

Audit management letter

for the year ended 31 August 2016 for

Notre Dame High School

Prepared by: Phil Eardley, Audit Partner

Date of issue: 7 November 2016



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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 2016.

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 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	23 November 2016
Trustee board meeting to approve financial statements	7 December 2016
Signing of the trust financial statements	7 December 2016
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 2017, 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 2016.

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 2016 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.

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 Funding Agency ("EFA"), considering whether the expenditure disbursed and the income received by the trust during the period 1 September 2015 to 31 August 2016 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 2015/2016, 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 <i>[amend as required]</i>
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 <i>[amend as required]</i>
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 <i>[amend as required]</i>
<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 2015 to 2016 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 [amend as required]
Related and connected parties	<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 2015-2016. In particular, section 9.4.12 of the Accounts Direction 2015-16 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
No issues were raised last year	n/a	n/a



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 2016 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

We have nothing to report in this area.



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						(195,945.00)	
A1		101	01 Educational support staff salaries	1,813.20		1,813.20	
		103	01 Premises staff salaries	1,637.60		1,637.60	
		104	01 Admin and clerical staff salaries	4,728.91		4,728.91	
		201	04 Software cost	30,135.00		30,135.00	
		201	04 Software depreciation		10,445.28	(10,445.28)	
		221	05 Other support costs 2	15,928.80		15,928.80	
		400	GAG fund		43,798.23	-	
	Z10	Being	FRS102 adjustments relating to previous years included in current year incorrectly				



8. Appendix I - Agreed accounting adjustments

A2	215	05	Cost of fundraising trading	174.19	174.19
	120	01	Buildings maintenance	233.90	233.90
	125	01	Cleaning	214.67	214.67
	152	01	Technology consumables	196.60	196.60
	215	05	Cost of fundraising trading	13.72	13.72
	215	05	Cost of fundraising trading	66.64	66.64
	120	01	Buildings maintenance	89.36	89.36
	120	01	Buildings maintenance	98.86	98.86
	176	01	Pupil support	229.50	229.50
	882		Accruals	1,317.44	-
	Z1(2)	Being	Client late adjustment		
A3	97A	02	Current service cost	236,000	-
	97A	21	Interest	188,000	-
	97A	62	Member contributions	73,000	-



8. Appendix I - Agreed accounting adjustments

97A	31	(Gain)/loss on assumptions	2,105,000	-
97A	61	Benefits/transfers paid	60,000.00	-
350		Current service cost	236,000	236,000.00
358		Interest	188,000	188,000.00
365		(Gain)/loss on assumptions	2,105,000	2,105,000.00
97D	21	Interest	149,000	-
97D	31	Remeasurements	588,000	-
97D	21	Admin expenses	4,000.00	-
97D	41	Employer contributions	176,000	-
97D	62	Member contributions	73,000	-
97D	61	Benefits/transfers paid	60,000.00	-
357		Interest	149,000	(149,000.00)
364		Remeasurements	588,000	(588,000.00)
357		Admin expenses	4,000	4,000.00
372		Employer contributions	176,000	(176,000.00)



8. Appendix I - Agreed accounting adjustments

	Q16	Being	Pension fund movement in the year		
A4	059		Other school income - unrestricted	1,984.76	1,984.76
	049		Other school income - restricted	1,984.76	(1,984.76)
	Per PE	Being	Lottery fund grant for Volleyball		
A5	120	01	Building maintenance - GAG	29,925.63	(29,925.63)
	120	02	Building maintenance - Other DfE/EFA	29,925.63	29,925.63
	398	02	Other Dfe/EFA funds - transfer	29,925.63	(29,925.63)
	398	11	DfE/EFA capital fund - transfer	29,925.63	29,925.63
	Per PE	Being	Devolved formula capital grant spend		
A6	Z2-4	Being	Rounding		(5,170.67)
A7	398	12	GAG fixed asset fund - transfer	38,000.00	(38,000.00)
	398	01	GAG fund - transfer	38,000.00	38,000.00



8. Appendix I - Agreed accounting adjustments

	A/cs	Being	GAG spend on fixed assets		
A8		112	01 Governance staff costs	12,000.00	12,000.00
		104	01 Support staff costs	12,000.00	(12,000.00)
	PE adj	Being	Recharge proportion of Amy Wright's salary		
					1,464,000.00
			Deficit per final accounts		

The rounding adjustment is the result of rounding the figures from £1 to £1,000 in the accounts.



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 £424 relating to accruals. As such, no further consideration is necessary.



10. Appendix III – Emerging and topical issues for academies

TPS Employer rates expected to rise

We have recently been informed of a likely rise in TPS Employer Contribution rates from April 2019 from the current rate of 16.4% to at least 18%, possibly as high as 20%.

We would recommend that you take this significant rise in costs into account on longer term forecasts.

Personal Pensions

Recent changes in pension annual and lifetime allowances for individuals can have a significant effect on higher paid or very long serving members of final salary pension schemes. These can, inadvertently, result in large personal tax liabilities if an individual's position is not monitored regularly.

We recommend that higher earning employees, and those with long service, talk to their scheme administrators and request a personal statement. In some circumstances it would be wise to take independent financial advice.

The lifetime allowance is currently £1m, but the trend is for this to reduce, and although this seems a very large amount the way the rules interact for defined benefit pension schemes like TPS and LGPS mean this limit can be breached fairly easily by Headteachers and other higher earning staff.

Annual Accounts Return (AAR)

The EFA have announced changes to the AAR process for this year. Instead of a spreadsheet the 2016 AAR will be submitted via an online form, like the Budget Forecast Return.

The new process will involve pre-validation checks, and it will be necessary to explain why figures are outside of the expected range before submission.

Multi-Academy Trusts

Despite the Government's "u-turn" over forced academisation, it remains likely that the majority of schools will be academies within a few years.

The trend is towards multi-academy trusts, or MATs, with the EFA preferring MATs of between 5-10, maybe 10-15 academies.

Whether you are considering expanding your current MAT, creating a MAT, or joining into an existing MAT, it is vital that appropriate due diligence, including financial, is undertaken at an early stage of the process and before a decision is made.

We have seen several instances over the couple of years where costly financial surprises have come to light, which could have been avoided, or at least planned for, if due diligence had been undertaken.

Financial Support

The current financial climate in the education sector is likely to see an increase in academies and academy trusts finding themselves in financial difficulty.

It is vital that detailed forecasts are prepared for at least 3 years in advance. If you are predicting a shortfall in funds, and feel that restructuring alone will not solve the problem, please do not be afraid of contacting the EFA.

The EFA have dedicated teams that are able to talk with and advise academies facing financial difficulties, and they should not be consulted as a last resort. The EFA will look more favourably on trusts which are transparent and flag impending problems than on trusts which are seen to bury their heads in the sand.

Cutting costs – SLT's to face cuts?

If you are faced with cutting costs, it is inevitable that staff costs will be the first area you look at. Within staff costs the salaries of the senior leadership team will be the largest expense.

Trustees should be considering whether they are getting value for money from their SLTs by assessing how much time this tier of management spend in front of pupils.

