

Audit report

Encompassing the Management Letter

Systems findings

And

Other Audit Matters

# Yarborough Academy

---

## Contents

	Page
1) Audit introduction and general comments	3
2) Overview of the year	4 - 9
3) Independence and ethical matters	10
4) Formal matters to be reported	11 - 12
5) Specific audit and control points	13 - 15
6) Profit reconciliation and adjustments made	16
7) Unadjusted misstatements	17

***This document has been prepared for the sole use of Yarborough Academy 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 and any persons reading it should make their own judgements and investigations.***

## Yarborough Academy

---

### 1) Audit introduction and general comments

The audit was completed successfully and without any problems.

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

We are asking all the Academies to complete the Accounts Return. This is supplementary to the audited accounts but we will, if needed, offer assistance. Due to changes in the form this year we are told that there could be an extra cost of £250 for us to complete the return.

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.

The finance team have again coped well with the requirements and procedures, as seen last year.

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

## Yarborough Academy

### 2) Overview of the year

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

#### a) Income

The income is made up of the following:

	2016 £	% of income	2015 £	% of income
Funding for the Academy's educational operations (Note 3)	1,769,524	98.44%	1,863,219	98.49%
Other income	<u>28,065</u>	1.56%	<u>28,613</u>	1.51%
	1,797,589		1,891,832	

98% of the total income is made up of Government Funding. These Government funding income streams have been proved in total, by reviewing agreements from funding providers.

There has been a reduction in Funding for Academy's educational operation due to the reduction in early years funding received. This has given rise to a total drop in your income of £94,243.

Other income can be broken down as follows:

	2016 £	2015 £
<b>Donations and capital grants</b>		
Capital grants	8,295	7,952
Other donations	<u>17,224</u>	<u>14,092</u>
	25,519	22,044
<b>Other trading activities</b>		
Hire of facilities	2,000	6,000

# Yarborough Academy

<b>Investments</b>		
Interest received	546	569
<b>Total</b>	<u>28,065</u>	<u>28,613</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 EFA 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.

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.

## Yarborough Academy

### b) Expenditure

The main costs relating to the Academy are salaries at £1,482,600 (2015: £1,294,900) being 77% (2015: 72%) of your total non-fixed asset costs and 83% (2015: 69%) of income, excluding capital income.

An increase in costs over last year has been seen, with an increase in staff numbers of 7 people. The percentage against income is also exceptionally high and above the maximum 80% guidance we work on.

Average salaries have increased as follows:

The average annual salary per teacher is £35,783 (2015: £34,253). This has increased due to annual pay increments and is in line with other Academies. The average salaries appear in line, so it does appear the high % against income must relate to numbers of staff and not remuneration levels.

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 EFA. However, we have kept the detail for reporting purposes):

	2016	2015
Depreciation	128,352	111,965
Educational supplies	78,781	111,045
Educational services	66,067	68,264
Maintenance	33,639	51,759
Gas and Electricity	25,423	29,666
Insurance	18,703	36,166
Catering	81,419	91,583
Other support costs	41,051	49,048

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 increase relates to the 1<sup>st</sup> years depreciation on the £66k of assets purchased in 2015.

## Yarborough Academy

---

Educational supply costs have fallen by £33k with a large amount of teaching equipment, including IT equipment of £20k, purchased in 2015. Educational supplies for 2014 for example totalled £62k which shows 2015 as an exceptional year for these costs.

Educational services costs appear to be in line with last year.

Maintenance costs appear reasonable and have decreased on last year with a large amount of work completed on the roof in 2015.

The insurance costs have fallen with the Academy joining the RPA scheme during the year which operates differently 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 is 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, possibly with an inflationary increase however the reduction in recruitment costs of £6k has seen the expenditure fall.

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.

## c) Balance sheet

The main figure on the Balance Sheet is your fixed assets with a net book value of £3,847,599 (2015: £3,924,340). This includes additions in the year relating to the nursery refurbishment including roof replacement and iPads purchased.

The other figures include:

Debtors                                    £41,201                                    (2015: £52,481)

This relates to prepayments and accrued income and VAT due from HMRC. The decrease is due to the debtor included last year for staff sickness insurance premiums due to be reimbursed of £11k.

Cash at bank and in hand            £397,666                                    (2015: £491,654)

The cash levels appear very healthy; however they have fallen by £94k in the year due to the deficit in the year and the £50k of fixed asset additions. You should also note that the balance includes £123k (2015: £193k) outstanding to NELC re staff pay, which would come out of the bank shortly after the year end.

Creditors due within one year    £190,764                                    (2015: £135,408)

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 increased due to an increase in the level of capital work ongoing but not paid for at the year end (up £5k) and accruals have increased with £26k of school meals costs not invoiced until after the year end. The increase in staffing costs has also seen wages creditors increase by £16k.

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                        £633,000                                    (2015: £487,000)

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 increased the liability in the year by £219k (2015: reduced liability of £14K).

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



## Yarborough Academy

---

### Overall

This year has seen a decrease in funds available to carry forward, due to increases in your pension deficit and the depreciation of fixed assets.

The total amount of free reserves available for the Academy to spend in the future is £248,103 (2015: £408,727) and is made up of:

- Unrestricted funds total carry forward of £184,721, which have increased by £19,770.
- Restricted funds, which exclude the fixed asset fund and pension reserve, have decreased by £180,394; giving a carry forward of £63,382

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 £513k for the Academy.

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

## Yarborough Academy

---

### 3) Independence and ethical matters

As discussed in the pre-year end meeting and as confirmed in our letter. There is a potential ethical issue, i.e. a self-review threat arising from our firm 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 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:

Jackie Bishop

Chris Jessup

The Governing body 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.

## Yarborough Academy

---

### 4) 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 year ended 31<sup>st</sup> August 2016.

#### a) Expected modifications to the auditors' report

There are no expected modifications to the auditors' report

#### b) Unadjusted misstatements

A schedule is included at section 7 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 5 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.

## Yarborough Academy

---

### 4) Formal matters to be reported (cont'd)

#### 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.

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 did note during our work that you complete the VAT 126 form to reclaim your educational VAT. This appears appropriate.**

**However, HMRC expect that a fair and reasonable adjustment is made for any VAT incurred, not wholly in relation to education.**

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

#### g) *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.

#### h) *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.

#### i) *Other relevant matters relating to the audit*

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

## Yarborough Academy

---

### 5) 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.

### Accounting and internal control environment

The accounting controls are operated by a small number of individuals, and this leaves the company exposed to risks associated with an environment in which a small number of people have control over many aspects of the control environment.

Such an environment is common in small businesses, and we must stress there are no indications of irregularity.

However, it is normal for us to caution that this situation the academy is potentially exposed to:

- Those in key positions having the ability to override internal controls and conceal this fact.
- Errors remaining undetected as there is no independent scrutiny or checking of their work at the detailed level.
- In extreme cases, persons acting in collusion to perpetrate fraud or conceal fundamental errors (e.g. collusion with customers over rates or payments).

# Yarborough Academy

## 5) Specific audit and control points (cont'd)

Common areas in which problems may arise include:

- the sales ledger (persons having the ability to raise invoices, credit notes, and maintain the ledger without outside scrutiny and thereby having the power to perpetrate and conceal errors or irregularities).
- the purchase ledger (persons with sole control over the ledger have the power to create false suppliers, invoices and payments, or act in collusion with suppliers).

We accept that changes to this situation would involve changes or additional resources that the academy may not consider to be cost effective.

However, it is important for senior management to remain alert of the need to maintain an increasingly formal control environment to manage any risk, errors or irregularities in the financial reporting and internal control systems.

### 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.

# Yarborough Academy

## 5) Specific audit and control points (cont'd)

	Points Noted	Corrections and system improvements	Benefit of Control	Action and comments by the Academy
1	There is a lack of signed documents 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.	The signed copies are sent direct to Human resources but I can get staff to sign the copy that is sent to me.
2	The Academy has implemented a new meeting structure in the year which is not detailed in the Finance Procedures.	Update the Finance Procedures to reflect the new structure in place.	Ensures that the financial procedures manual provides an accurate overview of the processes to be followed.	This has been actioned
3				

### Summary and Conclusion

It is pleasing to report that our audit work has not identified any fundamental weaknesses in accounting and internal control systems, nor have we found any evidence of fraud. However, we consider our recommendations should be given consideration and, where practical or cost effective, implemented.

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

## Yarborough Academy

### 6) Profit reconciliation and adjustments made

No adjustments made.



## Yarborough Academy

### 7) Unadjusted misstatements.

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

	Effect on Surplus £	Effect on Balance sheet £
<b>Potential audit adjustments for 2015</b>		
Understated creditors	(15,052)	
Overstated deferred income	5,892	
<b>Potential audit adjustments for 2015</b>		
Capital work not accrued *	Nil	Nil
Invoices not accrued	3,658	3,658
Creditor completeness	3,179	3,179
Overstated deferred income	(5,892)	(5,892)
<b>Net effect</b>	<b>(8,215)</b>	<b>945</b>

\* Capital work completed in August has not been accrued, the effect on the surplus and balance sheet would be £Nil as the amount of £15,410 identified would increase the fixed assets and the accruals and net off to £Nil.

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.

