Buzzacott

PolyMAT

Post-audit Management Report

Year ended 31 August 2018

Buzzacott

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Executive summary

Purpose of the external audit

Our work was performed with a view to expressing a reasonable assurance opinion on the financial statements of PolyMAT (the Academy Trust) for the year ended 31 August 2018 and to draw a limited assurance conclusion concerning regularity and propriety in the application of government funding.

Our audit work also included consideration of the internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance and/or to the Education and Skills Funding Agency (ESFA) in accordance with their requirements.

We appreciate that you will already be aware of some of the matters contained in this letter. However, in accordance with the ESFA's requirements and International Standards on Auditing (UK) (ISAs) we are communicating them to you formally.

This report and its contents were submitted in draft form to Kellie Dalton for comment prior to finalisation.

Audit progress

We are pleased to report that the audit, from our perspective, ran smoothly and that the timetable for the overall completion of the audit has been met. We would like to take this opportunity to thank all those with whom we dealt during the audit for their assistance and co-operation, in particular Kellie Dalton.

Expected opinions

Financial statements opinion: **Clean**

We expect to express our judgement that the financial statements give a true and fair view and have been properly prepared in accordance with the Academies Accounts Direction 2017 to 2018 issued by the ESFA and Companies Act requirements. There is no significant change to the form or content of our audit report

Regularity assurance conclusion: **Clean**

We intend to state that in the course of our work, nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Key audit findings

Key audit issues and outcomes

As part of our pre-audit planning process, we identified those areas where we believe there is a higher possibility that a material error may appear in the financial statements as well as areas of significant interest or concern for management and those charged with governance. In the pages which follow we have provided a brief summary of the outcome of our audit work in relation to those areas.

Risk area or issue	Summary and conclusion
Income recognition	There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in the wrong period or at artificially inflated or suppressed amounts. *We carried out detailed analytical review against expectations based on our understanding of the Academy Trust and against the prior year. Reasonable explanations were obtained from management and significant variances identified which were substantiated as appropriate. No significant issues arose during our sample based checks including on our work on ESFA and non-ESFA income.*

Risk area or issue	Summary and conclusion
Regularity	Regularity and the use of government funding continues to be a substantial focus of the ESFA and National Audit Office. Ensuring regularity within the Academy Trust is the responsibility of the Board and all of the current focus on regularity in the academy sector has only increased the level of responsibility for the Board to monitor and document management of risk including risk of irregularity. ESFA expects all academies to implement appropriate procedures and policies which mitigate the risk of irregularity in (but not limited to) the following areas: • Procedures and policies in relation to risk management and ensuring that these are regularly considered; • Procedures and policies in relation to general procurement, use of credit cards and expense claims; • Procedures and policies in relation to the appropriate remuneration of payroll staff, agency staff and consultants; and • Procedures and policies in relation to the management of conflicts of interest and related party transactions. The regularity self-assessment was provided for audit, which was completed by the Academy Trust's finance team and reviewed by the Accounting Officer. The regularity self-assessment confirms the processes in place to ensure regularity, propriety and compliance within the Academy Trust in relation to the above areas and the other requirements set out in the Academies Financial Handbook. *The Academy Trust has not informed us of any material control weakness or irregularity. Based on our review of the self-assessment questionnaire, the work undertaken to verify the responses provided, and our consideration of the regularity and propriety of transactions selected for our sample based testing, we are satisfied that the conclusion reached in our regularity assurance report is appropriate.*

Risk area or issue	Summary and conclusion
Related party transactions	In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK Accounting Standards and the ESFA Academies Accounts Direction requires transparent disclosure of all transactions and balances arising between the Academy Trust and its related parties. In addition, the ESFA Academies Handbook places restrictions on the permissibility of certain related party transactions. *The Academy Trust's procedures for identifying related parties and associated transactions were reviewed. This includes the requirement for each of the Trustees and member of the Academy Trust Senior Management Team to update their declaration of interests annually, and to declare any interests they have at the commencement of business meetings. Based on the work undertaken, we have no concerns over the completeness of related party transaction disclosures. We obtained written representations from you also, asking the Board and management to confirm their satisfaction with the completeness of the disclosures made.*

Risk area or issue	Summary and conclusion
Capital project	We understand that the Academy Trust has obtained a grant from the Condition Improvement Fund for fire alarms and work took place over the summer holidays. In addition, the ESFA is constructing a new school building for the Girls School which will be handed over to the Academy Trust when it is completed, which is expected to be in September 2019. *We have reviewed the amounts expended in relation to the capital project and sample checked the expenditure to gain assurance over the accounting treatment. The amounts sample checked were considered capital in nature and the treatment was deemed appropriate. We also review the repairs and maintenance expenditure for the year to identify potential costs expended on the project which may have been incorrectly written off. This review did not reveal any additional costs which should have been capitalised. We also reviewed cut-off, i.e. the financial period in which the expenditure has been recognised, and the disclosures made surrounding the year end capital commitment.*
Management override of controls	There is an inherent risk in all organisations that management may be in a position to override controls or agreed protocol. Such actions may be taken in order to conceal or process unauthorised or inappropriate transactions, or may occur due to weaknesses in the control environment. Such actions could lead to either deliberate or inadvertent misstatement of the results portrayed by the financial statements. *Journal entries were reviewed, particularly those surrounding the year end and explanations were sought for any large or unusual items. All items tested and discussed with management were deemed appropriate. No suspense accounts were noted as being used during the year.*

Risk area or issue	Summary and conclusion
Accounting estimates	Certain accounting entries within the financial statements are made on the basis of an estimate and changes in the underlying assumptions could lead to a shift in the reported results. The most material estimates within the Academy Trust's financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges), and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme. *We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated in accordance at an appropriate rate. The year-end liability in respect of the Local Government Pension Scheme is consistent with the estimate provided by the scheme's actuary and the assumptions used appear reasonable.*

Risk area or issue	Summary and conclusion
Financial climate and reserves policy	The current financial climate is very challenging for the sector which is increasing the importance of carefully managing reserves and financial forecasting. The Academies Financial Handbook requires the Academy Trust to prepare a 'balanced budget' (which can draw on unspent funds brought forward from previous years). The ESFA further asks to be notified within 14 days where an in-year deficit revenue budget is set (and this cannot be addressed through brought forward reserves). The Academy Trust may feel therefore feel pressure to present a more favourable outturn. *The results of the Trustees assessment of the going concern status of the Academy Trust is provided in both the Trustees' report and within the principal accounting policies. This confirms that the Trustees have given due consideration to the going concern status of the Academy Trust and that they conclude that the Academy Trust is a going concern (for at least 12 months from the approval of the financial statements). The Trustees confirmed the same in the written letter of representations to us as auditors.* *The balance sheet and year end reserves position was considered in conjunction with available budgets/forecasts, our knowledge of the Academy Trust's future plans and the reserves policy determined by the Trustees. We are satisfied that the Trustees have given due consideration to the going concern status of the Academy Trust and we in agreement with the conclusion made in light of the evidence provided.*

Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2017 to 2018 (the Accounts Direction) which is issued annually. Compliance with the Accounts Direction also ensures that the requirements of Companies and Charities legislation are met.

There have been only a small number of changes introduced by the 2017/18 revision of the Accounts Direction. The notable changes of relevance to the Academy Trust were as follows:

- **Trade Union Facility Time (TUFT):** For academy trusts with more than 49 full-time equivalent employees (for any seven month period of the year), there is now a requirement under the Trade Union (Facility Time Publication Requirement) Regulations 2017, for details to be provided within the annual report of the time spent and related cost of employees undertaking facility time (i.e. trade union duties).

- **Fundraising:** Under the provisions of the Charities (Protection and Social Investment) Act 2016, all academy trusts are required to include a statement within their annual report in relation to their fundraising practices, including their approach to fundraising and how they conform to standards of best practice. Where the Academy Trust does not actively fundraise, a statement should still be provided confirming this is the case. In addition, fundraising costs must now be analysed between direct and support costs.

- **Related party transactions:** Where goods or services have been acquired from related parties at a value in excess of £2,500, the disclosure note in the financial statements must confirm that the goods / services have been acquired at no more than cost and that this is supported by a statement of assurance from the related party.

In all respects, the Academy Trust's annual report and financial statements have complied with the new requirements.

Accounting policies, estimates, and disclosures

Our work included a review of the adequacy of disclosures included in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Academy Trust. We believe that the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the Academy Trust and in compliance with the Accounts Direction. We have no further comment to make in this regard.

Other matters – Trustees and Members

The Academies Financial Handbook 2017 (effective from 1 September 2017) has updated and expanded the ESFA's views on the roles of members and trustees:

Trustees form the board of trustees for the purposes of charity law and are directors for the purposes of company law. They are responsible for the overall running of the trust.

Members play a role similar to that of company shareholders. They do not typically take an active role in the way that trustees do (so would not normally attend board meetings), but act as a safeguard against the board of trustees and also have certain important functions, including:

- the power to appoint and remove trustees; and
- the power to amend the articles of association.

While an individual can be both a member and trustee, the ESFA's 'strong preference' is that a majority of members are not also trustees. So while the above are not 'must' requirements, they do represent best practice. Currently a majority of the School's members are trustees and therefore we **recommend** that the present members and trustees of the School should consider how they might move to a position of compliance. This could be achieved by trustees who have come to the end of their terms of office becoming members, or appointing additional members to redress the trustee/non-trustee balance.

Audit adjustments and unadjusted misstatements

Under Auditing Standards, we are required to provide you with details of any adjustments identified during the course of our audit work which have been made to the figures presented to us for audit.

Total impact of audit adjustments £183,000 increase in funds

Details of the adjustments which have been made to the figures presented to us for audit are provided at Appendix 1. The most significant adjustment relates to the inclusion of the movement in the Local Government Pension Scheme liability. This one adjustment resulted in a net increase in funds of £261,000 given the reduction in the liability this year.

These have all been discussed and agreed with Kellie Dalton. We will obtain written representations from you, as Trustees, that you concur with these adjustments.

Unadjusted misstatements

Other than clearly trivial misstatements, we are pleased to report that no misstatements were identified during our audit.

Audit observations and recommendations

The table below provides a summary of any observations made concerning weaknesses in the Academy Trust's accounting and internal control systems. Observations included in the "A" grade (red) banding indicate that, in our opinion, immediate action is required. Conversely, observations included in the "C" grade (yellow) banding indicates that the matter, although important, does not warrant urgent attention.

Priority	No of points	Relating to
C Grade	1	• Treatment of devolved formula capital income

Further details in respect of the observations made and our associated recommendations are provided at Appendix 2 to this report.

Financial performance and position

Audited results

Based on the audited financial statements, **the Academy Trust's total reserves increased by an amount of £9,000** (2017: decreased by £310,000) during the year providing net assets of £25,220,000 at the balance sheet date (2017: £25,211,000).

Excluding movements on tangible fixed assets, the defined benefit pension liability, and other non-recurring items, **the Academy Trust's "operational" deficit for the year was £34,000** (2017: surplus £154,000), as reconciled below.

	2018 £'000	2017 £'000
Overall net movement in funds	**9**	**(310)**
Add: net expenditure attributable to the fixed assets fund (note 1)	279	66
Less: LGPS actuarial gain (note 2)	(652)	39
Add: LGPS service cost adjustment (note 2)	306	295
Add: LGPS interest cost adjustment (note 2)	85	64
Operational surplus for the year	**27**	**154**

Note 1 Movement on fixed assets fund

For the purposes of determining the "operational" deficit, the net income in respect of the fixed assets fund has been disregarded on the basis that the principal movements within this fund relates to capital funding received and the depreciation applied on assets purchased from such funds, are not in relation to the day-to-day operation of the Academy Trust.

Note 2 LGPS (Local Government Pension Scheme) adjustments

The Academy Trust is one of several employing bodies included within the Royal Borough of Greenwich Pension Fund. The scheme's actuaries, Barnett Waddingham, have prepared a valuation of the assets and liabilities which are specific to PolyMAT so that the net liability may be included on the balance sheet. For the purposes of determining the "operational" deficit, the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2017 have been excluded.

Comparison of key financial ratios

For your information, we have included at Appendix 3 to this report a comparison of the Academy Trust's key financial ratios for 2016, 2017 and 2018 and also against the sector averages for 2016 and 2017.

Note that the ratios presented in the Appendix may differ from your own ratios where a slightly different formula is used. In addition, the sector averages are drawn from data on approximately 100 academies based in the South East of England and Greater London and whilst they may provide a guide as to how the Academy Trust compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.

Other information

Letter of representations

We take this opportunity to enclose a final draft of the letter of representations which we will ask management and the Trustees to sign at the same time as the approval and signature of the annual report and financial statements.

Integrity, objectivity and independence

In accordance with our profession's ethical guidance and further to the External Audit Strategy document issued to you as part of the pre-audit planning process, we confirm that there are no further matters to bring to your attention in relation to our integrity, objectivity and independence as auditors.

Other work undertaken as part of the 2017/18 audit cycle

As set out in our External Audit Strategy to you we have also been engaged to provide you with the following services:

- Teachers' Pension End of Year Certificate (EOYC) assurance

  We can confirm that we have concluded our work on this area. Our assurance report was issued to Teachers' Pensions along with the final End of Year Certificate. Since submission, Teachers' Pensions have written to the Academy Trust to rectify a number of discrepancies in relation to the prior year on the form and we are currently liaising with both the Academy Trust and Teachers' Pension to submit a corrected form.

- **ESFA Accounts Return assurance**

  Our work on the Accounts Return assurance commenced in December. We do not have any concerns at this stage and we will work with management to ensure that the Accounts Return together with our assurance report is filed ahead of the 21 January 2019 deadline.

Use of this report

This report has been prepared for the Academy Trust's private use only. It has been prepared on the understanding that it will not be shared to any third party, other than the ESFA, or quoted or referred to, without our prior written consent and we can therefore assume no responsibility to any other party.

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Appendix 1: Audit adjustments and unadjusted misstatements

Audit adjustments

	AUDIT ADJUSTMENTS	Statement of financial activities		Balance sheet	
	Description	Debit (£'000s)	Credit (£'000s)	Debit (£'000s)	Credit (£'000s)
1	DR Pension liability			261	
	DR Staff costs	306			
	DR Interest costs	85			
	CR Actuarial gain		652		
	Being adjustment on the LGPS pension liability				
2	DR ESFA other grants	78			
	CR CIF/Salix loan – due within one year				15
	CR CIF/Salix loan – due after more than one year				63
	Being the adjustment to include the CIF and Salix loans				
4	DR Other debtors			105	
	CR Prepayments and accrued income				105
	Being the presentational adjustment of debtors				
5	DR Governance audit remuneration	18			
	CR Professional services/consultancy		18		
	Being the reclassification of the audit fee from professional fees				

The above adjustments increased the Academy Trust's overall reserve balances by £183,000.

Appendix 2: Audit observations and recommendations

	Observation	Recommendation	Management comment
C	**Recognition of devolved formula capital (DFC) income** It was noted during the audit that DFC income for the 12-month period 1 April 2018 to 31 March 2019 of £30,000 was recognised in full in the financial statements. This is consistent with historic treatment adopted by the Academy Trust. However, this income should be recognised over the period of the grant and therefore seven months should be deferred.	Whilst the balance and any deferral would not be material to the financial statements, we **recommend** the method of recognising the income is modified in line with accounting standards.	We agree this should be accounted for in line with the accounting standards, but would like to defer until 19/20, as we have a planned spend for the allocation of capital funding for 18/19, of which the work has been completed. **Person responsible:** Kellie Dalton **Due by:** Year ended 31 August 2020

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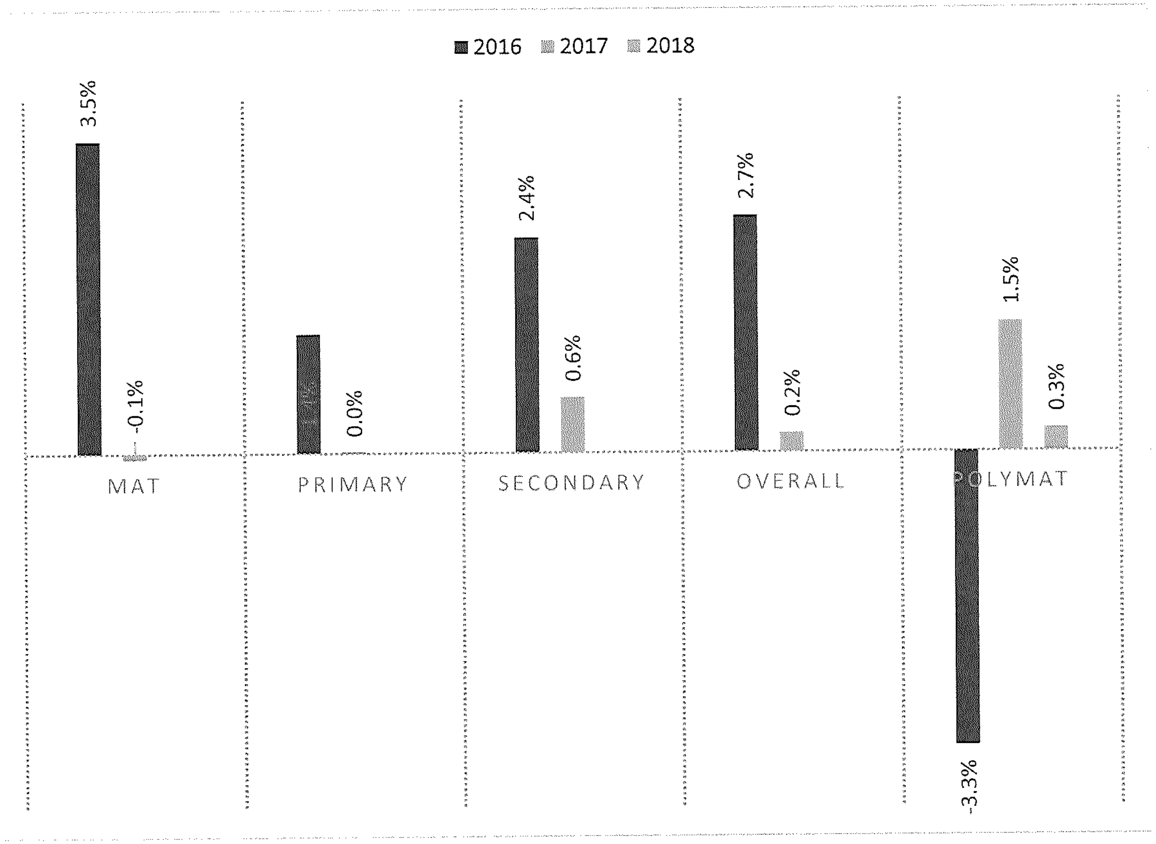
Appendix 3: Comparison of financial ratios

Operational margin

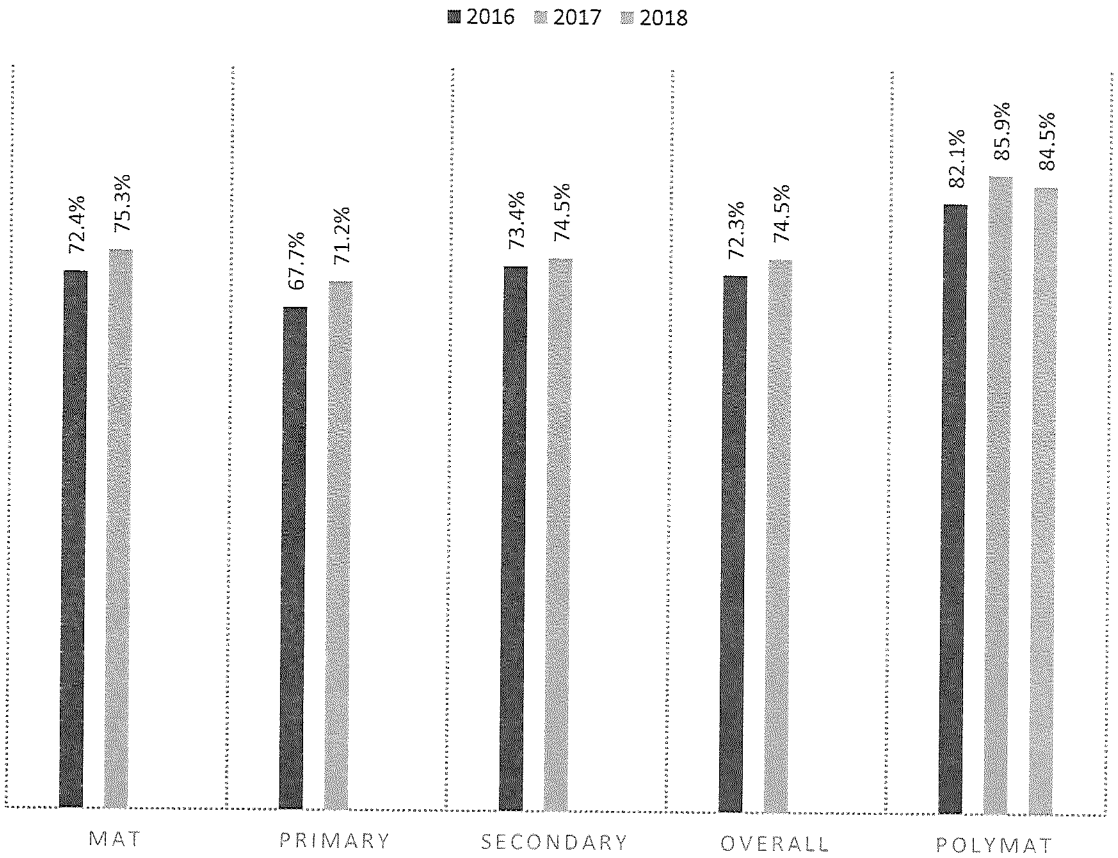


Formula: Surplus (deficit) for the year after transfers excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

Unlike commercial organisations, the aim of an academy trust is not to generate profits on trading or capital gains, but to provide quality education and fully utilise its resources in so doing.

The graph confirms the significant funding pressures faced by academy trusts – in 2016/17, all types of academy trusts were on average either breaking even, or suffering a small operation loss. Of our sample, 49% of academy trusts suffered an operational deficit in 2016/17 compared to 47% in 2015/16.

Payroll as a % of operational income



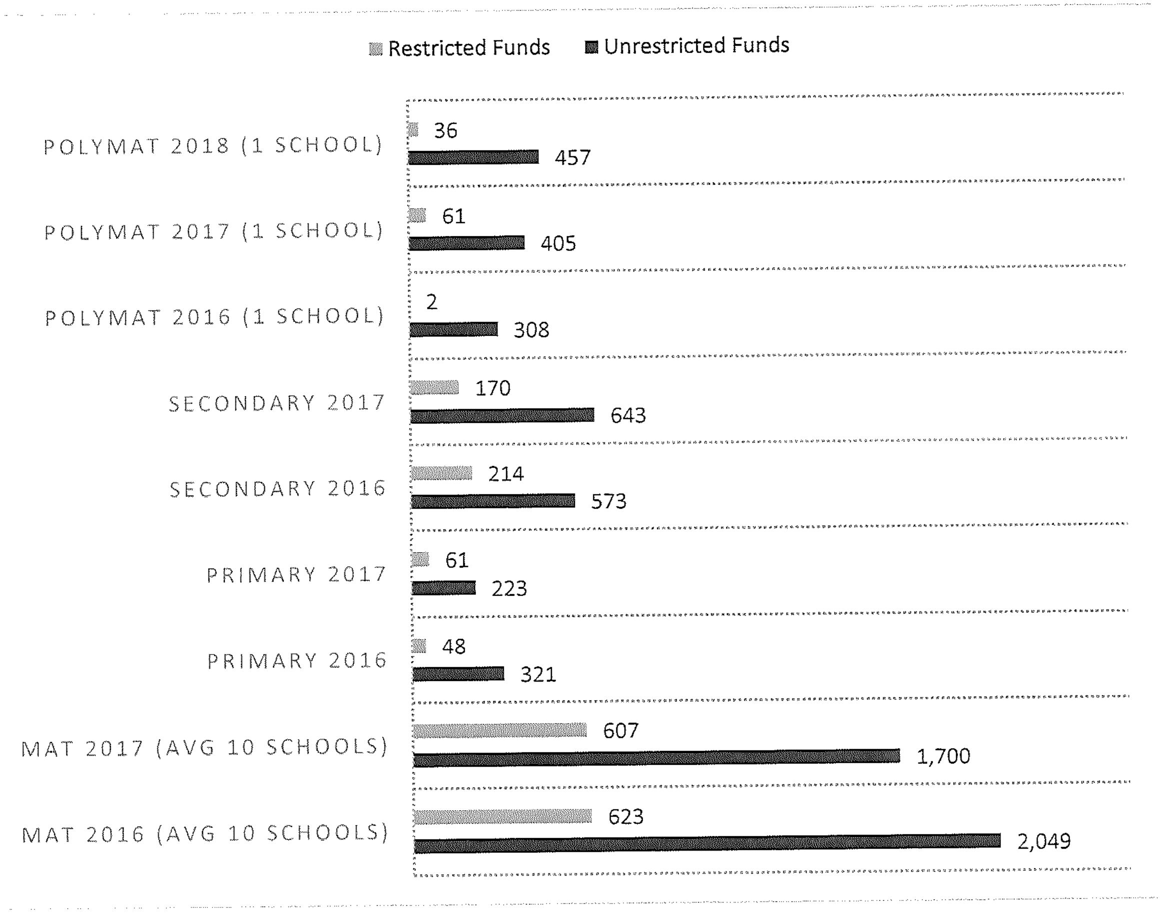
Formula: Total payroll costs (including defined benefit pension scheme adjustments and agency costs, but excluding severance payments) ÷ Total income (excluding capital grants, conversion balances, sponsorship and start up grants)

Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Typically, staff costs make up 65% - 80% of both total costs and total income. Across each type of Academy Trust, we have seen an increase in payroll costs. The rise of pension and National Insurance contribution rates have clearly been felt across the sector.

Using the data for 2016/17, we also considered the average number of higher paid employees per school (i.e. those earning in excess of £60,000 per annum) by type of academy trust.

Type of Trust	Average no. HPEs per school
Large MAT (15+ schools)	2.8
Medium MAT (5-14 schools)	2.1
Small MAT (2-4 schools)	3.2
Secondary	5.6
Primary	1.8

Reserves



The graph to the left shows the split of the Academy Trust's reserves between unrestricted funds (including designated funds) and restricted funds (excluding the fixed assets fund and pension reserve).

When considering a reserves policy, a common starting point for all academy trusts is how much cash they should be holding at any one time. This could be expressed with reference to monthly payroll or total expenditure requirements and it is often seen as more pragmatic to state an ideal range, as opposed to one figure. Moving on from this starting point, academy trusts will then want to consider capital work (be that new projects or contingencies for existing buildings) and other future exceptional costs, such as restructuring.

LGPS liability as a percentage of GAG income

As for all academy trusts, PolyMAT's support staff are eligible to participate in a relevant Local Government Pension Scheme, a multi-employer defined benefit scheme. In accordance with the requirements of the reporting standards, the Academy Trust has included its share of the liability in the scheme on its balance sheet, as estimated by the scheme actuary. As slight changes in the actuarial assumptions used can have a substantial impact on the overall net pension liability, we have provided in the table below a comparison of the Academy Trust's 2017/18 LGPS retirement benefit assumptions against those of other educational organisations.

	Sector Average %	PolyMAT %
Assumptions		
Price increases	2.3%	2.3%
Salary increases	3.2%	3.8%
Pension increases	2.3%	2.3%
Discount rate	2.7%	2.7%
Decrease in LGPS liability from 01/09/17 to 31/08/18	**10.7%**	**7.7%**
Value of LGPS liability at 31 August 2018 (£000s)	**N/a**	**3,110**
LGPS liability as a percentage of GAG income	**31.9%**	**32.6%**