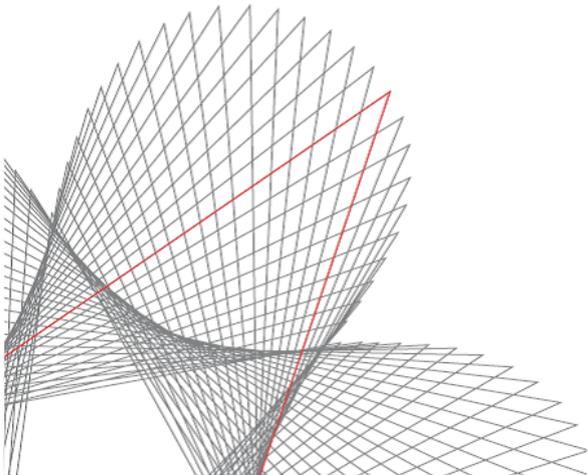




COAST
ACADEMIES

Coast Academies

Audit completion report for the year ended 31 August 2015



FRANCISCLARK

CHARTERED ACCOUNTANTS

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of 3rd October 2013.

This report is made solely to the Trustees of Coast Academies as a board in accordance with our engagement letter. Our work has been undertaken so that we might state to the Trustees of Coast Academies those matters we are required to state to them in accordance with International Standards on Auditing (UK and Ireland) in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Board of Coast Academies for this report or for the opinions we have formed. Other than to the Department of Education, it should not be provided to any third-party without our prior written consent.

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Our ref:
14519-SKA/CZM

Your ref

16 December 2015

Private and Confidential

The Board of Trustees
Coast Academies
Eden Park Primary School
Eden Park
BRIXHAM
Devon
TQ5 9NH

Dear Board of Trustees

Audit Completion Report

We are pleased to attach our audit completion report. This report summarises the key matters that arose during the audit and the conclusions reached.

This report is intended solely for the information and use of the Board of Trustees, the Academy Trust's management and The Department for Education, in their monitoring role. It is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity of expressing our thanks to your staff for their assistance during the course of the audit.

Yours faithfully



FRANCIS CLARK LLP

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The registered office is Sigma House, Oak View Close, Edginswell Park, Torquay TQ2 7FF where a list of members is available for inspection and at www.francisclark.co.uk.
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1. Status report

1.1 Scope of the audit and other work

The scope of our work, as set out in our engagement letter is to provide an opinion as auditors in accordance with the Companies Act 2006 on the financial statements of the Academy Trust and as Reporting Accountants in accordance with the Regularity requirements of the EFA.

The financial statements have been prepared by Francis Clark staff, based on the Academy Trust's management accounts and the model 'Coketown Academy' pro-forma provided by the EFA.

The work required by us in the preparation of the financial statements was as expected other than the additional work on the trial balance as previously discussed with Andrew Stark.

We will assist in the preparation of the Annual Accounts Return (AAR) at 31 August 2015 and approve its submission. During the period we have reported on the Teachers' Pension Agency (TPA) annual return.

1.2 Status of audit fieldwork and expected auditors' report

Our audit fieldwork is completed, and we expect to issue unqualified opinions as Auditors and Reporting Accountants.

1.3 Internal control findings

Section 5 of our report summarises our findings on internal financial controls.

We did not identify deficiencies in internal financial control which we would consider to be material weaknesses, but we have made some recommendations for improvements as detailed in section 5.

1.4 Unadjusted audit differences

The impact of unadjusted audit differences identified during the course of our audit, as summarised in Section 4, would increase the reported surplus by £4,724.

1.5 Significant outstanding matters

- Post balance sheet review

We are required to review events up to the date of signing our audit opinion. We will require confirmation that no significant events have occurred which would require restatement of, or disclosure within the financial statements.

- Letter of representation

A letter of representation signed on behalf of the board of directors and dated as the date of approval of the financial statements is required. In all aspects the letter is routine.

2. Significant auditing and accounting issues

The following significant auditing issues and qualitative aspects of the Academy Trust's accounting practices and financial reporting were noted during the course of our audit.

2.1 Allocation of costs against funds

We have reviewed non-GAG income and the allocation of costs against this income. For a sample of these income streams we have considered the restrictions placed on the funding and assessed whether the funds have been spent in accordance with these restrictions.

Conclusion

Nothing has come to our attention which would suggest that cost allocations are inappropriate, or that funds have not been spent in accordance with restrictions.

2.2 FRS 17 pension deficit

The pension scheme liability has increased from £458k to £888k. This is in line with the report provided by the actuary and is a significant increase in the deficit. We have considered the reasonableness of the actuary's assumptions and compared the results with those in other academies.

Conclusion

The significant increase in the attributable deficit is consistent with other schools we act for in Devon.

The movements on the LGPS deficit in the financial year may be summarised as follows:

	£'000
Opening deficit at 1 September 2014	(458)
Liabilities assumed on combination- SOFA	(329)
Current service cost – SOFA	(203)
Scheme finance charge– SOFA	(13)
Employer contributions – BS	110
Settlements and curtailments- SOFA	14
Actuarial loss - SOFA	<u>(9)</u>
Closing deficit at 31 August 2015	<u>(888)</u>

2.3 Accrued and deferred income

Income has either been accrued or deferred in order to recognise it over the period to which it relates.

Accrued income of £275k relates to income yet to be received and matched against past expenditure and mainly comprises:

- £46k Pupil Premium funding
- £226k Capital Improvement funding
- £2k EFA reimbursement of rates funding

Deferred income of £39k relates to income received in advance for the next academic year and mainly comprises:

2. Significant accounting and auditing issues

(continued)

- £38k Universal infant free school meals income
- £1k for trips, clubs and activities

2.4 Regularity matters

No instances of non-compliance have come to our attention during the course of our work on Regularity.

The Academy Trust does not exceed the threshold where an audit committee is compulsory as income is below £10million and the total asset value is below £30million. However, per the financial handbook all Multi-Academy Trusts should consider creating an audit committee. The Academy Trust has reviewed the need for such a committee and following internal audit recommendations have formed an audit committee after the year end.

3. Adjustments posted to the draft financial statements

Below is a summary of the significant adjustments that arose during the audit and that the Academy Trust has chosen to reflect in the draft financial statements.

Adjustments		
	Aug-15	Aug-14
	£000	£000
Surplus per TB presented for audit	3,244	37
Depreciation charge	(127)	(85)
Accrued maintenance expenditure		(5)
Accrued Pupil Premium income	46	29
Additional accruals	(16)	
Additional prepayment	2	
Additional CIF income	226	
Adjustment of LACSEG income	(1)	
FRS 17 adjustments	(430)	(151)
Surplus per final accounts	2,944	(175)

4. Unadjusted audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These may be specific errors (a single error on a financial statement balance), extrapolated (a statistical projection of known errors in a sample), or judgemental differences relating to accounting estimates (e.g. provisions) and facts or circumstances that are uncertain or open to interpretation.

Our audit identified the following differences, adjustments for which have not been made on the basis that the trustees do not consider them to be material to the financial statements, whether considered individually or in aggregate.

The only unadjusted errors greater than £1,560 was £4,724 of capital items included within repairs and maintenance expenditure codes.

5 Internal control findings

5. Internal control findings

5.1 Scope of work

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. We are required to communicate to you in writing significant deficiencies in the design or operation of accounting and internal control systems which were identified during the course of our audit.

5.2 Significant deficiencies in internal control

We did not become aware of significant deficiencies in internal controls during the audit which we would consider to be material weaknesses. Section 5.3 sets out other observations and recommendations which are not considered to be material weaknesses.

5.3 Other observations/recommendations on internal control

During our work we have noted the following observations on internal controls and other feedback points. In line with the Academy Accounts Direction these matters have been categorised by risk level.

Current procedure/observation	Suggested Improvement and benefit	Draft Management response
High		
<p>There was one instance during the year where no quotes were retained on file in respect of recruitment costs of £6,000.</p> <p>The correct number of quotes were obtained for the roof works. However no quotes were obtained for the project management costs with a value of £42,136.</p>	<p>The Academy Trust needs to ensure that they adhere to the Finance Policy.</p>	<p>Agreed – The Academy Trust will ensure that the correct number of quotes will be obtained as per the Finance Policy.</p>
<p>No references were obtained for a teacher who was originally employed on a temporary contract who has since become a permanent member of staff.</p>	<p>References should be obtained for all members of staff before offering a contract of employment. To ensure that the academies money is being spent for the benefit of the pupils educational development and teachers employed are fit for the job role.</p>	<p>Agreed – References have now been obtained retrospectively for the teacher. An audit of all personnel files will be undertaken to review the current position and correct starting procedures will be adopted for all future contracts of employment.</p>
<p>There were three instances during the year when the accounting officer authorised his own charge card expenditure with a total value of £652. The expenses were for bona fide business purposes.</p>	<p>The Academy Trust needs to comply with the expenses policy approved on the 6th July 2015.</p>	<p>Noted and agreed.</p>

5 Internal control findings

Medium		
Five expenditure invoices within Preston Primary School were not authorised prior to payment. The items identified were for valid business purposes.	All expenditure invoices should be authorised prior to payment to ensure that all are for bona fide business purpose.	Noted and agreed.
During the review of staff expenses we noted there was one expenses claim which had not been authorised and a second claim which had been authorised above the designated limits.	As stated in the Finance Policy individuals can only authorise up to £200 and all claims must be supported by a valid receipt and authorised prior to payment. Above this limit the expense claim should be taken to the board of trustees.	Noted and agreed. All staff to be reminded of correct procedures.
During the review of charge card expenditure we noted there was one item for which a receipt was not received and on two occasions laptops were purchased above the card purchase limit of £500 per the Finance Policy.	It should be ensured a receipt is always received charge card expenditure and that limits are adhered to or reviewed if inappropriate.	Noted and agreed. All staff to be reminded of correct procedures. The limits in the finance policy have been updated to increase the credit card purchase limit to £1000.
Low		
The Academy Trust currently only has three members and for a period of time during the year only had two members.	The Academies Accounts Direction 2015 states that the DfE now encourages Trusts to have at least five members and three members should be appointed, and that these should not be employees.	The number of members dropped to two during the year due to ill health. Going forward we plan for the Academy Trust to have three members appointed.
The Academy's website is currently not complying with all the requirements to publish information. In particular the schedule of 'musts' in the Academies Financial Handbook 2014 and the government publication of what maintained schools must publish. This includes the register of interests of trustees and members.	An individual within the academy trust should be delegated to ensure compliance with Academies Financial Handbook and 'The School Information (England) Regulations 2012'.	Noted and agreed.
The Academy received various Internal Audit Reports during the year. Whilst the overall standard of systems and controls was assessed as 'a high standard', a number of recommendations for improvement were noted and should be implemented. Only two recommendations remain outstanding, considering forming an audit committee and updating business interest forms.	We noted that the two remaining recommendations are in progress and we recommend these are dealt with over the next few months.	Noted and agreed. Business interest forms have now been updated.

5 Internal control findings

5.4 Status of observations/recommendations on internal control raised in the previous year

Current procedure	Suggested improvement	Priority	Status
There was one instance where a nursery pupil had an additional day at the nursery. However, the information was not given to the administrators so an invoice was not raised for the additional time.	There should be improved controls to ensure all additional hours attended by nursery children are documented and billing is correct and complete.	Medium	There is no evidence that the changes implemented would mitigate this occurring again. High reliance is placed on notification given by the nursery on additional hours attended.
The nursery refurbishment was undertaken during the current and previous year. Although tenders were sent out to four contractors, only two submitted a quotation.	As stated in the Finance Policy, at least three written quotations should be obtained and documentation held on file for expenditure between £10,001 and £50,000. This expenditure should be authorised by the Governing Body or the Finance Committee to ensure the Academy is obtaining value for money.	Medium	All capital items have gone out to tender per the finance manual. Other expenditure items have not obtained the correct number of quotes. During the year a purchase of £6,000 was made. In accordance with the Finance Policy, two written quotes should have been obtained. We understand that two quotes were obtained over the phone though there is no evidence of this. Additionally expenditure over £10,000 should be authorised by the Governors. For major works conducted on the Kitchen and Roof during the year evidence of discussion can be seen but no formal authorisation has been noted.
The Academy uses the Trustee interest forms as their register of interests. However, this includes only the business interests of the individual Trustees, it does not cover the full scope of related parties, ie spouse, dependents and their business interests.	The Academy should amend their interest forms to include the full scope of related parties so that they comply with Section 3.1.16 of the 2014 Academies Financial Handbook.	Medium	The prior year audit related party forms are now used. Though they have not been updated since the prior year audit.

5 Internal control findings

<p>The Academy has not established a staff expenses policy, including authorisation procedures for senior management.</p>	<p>The Academy should draft a staff expenses policy, which will need to be approved by the Trustees, this will minimise the risk of fraudulent or inappropriate payments to staff.</p>	<p>Medium</p>	<p>A staff expenses policy has now been established.</p>
<p>It is not always possible to trace the overtime payments on the payroll reports back to the approved overtime forms so it is difficult to confirm that the correct overtime has actually been paid.</p>	<p>The payroll reports should clearly identify the additional hours worked and should be checked by the Academy staff back to the approved overtime forms to ensure overtime is being paid correctly.</p>	<p>Medium</p>	<p>In the majority of cases it is now possible to follow overtime payments back to the approved overtime forms. The only time it isn't possible is when a TA covers for a teacher at short notice.</p>

Appendix A – Independence report

APB Ethical Standard 1 “Integrity, Objectivity and Independence” and ISA (UK and Ireland) 260 “Communication of audit matters to those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity.

a) **Potential issues**

We have discussed with you the fact that we provide accounting services (the preparation of annual statutory accounts), we prepare the annual accounts return (AAR) and we have reported on the Teachers’ Pension Agency (TPA) annual return to the Academy Trust in addition to acting as auditors.

b) **Role of informed management**

In the context of APB Ethical Standard 1, we consider Andrew Stark, as Head of Finance and Operations to be deemed ‘informed management’ and it is their role to assess the non-audit services provided.

c) **Safeguards**

We wish to confirm to you that in our opinion the provision of such services does not affect our independence as the additional services provided are of a routine compliance nature and the Board takes any decisions where judgement is required.

Conclusions

We are not aware of any relationships between Francis Clark LLP and the Academy Trust that, in our professional judgment, may reasonably be thought to bear on our independence or the objectivity of the audit engagement team.

We confirm that we have complied with the APB Ethical Standards, and in our professional judgment, the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised.

Appendix B – Financial highlights

Financial overview - year ended 31 August 2015						
£000	Opening balance	Income	Revenue expenditure	Capital expenditure	Transfers	Closing balance
Restricted income funds						
General Annual Grant	60	2,608	(2,383)		(20)	265
SEN	-	67	(67)		-	-
Nursery fees	26	186	(212)		-	-
School trips		24	(24)		-	-
Pupil Premium	33	270	(303)		-	-
Restricted reimbursements fund		28	(28)		-	-
Two Year Old Development Funding	8				-	8
PE Grant		19	(19)		-	-
MAT Improvements Grant		45	(42)			3
MAT SCF		75	(73)			2
Start Up Grant		25	(33)		8	-
	127	3,347	(3,184)	-	(12)	278
Unrestricted funds						
Opening balance unrestricted	50				-	
Donations		3			-	
Nursery/pre-school fees		39	(39)		-	
Mentoring placement students					-	
Feed in tariff					-	
Income on conversion		20				
Other income		19			-	
Expenditure using other unrestricted funds			(17)		-	
Closing balance unrestricted					-	75
	50	81	(56)	-	-	75
Capital funds						
Fixed assets						-
Other LA capital	2,887	2,817	(94)			5,610
Capital expenditure from GAG	103		(27)		12	76
Capital expenditure from EFA	4	496	(6)			494
Capital LA Nursery	10					10
	3,004	3,313	(127)	-	12	6,202
Total excluding pension liability	3,181	6,741	(3,367)	-	-	6,555

Brief commentary on fluctuations in accounts

The budget for 2014/15 predicted a surplus of £38k (excluding capital and pension funds) compared to a surplus in the financial statements of £176k. The main reasons for the increase are funds inherited on conversion from the LA being made up of £2,817k of capital assets and £20k of unrestricted funds, an increase in capital income and additional funds to aid with the conversion to a multi academy.

Income

- Overall income has increased by £4,629k the majority of this £4,347k is from the conversion of Preston Primary School into the MAT. The transfer of the land and buildings accounted for £2,817k of this.
- Capital income has increased by £488k mainly due to the £470k of CIF income received for the Kitchen refurbishment and roof works.

Expenditure

- Teaching and educational support staff costs have increased this year by £1,196k to £2,595k. There are several reasons for this increase, other than just a general increase in staff numbers. Preston joined the MAT with staff costs of £992k, redundancy payments of £45k and employment of temporary and permanent staff members to assist in more one to one teaching totalling £132k.

Appendix B – Financial highlights (continued)

- The costs of generating funds decreased in the year due to one staff member being seconded out to Preston Primary School for the majority of the prior year compared to one month this year

Balance sheet and notes

- Fixed asset additions relate mainly to the CIF and ACMF for roof and kitchen work.
- Creditors increased by £202k mainly due to, pension, tax and social security increasing by £34k due to Preston joining the MAT, an accruals increase of £123k due to capital works being undertaken in the financial year and the invoices not being received until post year end.
- Accrued income increased significantly due to £228k of income not being received in the year for CIF.
- Capital funds comprise £5,990k of fixed assets and current assets (unspent grants) of £212k.

Appendix C – Impact of accounting/legal developments

Accounting/legal developments

We consider that the Trustees and the management team should be aware of the following accounting and legal developments, where work will be required by the Academy Trust to ensure compliance:

New Charity SORP

This will apply to accounting periods commencing on or after 1 January 2015, so this will affect the Academy's accounts for the year ended 31 August 2016 (and 1 September 2014 will be the transition date)

The EFA have published two versions of the Accounts Direction this year, including a specific version for SORP 2015. We expect this to be expanded and revised prior to next year's accounts preparation work.

The key changes are:

- **Financial Statements Format.** The headings used on the Statement of Financial Activities have been revised and the 'governance cost' category has been removed. In future comparatives will also be required for all headings.
- **Key Management Personnel.** Academy Trusts will need to consider which staff make up the key management personnel (likely to be Trustees and Senior Management Team).

The Academy Trust will need to disclose the arrangements and policies for setting pay and remuneration of key management personnel in the Trustees Report, and disclose total employee benefits for key management personnel in the notes to the accounts. Whilst this can be presented in aggregate, trustees should consider the needs of their stakeholders and consider disclosing in more detail.

Coketown example:

"The key management personnel of the academy trust comprise the trustees and the senior management team as listed on page 1. The total amount of employee benefits (including employer pension contributions) received by key management personnel for their services to the academy trust was £390,000."

- **Holiday Pay.** There is now a requirement to recognise a liability in the balance sheet for any outstanding paid annual leave, if material. This is only likely to arise where the holiday year is not coterminous with the financial year. If this is the case outstanding annual leave from the transition date will need to be calculated.
- **Property Valuations.** The transitional rules give Academy Trusts the option of reflecting fixed assets (such as buildings) at fair value on transition and using this as deemed cost in the future. If the Academy Trust wishes to take up this option, a valuation at transition would be required.
- **Other Points –** Income should now be recognised when 'probable' rather than when 'virtually certain'; the accounting policy on going concern needs to confirm (or explain otherwise) that there are no material uncertainties in respect of going concern; terms and conditions surrounding related party transactions should be disclosed. For example a related party transaction should only be described as at arms length if this can be substantiated i.e. the purchase was made through a competitive tendering exercise.

Appendix C – Impact of accounting/legal developments (continued)

Changes to the Academies Financial Handbook for 2015/16:

- Academy Trusts must not have de facto trustees or shadow directors.
- A financial notice to improve may be issued due to governance concerns as well as financial concerns.
- Accounting officers must adhere to the 'seven principles of public life'.
- Medium-sized and larger trusts, and any undergoing a period of change, should consider more frequent board meetings than are required under their articles.
- Academy Trusts must publish on their websites up-to-date details of their governance arrangements in a readily accessible format.
- An Academy Trust's register of interests must also identify close family relationships between members or trustees, and between members or trustees and the trust's employees.
- Academy Trusts must publish relevant business and pecuniary interests of local Trustees on their website.
- Academy Trusts must notify Education Funding Agency (EFA) of the appointment of members or trustees through the EFA information exchange.
- The requirement on accounting officers to complete a separate value for money statement is being removed and instead the value for money reporting is an additional element in governance statements.
- Simplified requirements relating to budget monitoring.
- Delegated limits for Academy Trusts, to write-off debts or enter into liabilities, is subject to a ceiling of £250,000.
- There is an extension of Academy Trusts' delegated authorities to take up a leasehold or tenancy agreement on land and buildings up to 7 years.
- There is a simplification that only Academy Trusts with an annual income in excess of £50m must have a dedicated audit committee.

Other Changes Relevant to Academies:

- **Auto enrolment** – whilst most of your employees will be members of the TPS or LGPS schemes, you need to ensure that your internal payroll systems and your payroll provider, are in a position to deal with the new legislative requirements. It is vital that management are fully aware of the Academy's staging date and that appropriate action is taken at least 6 months in advance, as there are onerous penalties for non-compliance.
- **Teachers' Pension Scheme** - employer contribution rate goes up by 2.3% from 1 September 2015, which needs to be reflected in budgets.
- **National Insurance** - employers rate will increase by 3.4% when the contracted out rate is abolished in April 2016 impacting on costs.