

Yarborough Academy



**Audit Report Encompassing
the Management Letter, Systems Findings
and Other Audit Matters**

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1. Audit introduction and general comments

The audit was completed successfully and without any problems.

We found your team helpful and not evasive in any way, which allowed us to obtain information freely and easily.

It is also worth noting that our audit work is only conducted on a sample basis, so is unable to guarantee that all errors are found. As it is completed on a test basis, you may feel that certain areas, such as review of specific controls, especially in connection with wages, tax and VAT obtain a further review.

There has been a recommendation generally across our academy clients to review their procedures surrounding expense claims of Accounting Officers. In most cases the School Business Manager and Accounting Officer authorise each other's expense claims, which does allow for collusion. We would recommend that a Trustee authorises expense claims for the Accounting Officer. If this is impractical in all cases, a de minimis limit could be introduced.

The finance team need to be aware that the Accounts Return needs to be completed and then checked by Forrester Boyd by the deadline of 19 January 2018.

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

2. Key audit areas

| Key Audit Areas | Our Approach |
|---|---|
| Income recognition | <p>We will reconcile any GAG funding to the funding document provided by ESFA. All other material grant funding will be agreed to funding documentation.</p> <p>Other material income streams will have controls testing completed.</p> |
| Completeness and accuracy of payroll | <p>As payroll is the main cost in the accounts a proof in total will be completed, agreeing the wages per the payroll provider back to the accounts. We will also test controls surrounding authorisation of payroll and ensure deductions surrounding PAYE and NI are made correctly.</p> |
| Compliance with the ESFA requirements to ensure there are no regularity issues. | <p>We will ensure the academy is complying with the 'musts' in the Academies Financial Handbook and that purchases made are deemed to be appropriate academy expenditure.</p> |
| Statement of Financial Activities and fund allocations | <p>We will review the major classification of income and expenditure to confirm they are consistent with expectations and to consider whether explanations are reasonable.</p> <p>We will review the allocation of funds in the statement of financial activities and ensure that this appears appropriate and in line with our expectations.</p> |

3. Overview of the year

We can make the following summary comments in connection with the year end accounts:

Income

The income is made up of the following:

| | 2017 £ | % of income | 2016 £ | % of income |
|--|------------------|----------------|------------------|----------------|
| Funding for the Academy's educational operations (Note 3) | 1,891,573 | 77.51% | 1,796,524 | 98.44% |
| Other income | 548,891 | 22.49% | 28,065 | 1.56% |
| Total | 2,440,464 | | 1,797,589 | |

99% (2016: 98%) of the total income is made up of Government Funding. This % can vary dependent on the types of income received by an Academy. This is in line with our expectations because of the large amount of capital grant received from the Government during the year.

There has been a significant increase in overall income due to the CIF Funding which was awarded following a successful bid for the roof to be improved. This funding of £532,945 has been the made contributor behind the increase in your total income of £642,875.

These Government funding income streams have been proved in total, by reviewing agreements from funding providers.

Other income can be broken down as follows:

| | 2017 £ | 2016 £ |
|--|-----------------------|----------------------|
| Donations and capital grants (Note 2) | | |
| Capital grants | 532,945 | 8,295 |
| Other donations | 15,643 | 17,224 |
| | <u>548,588</u> | <u>25,519</u> |
| Other trading activities (note 4) | | |
| Hire of facilities | - | 2,000 |
| Investment income (note 5) | | |
| Bank interest | 303 | 546 |
| <u>Total</u> | <u>548,891</u> | <u>28,065</u> |

Other donations are made up of school fund donations, including trip and club income and other fundraising activities. This will vary from year to year. It is now considered best practice to include the school fund within the Academies records.

Our audit work has not highlighted any systems issues or cut off concerns in respect to other income.

There has been a small amount of interest received during the period. However, the ESFA recommend academies should obtain at least an inflationary return on their cash deposit, to prevent funds from diminishing with time. This may be difficult considering your cash levels, which are likely required to actively fulfil working capital needs, and the low level of return offered by the banks.

However, we are aware of specific deposits & investments for Academies, which would allow an increase in your returns, along with aiding setting up your Academy funding policies and risk profile. Please speak to us if you would like more details.

Our audit work has not highlighted any systems issues or cut off concerns in respect to other income.

Expenditure

The main costs relating to the Academy are salaries at £1,526,993 (2016: £1,482,600) being 81% (2016: 77%) of your total non-fixed asset costs (excluding the pension adjustment), and 80% (2016: 83%) income, excluding capital.

These percentages are at the top end of the maximum guidance from ESFA of 80% and greatly higher than the other academies we act for. In fact the ESFA state that an Academy with a percentage greater than 80% is an indication they are not financially viable. This therefore may be an area the Governing Body could focus on.

Average salaries have increased as follows:

The average annual salary per teacher is £35,961 (2016: £35,783). This has increased minimally due to annual pay increments and is at the lower end of what we see with other Academies.

These costs have been reconciled to your payroll provider's reports with no material errors.

Other sizeable costs or costs worthy of note, relating to Academy's educational operations are as follows (you will note that these headings are no longer specifically detailed in the accounts, due to a change in the information required by the ESFA. However, we have kept the detail for reporting purposes):

Other sizeable costs or costs worthy of note, relating to Academy's educational operations are as follows:

| | 2017 | 2016 |
|----------------------|---------|---------|
| Depreciation | 123,424 | 128,352 |
| Educational supplies | 51,157 | 78,781 |
| Educational services | 46,642 | 66,067 |
| Maintenance | 45,742 | 33,639 |
| Gas and Electricity | 7,594 | 25,423 |
| Insurance | 14,197 | 18,703 |
| Catering | 70,992 | 81,419 |
| Other support costs | 45,208 | 41,051 |

Depreciation relates to the cost of the fixed assets being allocated to the income and expenditure account over your agreed policy, as noted in the accounting policies, which appear reasonable. The minor decrease relates to a number of assets reaching a £nil net book value.

Educational supply costs have fallen by £27k with a large amount of teaching equipment, including IT equipment being purchased in 2016 and therefore no replenishment being required yet.

Educational services costs have reduced by £19k which is mainly due to a decrease of £12k in service level agreements.

Maintenance costs appear reasonable and have increased on last year which has been expected due to initial repair work to the boilers and roof, prior to the capital renewals taking place.

The insurance costs have fallen with the Academy joining the RPA scheme in 2016 however this is the first full year at the reduced cost compared to a regular insurance policy.

Catering expenses have dropped by just over 10% with the funding having also reduced in the current year. The cost of the free school meals is more than the grant received, the deficit on this income increasing in the year.

Other support costs are made up of various items including photocopying costs, ICT contracts and smaller costs including refuse removal, telephones and stationery. These costs would be expected to be fairly similar year on year, with the increase from 2016 most likely being due to an inflationary increase.

The remaining expenditure relates to the general running of the school and do appear reasonable and our audit work has not found any material errors or cut off issues.

If you feel that any of these costs could be reduced, please do not hesitate to contact us as we may be able to help with alternative suppliers.

Balance sheet

The main figure on the Balance Sheet is your fixed assets with a net book value of £3,989,692 (2016: £3,847,599). This includes additions in the year relating to the roofing, boiler and air conditioning purchased. CIF was awarded to the Academy to the value of £552,013 for improvements to the roof of which an amount was still outstanding at the year end, as seen at section 8.

The other figures include:

| | | |
|---------|---------|-----------------|
| Debtors | £76,451 | (2016: £41,201) |
|---------|---------|-----------------|

This increase relates to the VAT balance which has increased by £32k as a result of the roofing suppliers as the work was being carried out over the summer. The remaining balance relates to prepayments and accrued income.

| | | |
|--------------------------|----------|------------------|
| Cash at bank and in hand | £613,369 | (2016: £397,667) |
|--------------------------|----------|------------------|

The cash levels appear very healthy; however they are currently inflated as the majority of the CIF Funding (£524k) has been received with £352k still remaining to be paid. Therefore once this has been paid out, the cash balance would have decreased by £136k in comparison to 2016. You should also note that the balance includes £124k (2016: £123k) outstanding to NELC re staff pay, which would come out of the bank shortly after the year end.

| | | |
|-------------------------------|----------|------------------|
| Creditors due within one year | £152,490 | (2016: £190,764) |
|-------------------------------|----------|------------------|

Creditors due in one year include accrued costs, deferred income and the tax owed in relation to your payroll. These figures have been confirmed to back up information and do not indicate there are any material errors. Trade creditors have decreased due to 2016 included a large amount of trade creditors and accruals relating to NELC school meals and capital work.

We have also completed cut off work to ensure that all creditors are included in the accounts and no material problems have been encountered.

| | | |
|-------------------|----------|------------------|
| Pension Liability | £575,000 | (2016: £633,000) |
|-------------------|----------|------------------|

This balance is based on work done by Hymans Robertson, the academy's actuary and can move up and down based on a number of Actuary assumptions. The change in the assumptions by the actuary has decreased the liability in the year by £58k (2016: increased liability of £219K).

The liability has been underwritten by the DfE and should never become payable by the academy. However, your contributions may increase on the back of the poor return, which may therefore affect your cash flow in the future

Overall

This year has seen an increase in funds available to carry forward, due to decreases in your pension deficit and the CIF Funding income.

The total amount of free reserves available for the Academy to spend in the future is £220,673 (2016: £248,103) and is made up of:

- Unrestricted funds total carry forward of £200,667, which have increased by £15,946.
- Restricted funds, which exclude the fixed asset fund and pension reserve, have decreased by £43,376; giving a carry forward of £20,006

This is over and above the Academy's minimum reserves policy of £100,000. However, we consider that the reserves policy set is quite low and does not even equate to one month's salary costs. A number of Academies are setting a policy of a minimum of 3 months, plus designated funds, as their reserve policy. This would be around £520k for the Academy.

We would suggest as a minimum you should have funds to cover the monthly payroll, which is currently circa £125k.

4. Independence and ethical matters

As discussed in the pre-year end meeting and confirmed in our letter. There is a potential ethical issue, i.e. a self-review threat arising from our firm being involved in completing the accounts and assisting the Academy in relation to its internal review procedures, and not just the audit.

In order to mitigate these risks we have ensured that any individual used to complete the internal review work has not been part of the audit team. We will also mitigate the self-review threat in relation to the production of the Financial Statements by having another member of our Academy team, not involved in the audit, reviewing the accounts and completing the required accounts production checklist.

We believe the Academy has individuals and groups within its management that can make decisions and understand the finances of the Academy, including the Financial Statements. We note this group of people as being 'informed management' and can actively approve any adjustments that we make to the accounts.

By informed management we mean that "a member of the management of the Academy who is capable of making independent decisions or judgements on the basis of information provided".

We agreed in our pre year end meeting and the subsequent letter sent to you, prior to the commencement of the audit, that the following individuals were considered to be informed:

Pre 31 August 2017

Jackie Bishop

Chris Jessup

Post 31 August 2017

Lisa Jefferson

Hannah Albery

The Board of Trustees as a whole is also deemed to be informed.

If you do not believe that the above group of people are informed, please inform us immediately as it will potentially mean that we have to ensure further safeguards are put in place and a second partner completes a review of the file.

5. Formal matters to be reported

In accordance with our normal practice we are writing to draw your attention to various matters which arose during the course of our audit of the academy accounts for the period ended 31st August 2017.

a) *Expected modifications to the auditors' report and regularity report*

There are no expected modifications to the auditors' report or the regularity report

b) *Unadjusted misstatements*

A schedule is included at section 8 of all the unadjusted misstatements determined during the course of our audit, except for those considered to be clearly trifling. As confirmed in your letter of representation to us, you believe that these adjustments are not material and therefore no amendments to the financial statements are required.

You have confirmed in the Letter of Representation that any amounts below £2,000 are trivial and do not need reporting to you.

c) *Material weaknesses in the accounting and internal control systems*

As you are aware from our letter of engagement, our audit procedures were directed towards testing the accounting systems in operation upon which we have based our assessment of the accounts.

Section 6 of this report includes specific audit points and also contains details of actual and potential weaknesses identified during the course of our audit and our recommendations for improvements. It is not meant to be a full and accurate reflection of all weaknesses that may be present in your system.

In making our recommendations, we have considered the size of the academy and the number of staff you employ. We shall be glad if you will let us know what steps have been taken in connection with the above.

d) *Qualitative aspects of the entity's accounting practices and financial reporting*

We have no comments to make concerning the qualitative aspects of the academy's accounting practices and financial reporting.

e) Identification of Fraud

We are pleased to report that our audit has not found any instances of fraud.

f) Compliance with key laws and regulations

Our audit is required to consider and assess the academy's compliance with central laws and regulations, and consider the existence of breaches that could lead to a fundamental event, such as excessive fines that have a material impact on the financial statements, that threaten the going concern status of the entity, or legislation that could lead to the forced closure of operations.

g) Compliance with key laws and regulations

Our work has not identified any instances of material breach, and the academy appears to have devoted sufficient resources, experience, skills and training to all key regulatory aspects of its affairs.

We are happy to offer any assistance necessary to ensure that this is the case.

h) Other information connected with the financial statements

Auditors are required to review any other information issued with audited financial statements, such as an annual review, web site announcement or trustees' report, and determine if such reports are consistent with the financial statements.

You have chosen to make public comment on the financial statements.

We are pleased to report that the trustees' report content is consistent with the financial statements.

i) Other matters required by Auditing Standards to be communicated

There are no other formal matters to be reported to you and the other details included within the report are above and beyond our requirements to report.

j) Other relevant matters relating to the audit

There are no other matters which we wish to draw to your attention.

6. Specific audit and control points

Following our recent audit visit, we have set out below the key observations of a systems and internal control nature that have arisen from the audit work undertaken.

The points are raised to assist the management team in strengthening and formalising the internal control environment, something which is essential and often overlooked in a small company environment.





These issues raised are not intended as, nor should they be construed as, criticism of management or individual persons. They are intended to be of assistance in establishing an appropriate system of internal control, essential to the academy if it is to grow.

Our audit focuses only on those aspects of internal control that are material to the production of accurate financial statements and safeguarding assets of the academy, and therefore is not exhaustive.

We only give consideration to peripheral areas if they directly support other systems of internal control or provide compensating controls to an area with potential weaknesses.

Where matters of efficiency come to our attention, we shall of course report these to you. However, the audit should not be relied upon to identify all matters of duplication or inefficiency in the allocation of responsibilities or the processing of transactions.

Key

-  Key concern - Action required immediately.
-  Moderate concern - Action believed to be required.
-  Minor concern - Action believed to be required, but not considered a significant issue.
-  No concern - Action not required but the suggested improvement should be considered.

| Points noted | Suggested improvement | Benefit of control | Action and comments by the academy, including timescale for action |
|---|---|---|---|
| Orders are being approved by the finance assistance, which is not in line with your procedures. | Authorisation of orders should always be in line with your finance procedures. Either procedures should be updated to reflect practices, or someone else needs to sign the order. | Ensures that the financial procedures manual provides an accurate overview of the processes to be followed. | This is being done within the academy but there is sometimes no physical signature on the order. This will be changed moving forward. |
| Financial procedures appear to need updating as they have not been updated since the new till system was introduced and also more details around VAT could be included. | Review and update written financial procedures. | Ensures the quality of the written procedures. Also, if there are any changes of personnel in the future, this will enable staff to follow the same system. | The financial procedures will be updated this academic year. |
| More signed documents could be obtained to show any agreed changes in employees' salaries. | Due to frequent increases in pay because of increased work, minimum wage or pay scales it would be helpful to have a signed copy of an agreement of salary document. | Easier to agree the salaries of employees throughout the year. Would also help if there was a dispute over historical pay as currently no way of tracing to previous agreed salaries. | This relates to non-teaching staff. The academy will keep a pay file showing all increments; this will be signed by the Head. |
| The Resource Committee can approve up to £50k before requiring full trustee approval. | Although this amount has been reconsidered recently, we still consider £50k to be a large sum of money to be spent without governor approval. | This would provide more appropriate authorisation for differing management levels. | Expenditure between £15,000-£50,000 can be approved by the Resources Committee. The majority of trustees are part of this Committee and so the academy is happy with this. |

Summary and conclusion

It is pleasing to report that our audit work has not identified any fundamental weaknesses in internal control systems, nor have we found any evidence of fraud.

We shall be pleased to discuss or advise on any of the above matters as required.

7. Surplus reconciliation and adjustments made

No adjustments made.

8. Unadjusted misstatements

Detailed below are the non-trivial misstatements found during the audit.

| | Effect on Surplus £ | Effect on Balance sheet £ |
|---|---------------------------|---------------------------------|
| Potential audit adjustments for 2016 | | |
| Invoices not accrued | (3,668) | |
| Creditor completeness | (3,179) | |
| Overstated deferred income | 5,892 | |
| Potential audit adjustments for 2017 | | |
| Refurbishment work not capitalised | (15,069) | (15,069) |
| Depreciation understated | 3,929 | 3,929 |
| Overstated deferred income | (8,108) | (8,108) |
| CIF Awarded not recognised | (27,599) | (27,599) |
| Net effect | <u>(47,802)</u> | <u>(46,847)</u> |

You have confirmed in your letter of representation to us that:

- £2,000 is deemed to be trivial and any adjustment under this amount does not need to be reported on
- The above items do not require adjustment, as they are individually and in total not material.