



NORTHERN EDUCATION TRUST

Final Audit Findings Report

Year ended 31 August 2017

Presented to the Audit and Risk Committee
By RSM UK Audit LLP

on 30 November 2017



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This report has been prepared for the sole use of Northern Education Trust and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

1 INTRODUCTION AND COVERAGE

This report summarises our key findings in connection with the audit of the financial statements of Northern Education Trust in respect of the year ended 31 August 2017.

The scope of our work has already been communicated to you via our Audit Plan document dated 14 September 2017.

A summary of adjusted and unadjusted misstatements identified during the audit has been prepared and is included in Section 4.

We consider that the audit approach adopted will provide the Trustees with the required confidence that a thorough and robust audit has been carried out.

We can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

2 AUDIT, REGULARITY AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

Northern Education Trust

Management override of controls

Key area of audit focus Systems of internal control are designed to mitigate inherent risks of error within the core control systems to an acceptable level. By nature, a management override or by-pass of controls cannot be eliminated by the implementation of controls and therefore as part of our audit we will perform additional tests of detail to address this risk.

Our approach We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements, tracing selected entries back to source documentation.

We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement.

We will discuss the basis and business rationale for any significant non-routine or contentious transactions which come to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.

Response We have performed a review of journal entries recorded and for all items selected the appropriate backing documentation was available.

No significant accounting estimates or policies involving bias were identified during the course of the audit.

No significant non-routine or potentially contentious transactions were identified during the course of our audit work.

Retirement Benefits

Key area of audit focus The FRS 102 Section 28 pension liability is a significant balance sheet item and represents the Academy Trust's share of the Local Government Pension Scheme. The amount recognised is based on a valuation undertaken by an actuary. The actuary also provides the disclosure for inclusion in the financial statements.

There is a risk that the amount may be materially misstated where the data and assumptions used are not appropriate.

Retirement Benefits

Our approach

We will obtain and review a copy of the FRS 102 Section 28 actuarial valuation prepared by the actuary and undertake procedures to determine our ability to rely on their work.

We will undertake a review to ensure that the Academy Trust's management have checked the data and considered the assumptions used by the actuary in preparing the FRS 102 Section 28 valuation. We will also review the disclosures in the financial statements.

Response

The FRS 102 actuarial valuation has been obtained and scrutinised. The assumptions used in the valuation appear to be valid and the actuary, who produced the report, suitably experienced and qualified.

Income recognition

The Academy Trust receives significant levels of grant funding and this should be recognised in accordance with the SORP 2015 recognition criteria and per the underlying funding agreement.

The accounting policies adopted by the Academy Trust will be reviewed, considering the guidance available in Charities SORP 2015 and the recognition criteria of entitlement, certainty and measurement.

A review of grant funding agreements will be performed to determine whether the associated income has been recognised when appropriate.

Through discussion with management and review of minutes we will identify any unexpected one-off sources of income, and ensure the associated treatment is appropriate.

Response

We have reviewed the accounting policies adopted by the Academy Trust, and confirm that they are in accordance with the Charities SORP 2015.

Our testing on income identified a transaction within the catering contract that had not been treated correctly in accordance with Charities SORP 2015. This has been further documented in section 3.

Our discussions with management and review of minutes did not identify any one-off unusual sources of income.

In summary, we are satisfied that income has been accounted for appropriately in the financial statements.

Fund accounting

The majority of the Academy Trust's income streams, including the GAG, have specific terms and conditions attached, governing the use and application of the funding. Accordingly, there is a risk that restricted funds could be incorrectly recognised and disclosed.

Fund accounting

We will consider whether suitable procedures are in place for identifying sources of restricted income and monitoring their subsequent use.

We will review a sample of income and expenditure disbursed from restricted funds to ensure the funds have been utilised in accordance with their restricted charitable purpose.

Response

Our enquiries whilst undertaking the audit confirmed that management have a good understanding of fund accounting.

However, it was identified during our testing that the restriction placed on funds is not being monitored as part of the monthly management accounts and budget forecasts preparation. We recommend that additional processes are implemented to monitor the spending of restricted income more closely.

All significant sources of income have been reviewed and have been recognised in the appropriate fund.

Going Concern

It is the responsibility of Trustees' to assess the ability of the Academy Trust to continue as a going concern for a period of not less than twelve months following the anticipated date of sign off. Given the current economic climate and in particular the pressure on government spending this is a key area of focus.

In addition to performing a review of management's operational budgets and forecasts, consideration will also be given to the Trustees' assessment of the LGPS deficit and the ability of Northern Education Trust to meet the current and future funding obligations in respect of the scheme(s) in respect of the expected contributions and cash flows.

We will review management's budgets, forecasts and cash flow forecasts covering a period of at least twelve months from the date of sign off and challenge the reasonableness and attainability of key underlying assumptions as appropriate. We will also consider the longer term outlook.

We will review the appropriateness of accounts disclosures in accordance with the guidance issued by the Financial Reporting Council ("FRC") as regards going concern and seek representations from Trustees' as required.

Going Concern

Response

As part of our going concern considerations, we have considered the following key areas:

- Academy budgets;
- Assumptions underpinning the forecasts;
- Comparison to the post year end management accounts to date;
- Relationship with the regulator;
- Latest Ofsted inspections.

Management take a prudent approach to budgeting and work to a 'worst case' position. Management has undertaken significant work surrounding going concern to ensure that the directors have sufficient evidence to support the going concern statement included within the financial statements. More specifically, by their review of the next three years, we are satisfied that directors have sufficiently considered the appropriateness of the going concern basis of presentation adopted in the financial statements.

3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT AND REGULARITY WORK

Investments

Issue

It was identified during our investment work that the detailed investment report is only received in April and October.

The report received at 31 August 2017 was very brief and was received from a yahoo address. We requested further confirmation directly from OpenWorks to confirm the level of investment held at 31 August 2017.

The Endowment fund within the investment is included with the unrestricted funds invested. Therefore the gain/loss on the Endowment fund is pro-rated of the overall result.

There was a disposal in the year from the Endowment fund in the year of 345k. This Endowment fund came across upon conversion from Northshore. This amount has been disinvested for the spend on IT equipment across the Trust.

The Investment manager, OpenWorks does not produce an Internal control report in the year (AAF).

Resolution

We recommend that the funds invested from the Endowment fund are kept separate from the unrestricted funds to ensure that the movement on the investment balances are accurately recorded.

There is no documentation in respect of the Endowment funds held by central, which initially came from Northshore. Therefore, assurance cannot be gained that the disinvestment and planned expenditure is inline with the restriction of this fund. We would like to draw your attention to this point.

Many investment managers undertake control reports during the year. Although this report is voluntary, it is recommended that management understand from the investment manager why this exercise is not carried out.

16-19 Bursary

Issue

It was identified during our creditors work that the level of creditors due to 16-19 Bursary was increasing each year. The academy with the largest balance is Thorp Academy. This Bursary should be spent for the purposes the income is intended.

Resolution

We recommend that the Bursary policy reviewed to ensure that a reasonable amount is distributed to the pupils that it is intended. We also recommend that the fund is made more aware to pupils to ensure that it is spent on the pupils targeted.

Catering Contract

Issue

There was a new catering contract undertaken with Chartwells in the year to outsource the catering at the schools.

There are different elements to this contract that we have considered. The standard catering transactions such as income and expenditure has been treated gross. This is because within the agreement NET is the principal and Chartwell's is the agency.

There is an additional transaction called an Equipment Advance. This is income from Chartwells to NET of £368,743. In the draft, financial statements this was recognised in full within Other trading activities. However as per the Charities SORP 2015 the entitlement criteria for income has not been met. This is because as per the contract clause 32 the equipment advance should be amortised straight line, and if the agreement is terminated (by either party) NET shall pay the written down value to Chartwells. Therefore, the income should be recognised straight-line over the contract period. This has been adjusted in the financial statements and is included in section 4 of this report.

Resolution

The income and expenditure in relation to the catering has been treated correctly in accordance with FRS102.

The Equipment Advance income should be recognised straight line over the contract as the entitlement criteria is met. This should also be treated as a donation in the SOFA. This has been included as an adjustment in section 4 of this report.

4 UNADJUSTED/ADJUSTED MISSTATEMENTS

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement.

We have not disclosed below those items that we consider to be "clearly trivial" in the context of our audit. For this purpose we consider "clearly trivial" to be any matter less than £30,000 individually and £300,000 in aggregate.

We advised management of all these misstatements on 24 October and requested management to correct them.

	Profit (£)	Net assets (£)
Adjusted misstatements	Dr/(Cr)	Dr/(Cr)
PRESENTATIONAL ADJUSTMENTS		
<i>Client adjustments</i>		
Unrestricted Trip Income	570,404	To reallocate the expenditure relating to trip to unrestricted as per the AAD
Restricted Trip Income	(570,404)	
Consultancy Income – Charitable Activities	66,118	To reallocate the consultancy income from charitable to trading activities
Consultancy Income – Other Trading Activities	(66,118)	
Insurance income – Charitable Activities	206,296	To reallocate the Insurance income from charitable to trading activities
Insurance Income – Other Trading Activities	(206,296)	
Nursery Grants	231,517	To reallocate the private childcare income from nursery grants to trading activities
Other Trading Activities	(231,517)	
PRESENTATIONAL ADJUSTMENTS		
<i>Audit Adjustments</i>		
Restricted Income Fund		680,438
Restricted Fixed Assets Fund		(680,438)
		Being the transfer needed from Restricted Income Fund for the additions that have been purchased from GAG.
Restricted Gains On Investments	305,000	Being the gain made on the unrestricted part of the investments
Unrestricted Gain On Investments	(305,000)	
Restricted Fixed Asset Fund – Capital Income	224,210	To reallocate the capital income and expenditure that has been spent on repairs
Restricted General Fund – Capital Income	(244,210)	
Restricted General – Charitable		

	Profit (£)	Net assets (£)	
Activities Expenditure	244,210		
Restricted Fixed Asset Fund – Charitable Activities Expenditure	(244,210)		
Dr Defined Benefit Pension Scheme Cr SOFA – Direct costs	(2,552,000)	2,552,000	Being the adjustment to reflect the FRS102 Pension Valuations for the trust at the year end
Dr SOFA – Direct costs Cr Defined Benefit Pension Scheme	4,566,000	(4,566,000)	
Dr SOFA – Support Costs Cr Defined Benefit Pension Scheme	661,000	(661,000)	
Dr Defined Benefit Pension Scheme Cr Actuarial gain/loss	(15,463,000)	15,463,000	
Total	(£12,788,000)	£12,788,000	

Adjusted misstatements	Dr/(Cr)	Dr/(Cr)
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CONSOLIDATION ADJUSTMENTS

Audit Adjustments

Other Debtors	(18,498)	Being consol JRN to eliminate inter entity balances between Thorpe and Central in relation to a pension strain on fund payment.
Accruals	18,498	

Underlying total	Nil	Nil
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Adjusted misstatements	Dr/(Cr)	Dr/(Cr)
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CENTRAL ADJUSTMENTS

Audit Adjustments

Support Costs – Bank Charges	58,271	Being the grossing up of unrealised gains and investment manager charges
Unrealised Gains	(58,271)	
Support Service Improvement Deferred Income	368,643	Being the deferral of the equipment advance that should be recognised over the five-year contract.
Donations – Unrestricted	(36,865)	
Underlying total	331,778	(331,778)

	Profit (£)	Net assets (£)	
Adjusted misstatements	Dr/(Cr)	Dr/(Cr)	
Grangefield			
<i>Audit Adjustments</i>			
Maintenance of premises expense – general restricted fund	49,381		Being the invoice for work done on the Grangefield building from the EFA in 2015 - In respect of work on the car park.
Accruals		(49,381)	
Underlying total	49,381	(49,381)	

Adjusted misstatements	Dr/(Cr)	Dr/(Cr)	
Kirk Balk			
<i>Audit Adjustments</i>			
Local Authority Grant	112,329		Being the reallocation of SEN funding that was initially included in Local Authority Grants
SEN funding	(112,329)		
Underlying total	Nil	Nil	

Unadjusted misstatements	Dr/(Cr)	Dr/(Cr)	
Merlin Top			
<i>Audit Adjustments</i>			
Cost - Leasehold Improvements		30,480	Being removal of inappropriate classification of an addition within Merlin Top School
Cost – Fixtures and fittings		(30,480)	
Underlying total	Nil	Nil	

5 POTENTIAL IMPROPRIETY ISSUES IDENTIFIED DURING THE AUDIT AND REGULARITY WORK

Procurement

Facts and circumstances

At the following schools, we identified purchases where the procurement policy had not been followed correctly:

- Central
- Abbey Park
- Hilton
- Kearsley
- Northshore
- Norton
- Ryecroft
- Thomas Hepburn

Many issues identified within the procurement testing were due to there only being one supplier for the required product / service.

Issue

This is not inline with the NET financial Regulations. We recommend that management reiterate the policy to school business managers in relation to all purchases to ensure that the policy is adequately followed.

We therefore recommend that the procurement policy is updated to explain what to do when there is only one supplier to ensure that schools are following the policies correctly.

Charge card

Facts and circumstances

At the following schools, we identified that supporting documentation was not available for purchases on the charge cards:

- Ryecroft
- Norton
- Kearsley
- Frederick Natrass

At the following schools, we identified transactions where the requisition form was not signed by the budget holder:

Kearsley

During our site visit, it came to our attention that the charge card at Kearsley is still in the name of the ex-principal.

Issue

This is not inline with the NET policy and supporting documentation should be retained for all transactions. Supporting documentation consists of detailed/receipts and invoices. Bank statements are not evidence of supporting documentation.

This was also a finding in the ESFA financial management and governance review at Enquire Learning Trust July 2017.

Charge card - Central

Facts and circumstances

During our testing at central we identified the following transactions that were not inline with the NET financial regulations:

Helen Clegg

A transaction was identified for first class rail travel dated 10/01/17 for £69.85. This was a first-class travel ticket in relation to a journey with less than two hours of travel time. Accordingly, this is in conflict with the NET policy on first class travel.

David Brown

We have identified a number of issues with the following transactions on the charge card:

- 20/06/17 – Yates - £7.95 – No supporting receipt.
- 01/03/17 – Hardwick - £36.25 – No supporting receipt.

Charge card - Central

- 05/01/17 – Finbarrs - £15.00 – Only card receipt available which does not include details of items purchased.

We also noted that due to David Brown living in Cumbria, but being based in Newcastle, he is required to pay for accommodation during the week when working from the Colbalt office, we have recognised that this is being paid from the card. As Newcastle is David's primary place of work, this has been identified as a benefit in kind.

Judith Telford

There was a transaction on 15/12/16 for a £268 expense on 2 night hotel accommodation. This is in conflict with the NET policy maximum spend on accommodation of £120 per night. However, upon discussion we noted that this had been approved as it was deemed 'exceptional circumstances' due to there not being a suitable alternative in the area.

Issue

We recommend that the policy regarding first class travel be reiterated to all applicable members of staff.

All purchases should be supported by backing documentation retained on file.

Petty Cash

Facts and circumstances

At the following schools, we identified that individual transactions of petty cash had exceeded the petty cash limit of £20 as per the policy:

- Kearsley
- Hilton

We have also identified that at the following schools petty cash is being used to reimburse staff expenses which is in conflict with the policy:

- Ryecroft
- Northshore
- Hilton

We have also identified that at the following schools petty cash claims were submitted and authorised by the same individual:

- Northshore

We have also identified that at the following schools petty cash claims did not have any authorisation:

- Kearsley

Issue

As per the policy Petty cash transactions should be under the £20 limit, should be submitted and authorised by different individual and should not be used to reimburse staff expenses. These should be reimbursed through the payroll.

Staff expenses

Facts and circumstances

At the following schools, we identified that there was no documentation for staff expense claims:

- Northshore

At the following schools, we identified staff expense claim forms that had been submitted and authorised by the same individual:

- Kearsley

Issue

Supporting documentation should be obtained and retained for all staff expenses.

Conflicts of interest registers

Facts and circumstances

At the following schools, we identified that conflicts of interests registers have not been filled out by the individuals required:

- Northshore Secondary Board and Portfolio Holder Group
- Kearsley
- Frederick Natrass

It also came to our attention that the conflicts of interest register available of the school website related to the year 15/16 and therefore was out of date at the following school:

- Frederick Natrass

Issue

Conflicts of Interest registers should be filled out by all Trustees and governors.

The Conflicts of Interests on the school website should be updated.

Income and charging - Northshore

Facts and circumstances

There does not appear to be any guidance in relation to renting out the Community Zone sports facilities within the Academy 'Income and Charging Policy'.

Issue

There should be a policy to provide more guidance in relation to renting out the Community Zone sports facilities.

Alcohol - Hilton

Facts and circumstances

During our visit Hilton, we identified expenditure in relation Christmas raffle prizes which included the purchase of Alcohol. See below for details of this transaction:

- 12/12/2016 – Lidl – Mulled Wine - £4.49

It should be noted that upon our identification of this transaction, this was immediately reimbursed by the Principal.

Issue

As per the policy, the purchase of alcohol is prohibited.

Trustees and Members Interests and Management of Conflicts

Facts and circumstances

From our review of the policies and procedures in relation to trustee's conflicts of interest we would recommend the policy is updated for the following points:

- To ensure that before any procurement is started, the list of central and local trustee's business interest is consulted before procurement is carried out to ensure no related party transactions take place.
- To include guidance on how employment procedures should be carried out in the event that a related individual to the board is employed.
- To include references the seven principles of public life.

Issue

We would recommend that the policy be amended to cover the points highlighted and that management remind all academies to ensure the conflicts of interest are published on their websites.

Financial Monitoring

Facts and circumstances

Our review of the financial monitoring policy has noted that it does not consider the following point:

There is no inclusion of cash flow forecasting.

Issue

Per the EFA regularity guidance we would recommend that cash flow forecasting is used within the management accounts to identify any time periods where there might be a cash shortage.

Fraud

Facts and circumstances

From review of the fraud policy and the EFA recommended procedures, we have noted that there is no guidance on the following points:

- Vulnerable transactions and areas related to fraud
- The controls required to identify and detect fraud in relation to these transactions. An example of a vulnerable transaction would be students paying for a school trip in cash to a trip leader.
- Possible motivations for staff behind fraud and how it would be committed and concealed
- EFA fraud indicators checklist

It has also come to our attention that the policy does not include monetary limits as to when the EFA should be notified in respect of a fraud. This is recommended as per section 4.8.2 of the EFA financial handbook.

Additionally, from review of the risk register for the central trust, we have noted that there is no inclusion of the risk relating to fraud. Per the recommendation of the EFA, the risk register should be linked with the fraud policy regarding how the trust are to prevent and detect possible frauds.

Issue

This is not inline with EFA recommendations and we recommend that the policy and risk register be updated for the above points.

Risk Register

Facts and circumstances

From our testing on the risk register, we have noted a lack of focus on irregularity and impropriety risks.

Issue

We recommend that this should be addressed in an updated risk register.

Audit committee

Facts and circumstances

For the purposes of quoracy, two members are required to be present at any meeting. Decisions are made by the passing of a resolution with a simple majority, where the chair has the casting vote. Accordingly, and theoretically speaking, where only two members are present the chair is able to pass a resolution without input from any other committee member.

We also noted that one of the members was employed by the Trust during the year. As per the Academies Financial Handbook section 2.4.3 this is not permitted.

Audit committee

Issue	<p>Whilst we recognise and are aware that there have been no situations to date where this has come to pass, the board may wish to review whether such arrangements are appropriate.</p> <p>We suggest that whilst staff employed by the Trust may attend and participate in discussions, they should not be a member of the audit committee.</p>
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Members

Facts and circumstances	There was a short period of time during the year where there were only 2 members. This was due to a bereavement. Mark Sanders was appointed as a member on 23 June 2017 and therefore there are currently 3 members of the Trust.
Issue	As per the Academies Financial Handbook page 6, academies should be established with at least 3 members, although the Department for Education encourage trusts to have at least 5 in total. This was also a finding noted in the EFA's financial management and governance review at Academies Transformation Trust in March 2017.

Whistleblowing

Facts and circumstances	<p>The Whistleblowing policy does not include guidance for the following points:</p> <ul style="list-style-type: none"> • Training for new starters • Annual reminders • Annual training
Issue	We recommend that this policy is updated to be inline with the other schools policies within the Trust

Bank

Facts and circumstances	We identified that there were 2 transactions with I Kershaw through the bank where no supporting documentation was maintained. One transaction was from I Kershaw to the Trust for £1,376, and the other was a refund for the same amount.
Issue	Supporting documentation should always be obtained and maintained.

6 SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

We have set out below significant deficiencies in internal control which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Related Party Transactions

Fact and potential consequence	Searches have been completed at the year end to ensure that all transactions have been disclosed in the accounts. Academies should be aware of related party transactions before entering into the transaction.
Possible action	We recommend that a central list of related parties is maintained and a check is performed before transaction are entered into. We have been informed by management that the purchasing process will be centralised post year end and therefore by maintaining a list centrally this will reduce this risk of unidentified related party transactions.
Management response	Finance teams are now considering the list of related party transactions and recorded staff conflict of interest when making purchases. A termly review of purchases by the Head of Finance is also to be undertaken as a further check and will be reported to the Audit and Risk Committee.
Timing of implementation and responsibility	The above internal controls and monitoring will be implemented in full by 1 st January 2018. The Chief Operating and Financial Officer will be responsible for undertaking this recommendation with supporting work from the Head of Finance.

Fixtures and fittings

Fact and potential consequence	It was noted during our review of the Fixed Asset Registers, that there is a high number of items included with a Net Book Value of £nil. The majority of these items are from conversion into the MAT.
Possible action	A full review of the fixed asset register should be performed to ensure that all items listed and included in the financial statement cost and depreciation brought forward are in use.
Management response	The audit recommendation is accepted and a review will be undertaken.

Fixtures and fittings

Timing of implementation and responsibility	The recommendation will be implemented and work completed by June 2018. A full review will be undertaken of the Fixed Asset Registers to ensure that any items that have a net book value of nil are removed and their corresponding costs are withdrawn from the Fixed Asset Register. The Chief Operating and Financial Officer will be responsible for undertaking this recommendation with supporting work from the Head of Finance.
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Cashflow forecasts

Fact and potential consequence	There are no Cashflow forecasts prepared by the Trust, this makes it difficult to project future cash movements.
Possible action	The Trust should prepare a Cashflow forecast as part of the budget setting process. This will help ensure that cashflow requirements can be met. This was also a finding within the EFA financial management and governance review of Enquire Learning Trust where it was recommended that the board are not presented with a consolidated current position or a forecast and there is no 3 to 5 year consolidated forecast for the trust. This highlights the importance of consolidated cashflow forecasts and monitoring.
Management response	The audit recommendation is accepted and the required information is now being shared with the Audit and Risk Committee.
Timing of implementation and responsibility	The recommendation has been implemented from the start of 2017/18.

7 SIGNIFICANT FINDINGS FROM THE AUDIT AND REGULARITY WORK

Accounting practices, including accounting policies

Financial statement disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards, including the Statement of Recommended Practice – Accounting and Reporting by Charities 2015, and the requirements of the Companies Act, the Charities Act 2011 (“the Acts”) and the Academies: Accounts Direction 2016/17 issued by the Education and Skills Funding Agency (ESFA). The following disclosure matters were brought to your attention and subsequently reflected in the revised financial statements:

Client identified adjusted disclosure errors:

1. In the draft financial statements there was no Agency Agreement note
2. In the draft financial statements Rob Tarn’s appointment was not disclosed
3. In the draft financial statements the accounting policies were not consistent with prior year
4. In the draft financial statements there was a note for GAG limits, however this is not applicable in this Trust and therefore removed.
5. In the draft financial statements the comparative figures were not all disclosed.

Audit identified adjusted disclosure errors:

1. In the draft financial statements the Charitable Activities income was not shown as per the model accounts.
2. In the draft financial statements the accounting policies did not disclose that policies have been applied consistently applied, in dealing with items which are considered material in relation to the financial statements, to all the years presented, unless otherwise stated.
3. In the draft financial statements the investment note was incorrect
4. In the draft financial statements the financial instruments note was incorrect
5. In the draft financial statements the operating lease note was incorrect
6. In the draft financial statements there was no explanation for the Endowment funds within the funds note
7. In the Trustees report there was no review of the investment performance against the investment objectives.
8. In the draft financial statement the investment note does not split between classes of investments

9. In the draft financial statements investment income was not separately identified on the cashflow statement

10. In the draft financial statement there was no accounting policy on employee termination benefits

The following disclosure matters were brought to your attention and have not been reflected in the revised financial statements:

1. The Capital donation – transfer from Local Authority line on the face of the Statement of Financial Activities is not shown within other donations as per the recommended disclosure.

Significant difficulties identified during the audit

- There were no significant difficulties identified during the audit

8 FEES

We confirm that the fees charged during the year in respect of services performed for Northern Education Trust are consistent with those contained within our Audit Plan submitted to you and dated.

9 INDEPENDENCE

In accordance with International Standard on Auditing (UK) 260 “Communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP and its related entities and Northern Education Trust and its related entities and Trustees that may reasonably be thought to bear on RSM UK Audit LLP’s independence and the objectivity of the audit principal, Claire Leece, and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 14 September 2017.

APPENDIX A - DRAFT LETTER OF REPRESENTATION

Financial statements

RSM UK Audit LLP
Central Square
5th Floor
29 Wellington Street
Leeds
LS1 4LP

Dear Sirs

Audit of Financial Statements – Year ended 31 August 2017

This representation letter is provided in connection with your audit of the financial statements of Northern Education Trust for the year ended 31 August 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, in accordance with the applicable financial reporting framework. The financial reporting framework that has been applied in the preparation of the Academy Trust financial statements is applicable law, Academies Accounts Direction 2016/17 issued by the Education and Skills Funding Agency ('ESFA'), and United Kingdom Generally Accepted Accounting Practice.

We confirm that to the best of our knowledge and belief, and having made appropriate enquiries of other Trustees and officials of the Academy Trust:

Financial Statements

1. We acknowledge and have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 29 August 2017, for ensuring that the Academy Trust maintains adequate accounting records and for the preparation of the financial statements in accordance with the applicable financial reporting framework, in particular the financial statements give a true and fair view in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those relating to items measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework. In particular, where required by the applicable financial reporting framework[s] full disclosure is made in the financial statements of:
 - a any advances and credits granted by the Academy Trust to Trustees and guarantees of any kind entered into on behalf of the Trustees:
 - b the identity of the party which controls and (if different) the party which ultimately controls the Academy Trust, if any;

- c transactions and balances with related parties including:
- the names of the transacting party or parties;
 - the nature of the related party relationship;
 - a description of the transactions;
 - the amount of the transactions;
 - amounts of outstanding balances and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
 - provisions for uncollectible receivables related to the amount of outstanding balances;
 - the expense recognised during the period in respect of bad or doubtful debts due from related parties; and
 - any other information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements.
 - the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due
- d key management personnel compensation
4. Full disclosure is made in the financial statements of:
- a outstanding capital commitments contracted for at the balance sheet date;
 - b all contingent liabilities including details of pending litigation and material claims against the Academy Trust or group;
 - c all guarantees or warranties or other financial commitments
5. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
6. There have been no events (e.g. loss of source (or reduction) of funding (including DfE and other grants, donations or private sponsorship), loss of supplier or member of staff, change in student numbers, change in credit terms offered by suppliers, breaches of bank or other covenants, changes in banking or insurance arrangements or facilities) since the balance sheet date that would impact on the ability of the Academy Trust or group to continue as a going concern. Should such events occur prior to your signature of the audit report we will advise you immediately. Except as already incorporated into our cash flow and income and expenditure forecasts we have no plans or intentions that would impact on the ability of the Academy Trust or group to continue as a going concern.
7. All events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. Should such further material events occur prior to your signature of the audit report, we will advise you accordingly.
8. The effects of uncorrected misstatements (whether arising from differences in amount, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework) are immaterial, both

individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements including those in relation to disclosures is attached to this representation letter.

9. All charities, companies and trusts controlled by the Academy Trust have been consolidated within the group.
10. All designated and restricted fund balances are correctly shown in the accounts.

Information Provided

11. As agreed in the terms of engagement, we have provided you with:
 - a Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation (including correspondence with the Department for Education ('DfE'), and other matters including minutes of members the Audit Committee meetings, committees of the Audit Committee, and management held between the beginning of the accounting period and the date of this letter;
 - b Additional information that you have requested from us for the purpose of the audit; and
 - c Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
12. We confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Academy Trust or group and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
14. We have disclosed to you all known instances of non-compliance or suspected non-compliance with the terms of the funding agreement with the DfE and the Academies Financial Handbook 2016, and those laws and regulations whose effects should be considered when preparing financial statements; including but not limited to the Education Act 1996 as amended by the Learning and Skills Act 2000 and the Education Act 2002. We have also notified you of the actual or contingent consequences which may arise from such non-compliance, including any potential effects on the Academy Trust or group's ability to conduct its activities.
15. We have disclosed to you the identity of the Academy Trust or group's related parties and all the related party relationships and transactions of which we are aware.
16. We have disclosed to you details of all known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.

17. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms and conditions in the application of such incoming resources.
18. We confirm that we have disclosed to you details of all banking and financing arrangements including related contracts and hedging products.
19. We confirm that we have informed you of all tax avoidance schemes used by the Academy Trust or group.
20. We confirm that we have disclosed all details to you, for assurance that the demolitions costs of the new build are the responsibility of the ESFA.

Charitable Status

22. We have not conducted, or permitted to be conducted any activities which call into question the charitable nature of the Academy Trust.
23. There have been no communications with the Charity Commission or the Secretary of State for Education as Principal Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any administrative duty. We have drawn to your attention all correspondence and notes of meetings with regulators.
21. The Academy Trust has complied with the terms of the Schools Agreement with the DfE and the local authority.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

To assist the auditor in complying with ISA (UK) 720 The Auditor's Responsibilities Relating to Other Information, we confirm that we have informed you of all the documents that will be communicated to the members with the annual report.

We confirm that we have taken all the steps that we ought to have taken as Trustees in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

The contents of this letter were considered and approved by the board at its meeting on

Yours faithfully

Signed on behalf of the board of Northern Education Trust

.....
Trustees

Date

Attachment: List of uncorrected misstatements including those in relation to disclosures

Regularity

RSM UK Audit LLP
Central Square
5th Floor
29 Wellington Street
Leeds
LS1 4DL

Dear Sirs

Regularity Assurance Engagement – Year ended 31 August 2017

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other officials of the Academy Trust, the following representations given to you in connection with your regularity assurance engagement for the year/period ended 31 August 2017.

Regularity, Accounting records and transactions

- a. We acknowledge and have fulfilled our responsibility for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.
- b. Neither the board of trustees nor the academy trust management have knowingly authorised a course of action, the financial impact of which was that transactions infringe the requirements of regularity.
- c. All transactions undertaken by the Academy Trust have been properly reflected and recorded in the accounting records.

Information provided

- d. As agreed in the terms of engagement, we have provided you with full and free access at all times to the financial records correspondence and other records of the academy trust, and such information and explanation as are necessary for the performance of your duties.

Compliance with laws and regulations

- e. We have disclosed all events of which we are aware which involve suspected non-compliance with the framework of authorities including:
 - the funding agreement with the Secretary of State for Education
 - the Academies Financial Handbook 2016;
 - Company law and Charity law;

- Specific terms and conditions of income received

which provide a legal and contractual framework within which the academy trust conducts its business and which are central to its ability to conduct that business. We have also notified you of the actual or contingent consequences that may arise from such non-compliance.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

The contents of this letter were considered and approved by the board at its meeting on

Yours faithfully

Signed on behalf of the board of Northern Education Trust

Chair

Accounting Officer

Date

APPENDIX B - UPDATED REGULATORY UPDATE

1. Governance and ESFA/DfE update
2. Charity Commission guidance
3. Financial Reporting developments
4. Regulatory updates
5. RSM comments...
6. Direct and indirect taxation

This report details the relevant changes and current topics in the regulatory and financial reporting environment for academy trusts. Further details of a number of these changes are set out in separate RSM publications. If you do not already receive these communications automatically and would like to, please register your details at <https://www.rsmuk.com/contact-us/sign-up-to-receive-publications> or alternatively, please contact a member of your engagement team.

General caveat in respect of the upcoming election

This report has been prepared in May 2017. It is based on regulations and government policies in place at that time. Please bear in mind that after the June 2017 General Election, it is possible that there may be changes to Government policy on education and therefore parts of this report may be subject to changes in those policies. Our follow-up to this report in Autumn 2017 should be able to address such changes if they arise.

Abbreviations commonly used in this document:

CC – Charity Commission

DfE – Department for Education

EFA – Education Funding Agency; from 1 April 2017, **ESFA** – Education and Skills Funding Agency

1. Governance and ESFA/DfE update

Academies Financial Handbook

The Handbook in operation for the 2016/17 academies financial year is the version marked as “Effective from 1 September 2016”.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535870/Academies_Financial_Handbook_2016_final.pdf.

The Handbook introduction highlighted and emphasised particular areas of governance and financial controls as follows:

Governance

- boards of trustees should identify the skills they need and address any gaps in their skills through recruitment or training;
- trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee, and local governors are included when identifying relevant interests from close family relationships.

Financial control

- variances between budget and actual income and expenditure must be understood and addressed;
- where there are concerns about financial management in a trust, the trust may be required to report information about its cash position to EFA;
- trusts must have a whistleblowing procedure;
- an audit committee’s oversight of its trust must extend to the controls and risks at its constituent academies, where the trust has them.

Competency framework for governance

The DfE has published a framework setting out the competencies required for effective governance “Framework for Governance - The knowledge, skills and behaviours needed for effective governance in maintained schools, academies and multi-academy trusts”.

The guidance offers advice for boards in “defining and implementing strategy whilst holding the leaders of schools and trusts to account ... Our shared ambition is to ensure that there are enough good school places for every child in England. What we have attempted to do in this Competency Framework for Governance is to define more clearly the knowledge, skills and behaviours needed for governance to play its full part in this vision.”

The non-statutory guidance features:

- the principles and personal attributes that underpin effective governance; and
- the knowledge and skills required which includes sections on strategic leadership, accountability, people, structures, compliance and evaluation.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/583733/Competency_framework_for_governance_.pdf

Academies annual report

The DfE has published the annual report for the academies sector for the year 2014 to 2015. Of particular note is the continuing trend of high-performing converter academies, which remained above the national average for state-funded schools for both primary and secondary education. One notable statistic highlights that 64.3% of pupils achieved five or more A* to C grades at GCSE level (including English and maths) in 2014/15, compared to 56% in local authority maintained mainstream schools.

Meanwhile for sponsored academies, the DfE states that their continued growth has improved the performance of the most disadvantaged pupils, with an increasing number of pupils in secondary sponsored academies being entered for the English Baccalaureate (EBacc), whilst the proportion entering the EBacc in all state funded schools remained flat.

The government confirms that it will revisit the key performance indicator (KPI) for the percentage of schools that are open as academies for year three in light of the powers now afforded to regional schools commissioners. This move comes despite claims that this may lead to conflicts of interest, as academisation will be recorded as a KPI, hinting at a further push for school academisation.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/573234/Academies_annual_report_academic_year_2014-to-2015.pdf

School improvement resources

The government has unveiled new funding to address underperformance in schools and has set a target of ensuring every child has a good school place. Funding schemes include:

- £50m from September 2017 for local authorities to monitor and commission school improvement for low performing maintained schools;
- £140m in a “strategic school improvement fund” for academies and maintained schools; and
- a £20m commitment over the next two years from the education endowment foundation, which will see increased use of evidence-based programmes and approaches.

https://www.gov.uk/government/news/new-funding-for-school-improvement--2?utm_source=EFA%20e-bulletin&utm_medium=email&utm_campaign=e-bulletin&mxmroi=2305-32310-65674-0

School funding formula

The government has set out its plans to reform the schools funding formula with the aim to 'tackle the historical postcode lottery in school funding'. Stage 2 of the government consultation into schools funding reform comes after strong public support (74%) for reform identified in the Stage 1 consultation.

The consultation seeks views on the reformed system built on four blocks of funding: basic per-pupil funding; additional needs funding, weighted on areas such as deprivation and low prior attainment; school-led funding; and geographic funding.

Early analysis has suggested that 54% of schools would be in line for funding rises under the reformed scheme with 46% seeing their funding levels drop. To counter this, the government confirmed that a 3% cap will be in place for schools that lose out.

The consultation concluded on 22 March 2017, with a final decision due in “Summer 2017”.

https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/supporting_documents/NFF_Stage2_executive_summary.pdf

Information: announcement of the Education and Skills Funding Agency from 1 April 2017

The Education Funding Agency (EFA) and Skills Funding Agency (SFA) were brought together to create one funding agency from 1 April 2017.

The new agency is called the Education and Skills Funding Agency (ESFA). ESFA's first working day was Monday 3 April 2017.

According to the government release, there will be no impact on existing contracts and funding agreements with education and skills providers and other contractors.

[Department for Education Agencies: Written statement - HCWS559 - UK Parliament](#)

Clerking Competency Framework – “The knowledge, skills and behaviours required to provide professional clerking to the governing boards of maintained schools, academies and multi-academy trusts”

The DfE published this new framework document in April 2017 which is aimed at helping clerks to governors carry out their duties effectively.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/609971/Clerking_competency_framework.pdf

The guidance notes that “Professional clerks to governing boards should carry out their duties in line with the seven principles of public life (Nolan principles).”

[Nolan principles:

<https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2>]

It also notes that “Effective governance is based on six key features as set out in the Governance Handbook...professional clerking has a vital role to play in supporting each feature.” These features are Strategic Leadership, Accountability, People, Structures, Compliance and Evaluation.

It goes on to list and explain four Competencies

1. Understanding governance;
2. Administration;
3. Advice and guidance
4. People and relationships

The guidance is useful both for clerks to better understand the expectations of the DfE in the role, and for governing bodies to understand, recruit and assess their appointed clerk.

2. Charity Commission guidance

Publications

The Commission has recently issued or re-issued a number of useful publications including:

- CC25 – Charity finances: trustee essentials March 2017

<https://www.gov.uk/government/publications/managing-charity-assets-and-resources-cc25/managing-charity-assets-and-resources>

This update of CC25 is part of a drive by the Commission to ensure that trustees understand their financial responsibilities when running a charity. The Commission has stated that the trustees' legal duties regarding financial management have not changed, but charity trustees should read the updated guidance to ensure that they are best placed to protect their charity's assets and resources.

CC25 covers the most common areas of managing charity resources including internal financial controls, charity reserves, and staff and volunteers, directing the reader to further material where required. "Charity governance, finance and resilience: 15 questions trustees should ask" was also republished in March 2017.

The Commission is conducting a wider ongoing review of how it supports trustees in this area, including working with external partners and umbrella bodies and improving navigation to its online guidance.

<https://www.gov.uk/government/news/charity-commission-urges-trustees-to-get-to-grips-with-financial-duties>

Charity Commission News

"CC News" is the commission's quarterly newsletter, which provides essential information for charity trustees and their advisers.

CC News, issue 56, was published in February 2017 and contained articles on:

- the Charity Commission annual public meeting, at which the Prime Minister delivered the Keynote speech;
- keeping your finances in check in 2017;
- shaping the future of the sector's digital services.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/591297/CCNews_Issue56.pdf

CC News, issue 57, was published in May 2017 and contained articles on:

- revised financial guidance for trustees;
- the dangers of using cash couriers;
- pension auto-enrolment;
- making the right decision for your charity.

<https://www.gov.uk/government/publications/charity-commission-news-issue-57/charity-commission-news-issue-57>

Failures of governance

The Charity Commission has recently reported on a number of cases of governance failure in charities.

One recent Charity Commission (CC) regulatory report that has hit the headlines is the verdict on the Didier Drogba foundation, the charity set up by the former Premier League footballer. Originally, concerns were made about the charity in a mainstream newspaper in respect of the foundation's accounts and information collected from the footballer's native Ivory Coast where La Fondation Didier Drogba had also been established. In its verdict the CC found that its investigation

was able to satisfy the most serious concerns regarding the charity, but there were still failures of governance due to a lack of transparency and poor quality reporting, with the CC also ensuring that there is a clearer distinction made between the charity entity in the UK and La Fondation in Ivory Coast.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/574136/didier_drogba_foundation.pdf

A CC regulatory report in February 2017 investigated allegations in to a charity executive overruling trustee decisions. The short report on the Giraffe Conservation Foundation summarises the resolution that came about, but the essence of the investigation was the concern over the trustees' control over the charity (or lack thereof).

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/588846/giraffe_conservation_foundation.pdf

Another CC regulatory report in February 2017 investigated allegations that a charity had made an inappropriate grant to a related party. The report on the Earl of Chester's Fund recorded the following "Lessons for other trustees":

1. Make sure that your charity is carrying out the purposes for which it is set up, and no other purpose
2. Comply with your charity's governing document
3. Act in your charity's best interests and deal appropriately with conflicts of interest
4. Make balanced and adequately informed decisions in the interests of the charity
5. Grant makers must carry out appropriate due diligence and monitoring

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/591519/earl_of_chesters_fund.pdf

Of particular interest to the academies sector is the report by the Commission in to the Durand Education Trust (published 21 October 2016). This investigation was in to a charity ("DET") which was associated with an academy trust (Durand Academy). The case demonstrated that while academy trusts themselves are classed as Exempt charities, the treatment of associated charities can lead to confusion. The cause for the confusion in this case was that the charity DET did not meet the quite precise conditions for being treated in the same way as its related academy trust, and so it was treated as being regulated by the Charity Commission rather than being classed as Exempt and regulated by the DfE (although this was only clarified after several years of the charity being mistakenly classed as Exempt and therefore not being monitored by the Charity Commission).

In this case, the eventual investigation centered around the arrangements across a group of charities which were associated in the Durand Academy wider network, and a particular service contract agreed with a connected entity. The final report cited a lack of separation between connected parties resulting in the terms of an agreement with a related service company being 'too generous'. The report also recorded that the benefits under the contract were not properly authorised in accordance with charitable property rules, the DET trustees did not competitively tender or benchmark appropriately before awarding the contract, and a business continuity risk existed which had not been addressed by the DET trustees.

This report only serves to highlight that related and connected party matters are high on the regulators' agenda (both the Charity Commission and the DfE) and trustees, governors and managers must remain vigilant in respect of these types of transactions and relationships.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/561696/durand_education_trust.pdf

3. Financial reporting developments

Charities SORP (FRS 102)

Charities (Accounts and Reports) Regulations 2008 Update – England and Wales Charities

The regulations to formally adopt SORP 2015 and to update the regulations in England and Wales have yet to be updated. In the intervening period the Charity Commission have updated their guidance “Charity reporting and accounting: the essentials March 2015” <https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-march-2015-cc15c>

Section 8 explains that the required content of the Trustees’ Annual Report is based on the 2008 Regulations and that, as trustees are allowed to amplify on the information contained in the Trustees’ Report following the new SORP will still comply with the 2008 Regulations.

The Trustees’ Annual Report should also make a statement with regard to compliance with the prevailing law and regulations

It is recommended that the following reference is made by all charities in the trustees’ annual report:

“The financial statements have been prepared in accordance with the accounting policies set out in notes to the accounts and comply with the charity’s governing document, the Charities Act 2011 and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland published on 16 July 2014.”

Charity accounts

Charitable companies are driven by the Companies Act 2006 legislation. The continuation of the 2008 Regulations has no impact on the preparation of their accounts and the new SORPs 2015 can be applied.

4. Regulatory updates

Mind the Gender Pay Gap

The difference in pay between men and women has been a debate for some time. The Office of National Statistics is reporting that on average women earn 19.2% less than men in full time roles. In an attempt to overcome the gender pay gap the government has published draft regulations.

The new regulations will apply to all employers in the private and voluntary sector with 250 employees or more. From April 2017 these new regulations will require reports to be published on the company website on an annual basis. Even if you are a smaller charity our advice is to keep listening. As your employees become aware of the regulations and start to query the gender pay differences in your organisation you could be left open to sex discrimination, equal pay and/or constructive dismissal claims.

Reporting requirements

All reports will need to be published using the calculations below:

- the mean gender pay gap;
- the median gender pay gap;
- the gender bonus gap;
- the numbers of men and women who received bonuses; and
- salary quartiles.

These figures should be calculated using gross pay, before any deductions are made. They are defined in the regulations as including basic pay, maternity pay, paid leave, sick pay and bonuses. Clarity on whether bonus reporting should include bonuses earned but not yet received is still to come, but as an initial overview organisations should report on:

- payments in relation to profit sharing, productivity and performance;
- long term incentive plans or schemes; and
- the cash equivalent value of shares on the date of payment.

Publishing information that highlights inequalities in pay could have significant implications to your organisation. These include damage to your employer reputation, negative press or costly equal pay claims. By being proactive and carrying out an equal pay audit you will be able to identify any gender pay gap issues and address these.

<https://www.rsmuk.com/ideas-and-insights/mind-the-gender-pay-gap>

Apprenticeship levy

The apprenticeship levy is part of the government's plan to increase apprenticeships across the UK; a manifesto commitment given at the last election to generate three million new apprenticeships by 2020. The government's aim is that the new levy should help improve both the quantity and the quality of apprenticeships which came in to effect on 6 April 2017.

The levy will apply to all public and private sector organisations, charities and educational providers, including academy trusts. The levy is charged at a rate of 0.5% of an employer's annual pay bill, though there will be an allowance of £15,000 per year to offset against the levy. In effect, this means employers will only start to pay the levy if their pay bill exceeds £3m in a given tax year. The employer will pay the levy monthly to HMRC through the normal pay as you earn (PAYE) process.

Employers in England will be able to reclaim their apprenticeship levy contributions as digital vouchers to pay approved

providers for training employees on apprenticeship programmes. Different systems will apply in Scotland, Wales and Northern Ireland.

The government has recently announced that unspent funds in an employer's digital account will expire after 24 months - so funds entering the account in April 2017 will expire in March 2019 unless the employer uses them by that time. The digital account works on a 'first-in, first-out' basis, so payments are automatically drawn from the funds that entered the account first.

Employers that pay the apprenticeship levy in England will also receive a 10% top-up from the government to their total monthly contributions - so for every £1 an employer pays in, they can draw down £1.10 to spend on apprenticeship training.

'Connected' employers can pool their funds into a single digital account to pay for apprenticeship training. For example, academy trusts operating under an overarching umbrella trust arrangement could pool their individual contributions and use the combined funds to support one or more apprentices working across all trust members.

The government is continuing to make amendments to the proposals and we anticipate more will follow before final commencement of the levy.

[Read more](#)

Accounting Officer letters

Peter Lauener has written two letters to Accounting Officers since our last report.

The first, in December 2016, reflected on the change to the sector reporting methodology at Government level. The letter specifically stressed that timely submission of annual accounts (December 2016), finalised Accounts Returns (31 January 2017) and responses to any subsequent queries on those Accounts Returns would be appreciated. This letter asked particularly that the Accounting Officers discussed the letter contents with the finance lead, auditor and trustees.

The most recent, in March 2017, addressed the need for two Budget Forecast Returns to be made by each Academy.

The first of these, the Budget Forecast Return: Outturn (BFRO), is to be used to support a Public Expenditure Statistical Analyses exercise and to provide an updated forecast of expenditure for the academic year. This return had a submission deadline of Friday 19 May 2017.

The second return, the Budget Forecast Return (BFR), will support the main public expenditure forecasting activities that occur in the autumn. It will focus on the projected financial position of academies up to August 2018. This return has a submission deadline of Friday 28 July 2017

Read the December 2016 letter

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576136/Letter_from_Peter_Lauener_to_academy_trust_accounting_officers_December_2016.pdf

Read the March 2017 letter

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/600841/Letter_from_Peter_Lauener_to_academy_trust_accounting_officers_March_2017.pdf

Modern Slavery Act

The government has sought to combat and prevent modern slavery through the introduction of the Modern Slavery Act 2015, which covers the offences of slavery, human trafficking, servitude and forced or compulsory labour.

A key provision of the Modern Slavery Act 2015 requires certain organisations to produce an annual slavery and human trafficking statement that sets out what action has been taken to eradicate it within their business or supply chains.

Any organisation, including those as part of a group structure, will be required to produce a statement if they:

- are a corporate or partnership body, irrespective of where they are incorporated;
- undertake business, or part of a business, in the UK;
- supply goods or services; and
- have an global annual turnover of £36m or more.

This therefore has the potential to encompass larger MATs with income in excess of £36m.

[Read more](#)

Large company disclosure on payment terms and SCF

New rules in effect from April 2017 will require larger companies to report publicly twice a year on their supplier payment practices, policies and performance. The new rules will require disclosures regarding agreed payment terms and compliance therewith. Disclosure is also needed about separate payment terms for suppliers of different sizes, providers of different product types, any other segmental variances, supply chain finance or e-invoicing offered to suppliers.

The guidance from the Department for Business, Energy and Industrial Strategy says that the information must be published on a government website available to the public.

The rules apply to businesses with financial years beginning on or after 6 April 2017, and require businesses to report on narrative descriptions, statistics and statements.

The rules apply to businesses that, in brief, meet at least two of the following three criteria:

- £36 million annual turnover;
- £18 million balance sheet total;
- 250 employees.

This therefore has the potential to encompass larger MATs.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587465/payment-practices-performance-reporting-requirements.pdf

5. RSM comments...

Recruitment and retention of teachers

The Education Committee has delivered a scathing assessment of the government's record regarding the recruitment and retention of teachers, stating that 'although the government recognises that there are issues, it has been unable to address them and consistently fails to meet recruitment targets.' The Committee called for government to follow up on its plan for a national vacancy website, free for schools to use; and for the Department for Education to publish teacher recruitment split at a regional level in order for recruitment to be better informed.

<https://www.publications.parliament.uk/pa/cm201617/cmselect/cmeduc/199/199.pdf>

Multi-academy trusts report published

The House of Commons Education Committee has delivered its long awaited report on multi-academy trusts (MATs) which explores MATs in a whole host of areas including: the characteristics of high performing MATs; accountability and inspection; the expansion and development of the MAT model; and the performance of MATs. In the former category the Committee identified the highest performing MATs were those which identified 'the crucial role played by teaching staff' and had robust financial controls amongst a number of other characteristics. The Committee did however warn of the 'further pressures' that could occur should a significant expansion of the MAT model take place arguing that the Department for Education and Education Funding Agency may not be able to cope with the additional financial oversight responsibilities.

<https://www.publications.parliament.uk/pa/cm201617/cmselect/cmeduc/204/204.pdf>

Interestingly, there are differing views on the report in the press - according to the Guardian the report "challenged the government's vision for schools, expressing "significant concerns" about the poor performance of some multi-academy trusts (MATs), and according to the Independent, "Evidence that academy chains can improve pupils' results is "limited and varied", MPs have warned, raising "significant concerns" over the accountability of the independently-run trusts."

Guardian report <https://www.theguardian.com/education/2017/feb/28/commons-report-raises-doubts-over-benefits-of-multi-academy-trusts>,

Independent report <http://www.independent.co.uk/news/education/education-news/mps-warn-not-enough-evidence-expansion-unaccountable-multi-academy-trusts-schools-education-select-a7602726.html>

Financial sustainability in schools

The government needs to make 'more progress' in order for its approach to value for money and managing the risks of financial sustainability to be judged a success according to the National Audit Office (NAO). The NAO's report 'Financial sustainability in schools' highlights a number of findings and recommendations including:

- that whilst overall funding is protected in real terms, there is not an associated per pupil funding increase in respect to inflation;
- mainstream schools will need to make £3bn of savings to counteract rising costs and new measures such as the increased minimum wage and the introduction of the apprenticeship levy;
- that guidance and support is needed from the DfE in the areas of workforce and procurement (indeed the DfE has published the 'Schools buying strategy' more information on which is provided below);
- the EFA should continue and develop its preventative approach in identifying academy trusts at risk of getting into financial difficulty; and
- that the EFA should intervene when academy trusts build up surpluses, to understand why are they doing so.

<https://www.nao.org.uk/wp-content/uploads/2016/12/Financial-sustainability-of-schools.pdf>

The role of audit and finance committees in academies

In our recent publication *Green Lights Ahead: The Role of Audit and Finance Committees*, we considered the financial side of good governance across the charity sector. Based on our survey across a range of charities, we have benchmarked current practices and we offer advice on how to run an effective committee.

<https://www.rsmuk.com/ideas-and-insights/charity-audit-and-finance-committees>

When and how are committees set up?

Academy trusts with income in excess of £50m are required to have a dedicated audit committee, as set out in the Academies Financial Handbook section 2.4.2. For academy trusts with income below this level, whilst there is no requirement to have a separate audit committee (though a trust may still choose to do so), there is a requirement to have a committee fulfilling the role of an audit committee, which is usually covered by the finance committee, or some form of combined committee.

Our findings suggest that committees are generally of a good size to be both effective, and also to be an appropriate representation of the governors as a whole.

One of the more concerning findings is the limited nature of induction and ongoing training of committee members. This could be because the remit of the audit/finance committee is technical in nature and therefore members are already likely to have the required skill set. It is however important to remember that whilst members may be experts in their field, they may not know the focus of the committee and the academy as a whole, meaning decisions could be made from a potentially misinformed viewpoint.

Not all training needs to be the formal (and often expensive) half- or full- day provided by a third party training provider. Short sessions of training are easier to come by than you might initially expect – alternatives to formal purchased training include:

- making the most of existing contacts, ask current or previous governors to come in for an hour before a meeting to share their skills;
- ask your auditor or lawyer to come to a meeting early to present on a current topic at the start of a meeting; and
- make use of online training which is available from a range of providers and can be done in the governors own time, such as those available through National College for Teaching and Leadership and various charity options that cover all budgets.

Running an effective committee

The Terms of Reference document is important as it sets out the committee's remit, including its overall purpose and responsibilities. Pleasingly, 87% of committees surveyed had Terms of Reference in place and 81% of committees reported to the board on the work performed.

Audit/finance committees are also required by the Academies Financial Handbook to provide assurances to the board that risks are being adequately identified and managed. For Multi Academy Trusts this includes ensuring that oversight extends to all academies within the trust.

The Handbook expects that this should extend to a risk register. Our findings for risk management were generally pleasing, particularly in respect of risk registers.

Continuing success

Only half of the respondents to our survey had budgets which looked more than a year ahead.

The production of long term financial plans and projections offers a point of focus for management and governors. It enables targets to be set which can be considered when key management and governance decisions are made.

It is important to remember that when signing the financial statements for the year you are confirming that the entity is a going concern. This in itself requires consideration of financial plans which look more than one year ahead of the latest balance sheet signing date.

Further guidance has been issued within the Schools financial health and efficiency guidance issued by the EFA covering aspects of strategic financial planning – and this includes recommendation that trusts budget for a three to five year period.

Tax

Only 26% of our survey regularly review direct and indirect tax compliance, an area which is constantly being updated. Whilst academy trusts may consider this to be irrelevant based on their educational activities, as funding is reduced, trusts are looking more and more at other sources of income, for example the letting of school facilities, to sustain current levels of expenditure. It is therefore important to consider all regulatory and compliance matters.

Watch our animated video and download the Green Lights Ahead report here:

<https://www.rsmuk.com/ideas-and-insights/charity-audit-and-finance-committees>

Academies breaching transparency rules

The BBC reported in November 2016 that in a sample of 100 Academy Trusts examined, 19 academies had breached transparency rules by not publishing a register of all their governors' interests.

We would recommend to all our clients that they review their published records to ensure that they comply with governmental rules on transparency.

BBC report <http://www.bbc.co.uk/news/uk-england-37620007>

Back to School report

The April edition of RSM's Back to School covered the following areas:

- Good governance and financial management;
- Working with related parties;
- New intermediaries legislation;
- Environmental risks and liabilities.

<https://www.rsmuk.com/ideas-and-insights/academies-back-to-school-report-april-2017>

6. Direct and indirect taxation

Spring budget

Despite being brief in comparison to recent budgets, the Chancellor did confirm a few new measures for schools in the final spring budget. The Chancellor confirmed:

- an extension of the free schools program with an investment of £320m to fund up to 140 new free schools;
- a further £216m for investment in school maintenance; and
- an expansion of the 'extended rights' entitlement for certain children now to get free transport to the nearest selective school in their area.

The announcement of £500 million a year of additional funding for 16 – 19 education and the new T levels represents a significant opportunity for educational charities who will likely be the major providers of this training.

While not mentioned in the budget speech, it is important to remember that there are several measures that were announced at the Autumn Statement where the draft legislation/regulations has already been published; for example the use of intermediaries in gift aid (and the new time limit for confirming oral gift aid declarations). Both of these came into effect from 6 April.

Finally, there is to be a consultation later in the year on proposals to bring the tax treatment of employer-provided accommodation and board and lodgings up to date, including proposals for when accommodation should be exempt from tax and to support taxpayers during any transition. This is something that will be of interest to many school clients.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597467/spring_budget_2017_web.pdf