

Hadrian Academy Trust

Audit Findings Management Letter

Audit for the year ended 31 August 2018

Presented to the Trustees on 30/11/2018

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1. Introduction

MHA MacIntyre Hudson present our audit report and management letter solely for the attention of Hadrian Academy following our audit of the financial statements for the year ended 31 August 2018. This report summarises key issues in connection with the audit of the financial statements and with the regularity assurance engagement, which we consider should be drawn to the attention of the Trustees.

We note that the Academy is required to provide a copy of this report to the Education and Skills Funding Agency (ESFA) by 31 December 2018 together with the Academy financial statements.

The report has been prepared solely for the purpose of recording the audit scope, approach and risk areas and for communicating audit issues raised with those charged with governance.

We would be grateful if you will in due course advise us what action you propose to take on the recommendations in the report and also if you would like our further assistance on these or any other matters.

The report has been prepared in compliance with ESFA's requirement for reporting to both the Trustees and ESFA through a management letter. No reports may be provided to third parties, with the exception of ESFA, without our prior consent. Consent will only be granted on the basis that such reports are not prepared with the interests of anyone other than the Academy in mind and we accept no duty of care or responsibility to any other party. The report may not be relied upon for any other purpose. No responsibilities are accepted by MHA MacIntyre Hudson towards any party acting or refraining from action as a result of this report.

Finally, we would like to express our thanks to all the Academy's staff that assisted us in carrying out our work - particularly Joanna Loisel and her team.

MHA MacIntyre Hudson
Peterbridge House, The Lakes
Northampton, NN4 7HB

T: 01604 624011 F: 01604 230079

www.macintyreHUDSON.co.uk

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All Trustees should familiarise themselves with the Academies Financial Handbook, issued on an annual basis, and containing the requirements for the year from 01 September. Two key points are noted below:

From 01 September 2018:

Trusts must prepare management accounts every month, including balance sheet, budget variance report and cash flow forecasts. These management accounts must be shared with the chair of trustees every month, and with other trustees six times a year. Board meeting must record consideration of these accounts and action required to maintain financial viability.

From 01 April 2019:

Trusts must report ALL transactions with related parties to ESFA in advance of the transaction taking place, using ESFA's on-line form.

Trusts must obtain ESFA's prior approval for contracts of the supply of goods or services by a related party where the contract exceeds £20,000; or where a contract of any value takes the total value with that related party beyond £20,000 in any year to 31 August, or for a contract of any value where £20,000 in that year to 31 August with the related party has already been exceeded. Contracts of employment are excluded from this reporting and approval requirement.



MHA MacIntyre Hudson
Chartered Accountants, Tax and Business Advisers

Section 2

The audit process



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2. The audit process and areas covered by the audit assignment

2.1 Audit approach and scope

The objective of the audit of the financial statements is to enable us to provide an audit opinion on whether the financial statements of the Academy show a true and fair view of the state of the Academy Trust's affairs at 31 August 2018 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended and whether the information in the Trustees' Report is consistent with the financial statements.

We also consider whether the financial statements comply with United Kingdom Generally Accepted Accounting Practice, the Academies Accounts Direction 2017 to 2018 issued by the Education and Skills Funding Agency and the Statement of Recommended Practice for Charities.

Our audit work is designed to provide the required assurance that the financial statements are free from material error, and to enable us to have a reasonable expectation of detecting material misstatements in the financial statements that result from irregularities or fraud. However, our audit of the financial statements is not a comprehensive report covering all of the systems and controls.

Our general audit approach was determined by our assessment of the audit risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the Academy operates. We tested controls, carried out analytical review tests and completed substantive testing, verifying specific transactions or balances. At the planning stage, we designed audit tests to provide us with sufficient audit evidence to support an opinion as to whether the financial statements show a true and fair view.

To summarise our approach, we:

- updated our understanding of the organisation and its environment;
- reviewed the design and implementation of key internal financial control systems; and
- planned and performed an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

Significant risks are those which are derived from business risks that may result in a material misstatement, relate to unusual transactions that occur infrequently, or judgmental matters where measurement is uncertain. In areas where we identified the potential for significant risk, we extended our audit testing to include more detailed substantive work. Our work in other areas was proportionately less detailed.

2.2 Areas covered by the audit

During the course of our audit work and regularity engagement we reviewed the accounting systems and procedures operated by the Academy. Our work included:

- reviewing the existence and completeness of General Annual Grant (GAG) and other income;
- review of bank reconciliations;
- checking the authorisation of expenditure;
- review of payroll control, calculation and authorisation;
- review of authorisation and validity of journals;
- checking the validity of balance sheet items;
- checking that income and expenditure relating to the GAG has been reflected accurately in the accounts;
- reviewing the register of interests and minutes to ensure that all related parties have been disclosed adequately;
- reviewing the related party transactions in respect of at cost issues;
- checking that all capital expenditure has been correctly identified in the accounts; and
- checking restricted income and expenditure allocation.



Section 3

Key audit areas

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3. Key audit areas

We have agreed the following audit timetable and deadlines:

	Audit Area and key risks	Considerations on approach
1	<p>Financial reporting</p> <p>There is a risk that the respective Trustees' Report and financial statements are not fully compliant with the revised Charities SORP FRS102 and the Academies Accounts Direction 2017/18, or are materially misstated through errors in their compilation.</p>	<p>We reviewed the Trustees' Report for consistency with the financial statements and to ensure it complies with applicable regulatory (Academies Accounts Direction 2017/18) and Charities SORP FRS102 requirements.</p>
2	<p>Misstatement of income - Grant Funding and other income</p> <p>There is significant grant funding received by the Academy Trust in addition to GAG funding including possible start up funding for new Schools. Other income should be recognised as restricted income where appropriate, and in accordance with Charities SORP FRS 102 and the funding agreement.</p>	<p>We tested the allocation of income received to ensure it is restricted; the expenses met by the GAG reserves, and reviewed supporting records to ensure that GAG expenditure is correctly allocated. We tested the records to ensure that the expenses are appropriately accounted for in the GAG restricted funds.</p> <p>The Academy's accounting policies in respect of restricted income and unrestricted income was reviewed. We ensured that the accounting policy correctly reflected the requirements of the Academies Accounts Direction and Charities SORP FRS102 in respect of the entitlement, probability and measurement of the income.</p> <p>We also reviewed the allocation of income to restricted and unrestricted funds.</p>
3	<p>Future plans and Going Concern</p> <p>The Trustees will need to consider whether the Academy Trust will be a "going concern", giving consideration to at least 12 months from the approval of the accounts (i.e. to 31 December 2019).</p>	<p>We reviewed and considered the cash flow forecasts and budget forecasts of the Academy and consider the assumptions made in relation to going concern to ensure these remain appropriate, ensuring that the Academy is operating within its financial limits and it has sufficient resources to continue for at least 12 months following the date of approval of the financial statements.</p>

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3. Key audit areas

	Audit Area and key risks	Considerations on approach
4	<p>Expenditure – Existence and Allocation</p> <p>The Trustees are responsible for ensuring that expenditure from restricted funds is correctly allocated. We will review the allocation of income and expenditure of restricted and unrestricted funds; ensuring restricted funds are used for the purposes intended.</p>	<p>We reviewed the allocation of expenditure between restricted and unrestricted funds, checking that expenses are correctly allocated and used for the purposes intended.</p>
5	<p>Payroll - Accuracy, Existence and Completeness</p> <p>Salary costs are the largest item of expenditure of the Academy.</p>	<p>We reviewed the reconciliations of the payroll records with the disclosures in the financial statements. We tested controls over payroll and completed substantive testing to provide assurance that the payroll information is accurately reflected in the financial statements.</p>
6	<p>Pension Scheme Liability - Valuation</p> <p>The pension liability represents the Academy Trust's share of the deficit of the Local Government Pension Scheme. The amount recognised is an estimate, and has been recorded from the valuation undertaken by the Scheme's actuary. There remains a risk that the amount may be materially misstated if the assumptions used by the Scheme's actuary are not appropriate.</p>	<p>We reviewed the actuarial valuation for the Academy that has been presented by the actuary. We completed review procedures on the estimates to determine our reliance on this work. We ensured that the Academy checks the data which has been provided for the actuarial report and we considered the relevance of the assumptions used by the actuary in preparing the 2018 valuation.</p> <p>We checked the pension disclosures in the financial statements to ensure these reflected the assumptions used.</p>
7	<p>Regularity</p> <p>ESFA have highlighted in the Academies Financial Handbook their Schedule of Requirements (the 'musts') that are an essential obligation for all Academies.</p>	<p>We have considered your answers to our questions and evidence relating to the 'must' requirements as part of our audit work.</p>

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3. Key audit areas

	Audit Area and key risks	Considerations on approach
8	Fixed Assets – Existence and Completeness	<p>We have reviewed assets capitalised to ensure the accounting policies have been applied. We have tested the existence of fixed assets, on a sample basis, to gain comfort that the assets recorded in the fixed asset register are valid assets owned and used by the Academy Trust.</p>
9	Creditors – Completeness and Valuation	<p>We have tested trade creditors and accruals to ensure that the balances are valid, accurate and complete. Tax liabilities and other creditors have been reviewed and verified to supporting documentation. We have considered whether possible capital works and other liabilities around the year end need to be accrued.</p> <p>We have checked if any provisions are required for potential clawbacks of income and whether these should be reflected in the accounts if material.</p> <p>We have considered income recognition policies for income arising from capital grants such as the School Building Programme, and pupil funding relating to universal infant free school meals in relation to deferred income at the year end.</p>

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3. Key audit areas

3.1 Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and the impact of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

We have assessed the materiality for this assignment by considering the total income of the Academy, net of capital income together with the relevant expenditure, gross and net assets at 31 August 2018 and other relevant indicators. A lower measure of materiality was set for those specific areas where the nature of the transactions requires this, for example in respect of related party transactions.

Where individual errors, or accumulated errors found during the course of the audit, are in excess of materiality, these are discussed with you and adjustments made to the financial statements. If the adjustments had not been made, our audit report would be modified. Where adjustments are found during the audit which are below the relevant materiality level, they have been sent to you for consideration by the Trustees.

3.2 Independence and ethical considerations

Under current UK Ethical Standards, we are required to write to you to give you full and fair disclosure of any matters that may relate to our independence, or the perception of our independence, as the Academy's auditors. The Financial Reporting Council's Ethical Standard applies to this assignment.

MHA MacIntyre Hudson operates safeguards in order to ensure that we act independently. We have ensured that the partners and staff on this audit do not have any connections with the Academy, or with its trustees or its staff.

We note that in addition to performing the statutory audit, we also provide the following non-audit services:

- preparation of the statutory financial statements from the Academy trial balance;
- certification of the Teachers Pension EOYC;

The following safeguards are in place in respect of the provision of the above non audit services to ensure our independence:

- preparation of statutory financial statements from the Academy trial balance is considered to be a mechanical function presenting the Academy's results into the required format. Any adjustments to the figures have been made following discussion with the Academy and approval by the Business Manager. The financial statements are reviewed by an MHA MacIntyre Hudson second, independent manager prior to completion;
- The completion of the TPA return does not affect our audit work for the statutory audit and we use agreed upon procedures;



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Section 4

Amendments to financial statements and significant concerns

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4. Amendments to financial statements and significant concerns

4.1 Amendments to financial statements

A summary of adjustments made to the Academy trial balance to finalise the financial statements and also the unadjusted misstatements have been sent to you.

As Trustees of the Academy, you are responsible for preparation of the financial statements and for the review of the adjusted and unadjusted items. Trustees are required in the letter of representation to confirm that the recorded items do not require adjustment in the financial statements. Those below the trivial threshold will not be included in the letter of representation.

4.2 Significant concerns

During the course of our audit and regularity assurance engagement for the year ended 31 August 2018 we noted matters which we consider should be brought to your attention. We note that these matters came to light during the course of our normal audit and assurance tests. These tests are designed to assist us in forming our opinion on the financial statements and providing a limited assurance conclusion on regularity. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit and assurance tests, we would, of course, inform you as soon as practical.

We note in Section 5 the issues arising from our regularity audit. Significant concerns arising from the 'true and fair' audit of the financial statements, which do not impact regularity, are included at Section 6. The importance of these issues has been considered and the perceived risk rated as high, medium or low, following our discussion with the Business Manager. Recommendations for changes in procedures in order to address these areas have also been included.

4.3 Regularity opinion

Our regularity opinion in the financial statements must reflect all significant and material issues that have been raised in this management letter.

There are no significant issues detailed in this management letter which are required to be included in the regularity opinion, hence the regularity opinion in the financial statements has not been modified.

Where we have identified areas of irregularity, but have concluded that the irregularity is not material by virtue of the value or nature of the issue, this has been included in the summary tables below. This is included in order for the Education and Skills Funding Agency to have full information relating to all regularity issues, enabling them to draw an overall conclusion on regularity in the Academy Trust.

The Trustees' responses to the issues raised, together with a timescale for action, have been included where these have been received prior to the finalisation of this report

Recommendations made by us in the previous year relating to the audit of the financial statements and the regularity audit have been included together with any changes on the issues raised.



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Regularity issues



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5. Regularity issues

Regularity issues and potential consequences	Significance and recommendations	Trustees' response	Timescale and responsibility for implementation
During our audit testing, we had discovered that a purchase totalling less than £20 was made on alcohol in January 2018. This was a gift for kitchen staff. The monies have been spent from unrestricted funds and fall in line with the academies policy.	We would recommend that since the ESFA guidance has been revised in the policy announcement in June 2018 and no alcohol purchases can be made from either fund, alcohol goods are therefore not purchased going forward.	Noted.	Not applicable.



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Internal control deficiencies



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6. Internal control weakness

Weakness and potential consequences	Significance and recommendations	Trustees' response	Timescale and responsibility for implementation
<p><u>Low risk</u></p> <p>It was observed during our testing that there is no segregation of duties over journals. There is a risk that there could be errors in journals posted .</p>	<p>We recommend that a regular review takes place of journal postings, by an individual whom is separate from the preparer of the journal.</p>	<p>Agreed that this will be implemented within the audit year. Suggested that their Head Teacher performs this on a termly basis.</p>	<p>Implemented immediately for first school term.</p>



Section 7

Audit findings in prior years

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7. Audit findings in prior years

Issues and potential consequences reported in 2017	Status in current year	Trustees' response	Timescale and responsibility for implementation
<p>LOW RISK</p> <p>During the audit it was noted that even though there are procedures taken to identify and review potential off-payroll/self employed consultants, there is not a formal documented policy or procedure for this.</p>	<p>Not noted in audit year. Policy has been implemented.</p>	<p>Agreed that this has been implemented in the year.</p>	

Conclusion



Elaine Olson-Williams
Audit Engagement and Client
Partner

T: 01604 624011
E: elaine.olson-williams@mhllp.co.uk

Your organisation is a highly valued client of our firm and we would like to thank you for entrusting us with your professional advisory services.

We take a genuine interest in the success of our clients and value constructive feedback on all aspects of our services and continually seek improvement opportunities. If you have any questions or would like to discuss any of the matters covered in our Audit Findings Management Letter, please do not hesitate to contact us.

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