The Cippenham Schools' Trust

Management and Governance Report

31th August 2013

Reference: 5521/2668/50239

Management and Governance Report for the Period Ended 31 August 2013

The purpose of this report is to provide the Trustees with our constructive observations arising from the audit process as well as to advise on matters that we are required to report to you to comply with International Standards on Auditing.

We set out below details of any expected modifications to our audit report, details of any uncorrected misstatements in the financial statements (except any misstatements which are clearly trivial) including the effect of uncorrected misstatements related to prior periods on the current period, any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures, and any other relevant matters.

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Our audit does not necessarily disclose every weakness and for this reason the matters referred to below may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of The Cippenham Schools' Trust;
- It must not be disclosed to any third party without our written consent;
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.

Independence

We are required to reaffirm our independence at the conclusion of the audit and confirm that no matters have arisen that impact on our previous statement that there are no relationships between our firm and connected entities and your company and related entities which need to be brought to your attention because they bear upon this firm's independence and the objectivity of the audit engagement partner and staff.

Expected Modifications to Our Report and Status of the Audit

We do not expect to make any modifications to our audit report. However, our responsibilities with regard to the audit report extend up to the date on which it is signed and we will advise you of any changes to this position if necessary.

Uncorrected Misstatements Detected by Us

We have not identified misstatements or omissions from the financial statements which have not been corrected by you (we are awaiting information in respect of catering income for Westgate and this will be adjusted). There are no unadjusted misstatements other than clearly trivial items.

Qualitative Aspects of Accounting Practices and Financial Reporting

During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Specifically, we draw your attention to the following:

Accounting Policies

The setting of appropriate accounting policies was identified as a significant risk at planning as this is the first year that accounts have been prepared.

The accounting policies are in compliance with UK GAAP and the Statement of Recommended Practice "Accounting and Reporting by Charities" issued by the Charities Commission in March 2005 (SORP 2005), and we consider that they are appropriate for The Cippenham Schools Trust. They are based upon guidelines in the Academies Accounts Direction issued by the EFA and we have also taken into consideration policies adopted by other academies.

Accounting Estimates

Fixed assets:

Fixed asset valuations and depreciation policies need to be considered by the Trustees. These are the first accounts produced for the Trust and any decision taken now will have implications for future years.

Fixed assets transferred to the Trust need to be recorded at fair value. There are four bases adopted by other academies as follows:

1. Original cost – this is rare but occasionally is used where school buildings have recently been built;
2. EFA valuation – the EFA has prepared desk top valuations for all schools. Our experience of these is that they are unreliable and take no account of the location of the school and any recent building work;
3. A valuation by an expert, specifically for the purpose of valuing assets transferred;
4. A trustees valuation based upon a valuation obtained for a secondary purpose eg insurance.

The Trust has obtained valuations for each school. Two out of three are prepared by a member of RICS (an accredited body) and are as at the date of transfer; the other dates back to 2010 and was prepared by a member of the Chartered Institute of Insurers. None of the valuations were prepared specifically to value the assets transferred. The valuations provide an estimate of the replacement cost of reinstating the existing assets (in effect replacing new for old).This is not the fair value of the assets.

There are three aspects of the assets transferred:

1. Buildings: These have been recorded in the draft accounts at £27,540,000, the amount stated in the valuation reports. The accounts state that they have been included using depreciated replacement cost. This requires the trustees to estimate the age of the assets and to consider whether this valuation

should be depreciated to take into account depreciation that would have been charged between the date of original build and the date the building was transferred to the Trust. This should also take into consideration whether the properties have been fully maintained in this period, as this provides a justification for using the replacement cost valuations without adjustment.

2. Land: The valuations provided ignore the value of land and the accounts (note 14) make reference to this stating that “a reliable valuation cannot be readily determined”, We consider that as the land cannot be sold it has no market value and it is therefore appropriate to exclude this in the valuation.
3. Contents: Two out of three valuation reports give a value of contents transferred (books, furniture and equipment) and for the two schools the estimated value was £2,825,000. These valuations are an estimate of the cost of replacing old for new. We consider that the residual value of these assets is immaterial and no value has been included on transfer.

Depreciation: The accounting policies provide the estimated period over which assets are expected to have useful life. Period used are those in use by the majority of academies. Remaining lives need to be reviewed annually to ensure policies and depreciation charges are appropriate.

Pension schemes

On transfer to the Trust a preliminary valuation of the pension scheme deficit was provided of £555,000. This was revised by the actuary to £1,098,000 as at 1st April 2012 and had increased to £1,724,000 by 31st August 2013. Although prepared by the actuary it is the Trustees who are responsible for confirming that the principal actuarial assumptions are appropriate. Disclosed assumptions are:

• Rate of increase in salaries	4.85%
• Rate of increase in pensions	2.90%
• Discount rate	4.70%
• Inflation – RPI	3.70%
• Inflation – CPI	2.90%

We have reviewed these assumptions and compared these with assumptions used for other academies. These are consistent and on that basis we consider the assumptions to be appropriate.

The pension scheme deficits are long term liabilities and it is the actuary who advises a contribution plan to ensure that the liability is met. However it is essential that trustees take into account future funding requirements when setting budgets and when reviewing salary levels.

Disagreements, difficulties or matters requiring judgement

There were no matters that arose in the course of the audit that resulted in disagreement, difficulty or judgement outside of the normal audit process. Journal entries processed relate to reclassifications, opening transfers and fixed assets. We have questioned the treatment of catering income for Westgate, as the treatment was inconsistent with that for other schools with similar providers. An adjustment is required to gross up income, though this will have no impact on the surplus for the year.

The Trustees' Report

We are required to review this report to ensure it is consistent with the financial statements and that it provides the information required under the Companies Act 2006, SORP 2005 and the Trust's funding agreement with the Secretary of State for Education. Where relevant this report is consistent with the financial statements.

Matters to note in respect of the Trustees' Report

- All trustees have been named in the report from the date of incorporation to the date the report is likely to be approved. Although Jacquie Daly attended 4 trustee meetings she was never formally appointed a trustee and she has therefore been omitted;
- Sandra McCarroll resigned as Secretary and there has been no one appointed in her place. We have checked the Articles and there is no requirement for there to be a Company Secretary, though a person should be nominated to undertake the duties normally undertaken by the Company Secretary;
- Risk management: There is a requirement for the Trustees to formally undertake an assessment of risks that the Trust is subject to. There is no need to disclose extensive detail of this in the Trustees Report but it is necessary to report that the Trustees consider appropriate systems are in place to minimise risk;
- Key performance indicators: These should be reviewed to ensure that these are the KPIs that are important to the Trust.

Significant audit risks

We identified the following significant risks at the planning stage:

Risks	Circumstances	Comments	Conclusion
Income recognition	• Revenue recognition is considered to be a fraud risk area under International Standards of Auditing (UK and Ireland). • The main stream of income is government funding in the form of general annual grant. We consider that the specific revenue risk relates to rights and obligations of grant funding. We will review grants received in the period and consider whether the grants are recorded in line with the terms and conditions set.	• We have carried out specific tests to ensure grant funding has been recorded in the correct period and is based upon the correct number of pupils; • We have reviewed other sources of income and tested entries to underlying documentation.	• We are satisfied that income is materially accurate and have identified no indications of fraudulent activity.
Management override	• International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities.	• We have considered all areas requiring judgement, journal entries recorded, and the inclusion of year end creditors.	• There is no indication that the financial statements are misstated as a result of management override.
First Year of Audit	• As this is the first year that an audit has been undertaken of this entity by Moore Stephens, we will need to conduct appropriate first year audit procedures in relation to the balances transferred over from the previous school and disclosures made in the financial statements to ensure these are appropriate.	• In addition to fixed assets and pension scheme deficits cash balances of £1,219,000 were transferred to the Trust. These were agreed to bank reconciliations at the date of transfer. • Accounting policies have been consistently applied and are in accordance with SORP 2005 and the Companies Act 2006.	• Opening transfers have been correctly recorded. Accounting Policies are appropriate for the Trust.
Valuation of Land & Buildings	• See comment above	• See comment above	• See comment above
Capitalisation of Fixed Assets	• There is a risk that the disclosure and treatment of fixed assets is not in accordance with the Trust's capitalisation policy. In particular there is a potential risk that fixed assets have not been capitalised correctly.	• We have reviewed repairs and maintenance schedules to ensure that no assets have been written off that should have been capitalised, and fixed asset schedules to ensure that all assets capitalised are fixed assets.	• Assets have been fairly stated.

Accounting System and Internal Controls

During the course of our audit of the financial statements for the period ended 31 August 2013, we examined the principal internal controls which the Trustees and management of The Cippenham School's Trust have established to enable them to ensure, as far as possible, the accuracy and reliability of the Trust's accounting records and to safeguard the Trust's assets.

We consider that the accountancy systems and internal controls are appropriate for the Cippenham Schools' Trust and consider there to be no major issues. We conclude that the books and records are maintained to a very good standard.

There are, however, two matters that we will be required to report to the EFA, as set out below:

- Westgate School: All leases are for terms over 3 years, which requires approval by the Secretary of State. This has not been obtained.
- All multi-academy trusts are required to form a dedicated audit committee (per the Academies Financial Handbook page 18). The Governance Statement states that it is the intention of the Trustees to form an audit committee in 2014.

Regularity reporting

We have undertaken specific work to ensure that the Trust has operated within the requirements to ensure that all expenditure is incurred appropriately and for Public benefit. This includes tests of control and also substantive tests in areas where there is considered to be a higher risk, such as personal expenditure claims, capital expenditure, entertainment and related parties in general. No matters have come to our attention that need to be reported. Specifically we report:

- **Related Parties**

A register is maintained of all related parties relationships (from local governors, to Directors, to senior management). An annual declaration of interests form is being completed by Board of Directors and key management. From our review of the completed forms we note that names of close family members and controlling interests are not always being declared on the form. For reporting purposes we recommend all details are completed and if there are any transactions with these parties they are recorded in separate nominal codes.

- **Gifts and Hospitality and Other Services**

We are pleased to see a formal policy regarding gifts and hospitality is in place.

Concluding Remarks

Finally, we take this opportunity of thanking your staff for the assistance offered to us during the course of our work.

We shall be pleased to supply you with any further information you may require.

Moore Stephens LLP