

Audit management letter

for the year ended 31 August 2017 for

Notre Dame High School

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Date of issue: 7 November 2017



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1. Introduction

This report has been prepared for the trustees of Notre Dame High School to bring attention to those charged with governance various matters arising from the audit of the academy trust for the year ended 31 August 2017.

Our audit and assurance procedures, which have been designed to enable us to express an opinion on the financial statements and provide a limited assurance conclusion on regularity, have included an examination of the transactions and controls thereon of the trust.

The work we have done was not primarily directed towards identifying weaknesses in the trust's accounting systems, other than those that would affect our audit or assurance opinions, nor to the detection of fraud. We have, however, designed our audit and assurance procedures in such a way that we felt would increase our chance of detecting any fraud.

We have included in this report only those matters that have come to our attention as a result of our normal audit and assurance procedures and, consequently, our comments should not be regarded as a comprehensive record of all weaknesses that may exist or improvements that could be made.

This report is to be regarded as confidential to the trustees of Notre Dame High School and is intended only for use by them, and the staff of the trust. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this report, or any part of it, is disclosed to a third party, other than to the Education and Skills Funding Agency, our written consent must be obtained.

The report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could result in material loss to the trust or misstatement of the financial statements and other financial data.

Roles and Responsibilities

The trustees are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the trustees confirm that our understanding of all of the matters referred to in this report are appropriate, having regard to their knowledge of the particular circumstances.



2. Overview

Audit Status and overall opinion

We set out below the current status of the audit and our timetable to completion.

We have substantially completed our work, and intend to issue an unmodified audit opinion, subject to the trustees' approving the financial statements and any other minor outstanding items listed below being received and/or completed.

The follow matters are outstanding at the date of this report:

- Final review and approval by you of the final financial statements;
- Agreement of the final financial statements, including the Trustees Annual Report, to the latest draft;
- Post balance sheet events review to the date of signing the financial statements, including review of latest minutes and management accounts;
- Receipt of signed letter of audit representation

Timetable to complete

The anticipated time to complete is as follows:

Finance committee meeting to review the accounts	22 November 2017
Trustee board meeting to approve financial statements	6 December 2017
Signing of the trust financial statements	6 December 2017
Annual General Meeting	to be confirmed



2. Overview

Independence and ethical standards

We have not identified any potential threats to our independence as auditors. Please see pages 7 - 8 for further details.

Audit scope and objectives

We set out the scope and objectives of our audit. See page 9.

Overall audit strategy

We set out our overall audit approach. See pages 10 - 15.

Key audit and accounting issues

We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified during our audit.

During our audit we found no instances of fraud or irregularity.

During our limited scope assurance engagement on regularity, we found no instances where the trust has not been compliant with the Academies Handbook during the year.

Recommendations

We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit, along with any other deficiencies identified.



2. Overview

Misstatements and adjustments to the accounts

It is considered good practice to inform you of any material misstatements within the financial statements presented for audit that have been discovered during the audit. A material misstatement is one where the auditors believe that the misstatement is such as to affect the reader's understanding of the accounts. Materiality is considered in relation to the value of the misstatement and also its context and nature.

We are pleased to report that we did not identify any material misstatements during the course of our audit.

It is generally not practicable to make accounts completely accurate because judgements need to be made and it is difficult to obtain 100% of information about all transactions. Our role is to ensure that deviations from complete accuracy are not material to the reader of the accounts. During the course of our audit we may come up with various proposed adjustments to make the accounts more accurate. We are required by Auditing Standards to inform you of any such adjustments which have not been made, other than those deemed to be clearly trivial. Details of these are given in Appendix II.

We are required to request that you review these adjustments and consider amending the financial statements accordingly, and to confirm your reasons for not making the adjustments, if this is your decision.

The unadjusted audit differences we found are trivial and no further consideration is necessary.

Going concern

The trustees need to give consideration to the level of reserves maintained, and consider going concern for the period to 31 December 2018, being at least 12 months from the approval of the accounts and ensure they agree with the assessment. The trustees have confirmed that they believe the trust's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the trust's needs. Our review supports the going concern status of the academy trust.

Thanks

We would like to take this opportunity to thank the entire finance team and other staff for their co-operation and assistance afforded to us during the course of the audit.



3. Independence

Under current UK Ethical Standards we are required as auditors to confirm our independence to “those charged with governance” i.e. the Governors.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 August 2017.

We have identified the following potential threats to our independence as auditors.

In addition to performing the statutory audit, we also provide the following non-audit services:

1. preparation of the statutory financial statements;
2. certification of the Teachers’ Pension End of Year Certificate (“EOYC”);
3. the completion of the August Accounts Return and providing an assurance thereon;
4. completion of a termly programme of additional checks to provide your Finance Committee with assurance over the operation of financial systems and controls throughout the year;
5. input of figures from the statutory financial statements into the charity supplementary pages of the Corporation Tax Return;
6. reporting on teaching school grant income and expenditure to NCTL;
7. provide general advice throughout the year, as required.



3. Independence

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards, and are able to express an objective opinion on the financial statements.

The following safeguards are in place to ensure our independence:

1. the preparation of the financial statements from your own draft accounts is largely a mechanical function to present the results in the necessary format required by the Annual Accounts Direction. Any adjustments required, have been made following approval, and are listed in Appendix I to this report;
2. the certification of the Teachers' Pension EOYC does not affect our audit;
3. the completion of the August Accounts Return is largely an exercise involving the extraction of the relevant numbers from the financial statements and supporting accounting records, and the provision of an assurance report confirming that the Return has been completed consistently with the financial statements and other supporting records is not considered to affect our audit;
4. the termly programme of monitoring checks is carried out by individuals who are not involved in the audit process, and no direct reliance is placed on this work for our audit. Although Phil Eardley, the audit partner, is involved in the preparation of the final monitoring reports, any threat to independence is mitigated by an independent second partner review of the year end accounting adjustments and financial statements;
5. the input of figures into the charity supplementary pages of the Corporation Tax Return is a mechanical function to present the results in the necessary format required by HM Revenue and Customs;
6. the reporting to NCTL is not considered to affect our audit;
7. general advice and assistance with accounting queries arising throughout the year are not considered significant;

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.



4. Audit scope and objectives

Our statutory audit of the financial statements is carried out in accordance with International Standards on Auditing (UK and Ireland), with the aim of forming an opinion whether:

The financial statements give a true and fair view of the state of the academy trust's affairs as at 31 August 2017 and of the academy trust's result for the year then ended.

The financial statements have been properly prepared in accordance with UKGAAP.

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and the Annual Academies Accounts Direction issued by the Education Funding Agency.

The information given in the Trustees' Report for the financial year is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We also report on whether:

The academy trust has kept adequate accounting records.

The financial statements are in agreement with the accounting records and returns.

Other information contained in the annual report is not consistent with the audited financial statements.

Certain disclosures of trustees' remuneration specified by law are not made.

We have not received all the information and explanations we require for our audit.



5. Overall audit strategy

Risk-based audit

We performed a risk-based audit, focusing our work on key audit areas. We began by developing further our understanding of the trust's activities and the specific risks it faces. We held an initial planning meeting with key management and finance staff to ascertain management's own view of potential audit risk, and to gain an understanding of the trust's activities. We have also developed an in depth understanding of the accounting systems and controls so that we may ensure their adequacy as a basis for the preparation of the financial statements, and that proper accounting records have been maintained.

Our audit procedures were carried out, and we ensured that the presentation and disclosure in the accounts met all the necessary requirements.

Risk-based limited assurance engagement

In addition to our audit opinion we are also required to perform a limited scope assurance engagement, reporting both to you and to the Education and Skills Funding Agency ("ESFA"), considering whether the expenditure disbursed and the income received by the trust during the period 1 September 2016 to 31 August 2017 has been applied to the purposes identified by Parliament and that the financial transactions undertaken by the trust conform to the authorities which govern them. This latter point is concerned with looking at compliance with the requirements of the various frameworks that apply to the trust, including your memorandum and articles, your funding agreements, the Academies Financial Handbook(s) extant for the relevant period, the Accounts Direction 2016/2017, the Charities Act 2011 and the Companies Act 2006.

Our approach was once again risk-based. We began by developing our understanding of the trust's own approach to ensuring the proper application of funds received and to ensuring compliance with relevant legal and contractual frameworks. We developed an understanding of the trust's governance arrangements and internal control procedures, planning our work accordingly to allow us to gain sufficient evidence to give the required limited assurance opinion. Our assurance procedures included reviewing and commenting on the Accounting Officer's Statement on Regularity, Propriety and Compliance, and the trustees' report and governance statement. We also confirmed the procedures performed with the Accounting Officer so that he may sign the Regularity report.



5. Overall audit strategy

Significant risks

As part of our audit procedures we are required to consider the significant risks that require special audit attention.

Auditing Standards require us to consider:

- Whether there is a risk of fraud;
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- The complexity of transactions;
- Whether the risk involves significant transactions with related parties;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

We note the work performed and conclusions drawn on the following pages:



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Revenue recognition	<p>The auditor’s responsibility to consider fraud in an audit of financial statements means that there is an assumption that revenue recognition is a fraud risk.</p> <p>Income from grants should be recognised when the conditions of recognition have been satisfied.</p> <p>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</p> <p>Management exercise judgment in determining when income from grants should be recognised.</p> <p>There is also potentially management judgement in the classification of income between restricted and unrestricted funds.</p>	<p>We documented the income systems and carried out audit procedures to gain assurance over the operation of internal financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and trust finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed governors’ and Finance Committee meeting minutes. We have not been made aware of any significant frauds that occurred during the year.</p> <p>Our audit testing involved sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income recognition, whether relating to fraud or error.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Management override	<p>The trustees and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Trustees should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where they could override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly.</p> <p>During our audit we considered the possibility of manipulation of financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>Our audit procedures have not identified any instances of management override.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Regularity of income and expenditure</p>	<p>As set out on page 10 we are required to obtain limited assurance about whether the expenditure disbursed and income received by the trust during the financial year have been applied to the purposes intended, and whether the financial transactions conform to the authorities which govern them.</p> <p>The Accounts Direction 2016 to 2017 lists the following matters which may be potential triggers for an increased likelihood of irregularity in an established academy trust:</p> <ul style="list-style-type: none"> • culture (attitude and values) within the academy trust; • a change in accounting officer, principal finance officer or significant changes in the board of trustees; • an expansion of the number of academies within the academy trust; and • changes to the scheme of delegation or major accounting systems. 	<p>We documented income systems and carried out audit procedures to gain assurance over the operation of financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and trust finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed governors' and Finance Committee meeting minutes. We have not been made aware of any significant frauds that occurred during the year.</p> <p>Our audit testing involved sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not noted any material errors relating to income and expenditure, whether relating to fraud or error.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Related and connected parties</p>	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the Companies Act 2006 and Academies Accounts Direction 2016-2017. In particular, section 9.4.12 of the Accounts Direction 2016-17 requires that:</p> <ul style="list-style-type: none"> • declarations of business interests have been completed by those in a position to influence the academy trust, including key staff and published on the academy trust’s website; • contracts with connected parties have been procured following the academy trust’s procurement and tendering process; • where contracts are entered into or renewed on or after 7 November 2013 the academy trust has obtained statements of assurance (confirming no profit element was charged) and the academy trust has followed their internal processes in reviewing this; • the academy has requested, under the open book arrangement, a clear demonstration that the charges do not exceed the cost of supply; • governors who provide consultancy services to the academy trust are not receiving a profit for their services and the correct procurement and tendering process is being followed; • no connected party gains from their position by receiving payments under terms that are preferential; and • if employees are providing external consultancy that the income is being received into the academy trust’s accounts if the work was performed within the academy trust’s normal working hours. 	<p>We discussed with management and reviewed trustee and other senior management declarations to ensure there are no potential related party transactions which have not been disclosed.</p> <p>Internal procedures in place for the identification of related party transactions were reviewed and assessed, and any relevant information concerning any such identified transactions was reviewed.</p> <p>A Companies House search was completed for each of the trustees to identify possible related parties with which the trust may have transacted.</p> <p>We have requested written management representations from you confirming the full disclosure of related party transactions.</p>	<p>A number of related party transactions have taken place between the trust and the trustees/parties connected to the trustees during the year/period.</p> <p>Our audit work has provided assurance that the related party transactions disclosed in the financial statements are complete.</p>



6. Status of audit issues raised in prior year

This section updates you on the status of the issues we brought to your attention last year, and confirms whether any further action is required.

Issue (& Cause)	Solution suggested	Follow up comment
Underprovision of deferred income of £41,000 due to deficiency of information provided to the finance department by Teaching School	That the situation is discussed between Teaching School managers, the Teaching School Commercial Manager and the Finance Manager to ensure that there is clarity on the information needed and the purpose that information is needed for and then monitoring controls are put in place to ensure the school knows the true financial position at any time.	The position on recognition of income is looked at regularly throughout the year, meetings are held to clarify the purpose and timing of income streams and the related work to be undertaken. Schedules of accrued/deferred income are regularly prepared and reviewed by the finance department. The action taken has resolved this issue.



7. Recommendations for the current year

Significant deficiencies in internal control

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. As the purpose of the audit is for us to express an opinion on the trust's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We confirm that we have not identified any significant deficiencies in internal control during the 2017 audit.

We are also required to communicate other significant audit findings such as:

- where we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate in the particular circumstances of the entity;
- significant difficulties, if any, encountered during the audit; or
- other matters, if any, arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process are communicated to those charged with governance.



7. Recommendations for the current year

We confirm that we have nothing to report to you in any of the above three areas.

Other deficiencies in internal control

We also bring to your attention other deficiencies that came to our attention during our work, again along with our recommendations, and your own response:



Medium risk



Low risk

	Issue (& Cause)	Solution suggested	Follow up comment
	The holiday pay prepayment from 2016 was reinput at 31 August 2017 resulting in overstatement of prepayments and understatement of costs. Treatment of the holiday pay accrual/prepayment was discussed with UHY	Once the prepayments are posted, the total on nominal account 70110 Debtors and prepayments should be agreed to the total of the list of prepayments.	



7. Recommendations for the current year

	as it was the first time Paula had dealt with the second year of provision. However, the advice given was misinterpreted.		
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8. Appendix I - Agreed accounting adjustments

A number of adjustments to account for the adoption of FRS102 and inclusion of this year's actuarial figures in relation to the Local Government Pension Scheme have been made to the accounts, following agreement with your key management:

Journal	Ref	Nominal code	Description	Dr	CR	Effect on (profit)/ loss
Surplus per client's draft accounts						(111,935)
Client's post management accounts adjustment						
		02	Consultancy income		3,769	(3,769)
		97A 21	Accrued income	3,769		-
		Being	D Cleary Consultancy income			
A1		97A 02	Current service cost		383,000	-
		97A 21	Interest		153,000	-
		97A 62	Member contributions		75,000	-
		97A 31	(Gain)/loss on assumptions	60,000		-
		97A 61	Benefits/transfers paid	56,000		-
		350	Current service cost	383,000		383,000



8. Appendix I - Agreed accounting adjustments

	358		Interest	153,000	153,000
	365		(Gain)/loss on assumptions	60,000	(60,000)
	97D	21	Interest	98,000	-
	97D	31	Remeasurements	607,000	-
	97D	21	Admin expenses	5,000	-
	97D	41	Employer contributions	185,000	-
	97D	62	Member contributions	75,000	-
	97D	61	Benefits/transfers paid	56,000	-
	357		Interest	98,000	(98,000)
	364		Remeasurements	607,000	(607,000)
	357		Admin expenses	5,000	5,000
	372		Employer contributions	185,000	(185,000)
	Q16	Being	Pension fund movement in the year		
A5	XXX	XX	Bursarial Salaries	5,750	5,750
	XXX	XX	Premises Staff salaries	482	482



8. Appendix I - Agreed accounting adjustments

	xxx	xx	Secretarial staff salaries	2,760	2,760
	xxx	xx	IT Staff salaries	1,841	1,841
			Prepayments	10,833	
Being			Correction for last year's holiday pay prepayment being put back in		
Surplus per final accounts					<u><u>(513,871)</u></u>



9. Appendix II – Unadjusted audit differences

We are required to bring to your attention audit adjustments that the trustees are required to consider. We only found trivial adjustments with a value of £45 relating to accruals. As such, no further consideration is necessary.



10. Appendix III – Emerging and topical issues for academies

TPS Employer rate update

Last year we reported a likely rise in TPS Employer Contribution rates from April 2019 from the current rate of 16.4% to between 18% -20%. There is still no definitive news, however we understand this 2-4% rise remains the most likely scenario.

3 year budget forecasts?

A Dear Accounting Officer letter back in the summer intimated a possible move to 3 year forecasts in the future. ESFA appear to be assessing the benefits of moving to a 3 year return and a pilot study will be completed this year. This would be an interesting development following on from the introduction of the May BFRO return (to collect information on likely current year outturns earlier) in addition to the usual July BFR.

One can assume that by going public on their intentions at this stage the 3 year forecast is very much the ESFA's preference, and it is now probable that this will be introduced.

Many academy trusts already prepare 3 year or longer term forecasts, since this is very much best practice. A forecast extending to at least 3 years is, in our view, vital and especially so for any trust that is not blessed with a high level of reserves and cash.

Due diligence

Increasingly we are seeing multi-academy trusts expand, mergers and more transfers between trusts. It remains important that both the transferring academy or trust, and the recipient trust, are fully aware of each other's financial positions, and it is wise to complete some financial due diligence.

National Funding Formula (NFF)

This has been a long running saga, and to many the situation remains unclear. The media in recent months have covered numerous articles on the subject, and groups of Headteachers have been campaigning to highlight the impact and, in their view, continuing unfairness in the funding system. The government do appear committed to the NFF, despite the opposition to it, and the intention is still for the NFF to come into effect in 2018-19.

You should by now have seen your trust's provisional allocation, available on the DfE's website.

Apprenticeship levy

The levy was introduced in April 2017 and applies to all employers who have paybills of over £3 million; employers affected are required to pay 0.5% (of paybill) levy, subject to a £15k allowance.

The funds collected will be held by the government and can be accessed, plus an extra 10% top-up, by drawing down funding to use for training and assessment of apprentices. Please note that if funds are not used within 24 months an organisation will lose access to them.

We understand a new teaching apprenticeship may be available soon, and trusts can also employ apprentices in certain support and admin roles.

One interesting question is whether the ESFA would ever question the value for money aspect should a trust not take advantage of the levy funding available?

Gender pay gap reporting (GDPR)

New requirements were introduced from 6 April 2017 for all companies with more than 250 employees, and many academy trusts are caught by these changes. Trusts affected will have to publish their gender pay gap statistics on their websites, and must do so by April 2018; if affected you should be working with your payroll provider now to ensure you can meet your obligations. GDPR will become an annual requirement thereafter.

IR35 – guidance for working in the public sector

Changes to the legislation in April 2017 have prompted many questions on this subject, which applies where an individual is not employed by the trust, but is engaged via an 'intermediary' such as their own limited company. Trusts have an obligation to check the employment status of any contractor that is invoicing, rather than being paid a salary through the payroll.

Monthly Data Collection (MDC)

The deadline for on-boarding is this December so this should by now be in hand with your payroll provider. MDC allows schools to provide service and salary information to Teachers' Pensions on a monthly basis, as opposed to the Annual Return. MDC will be the only method for providing data from April 2018.

The benefits of MDC include:

- Real time accurate information for members;
- Easier submission process; and
- A likely reduction in the amount of service errors on member records, reducing re-work for employers.

