

Allotts Business Services Limited

Management Report
to
Armthorpe Shaw Wood Academy Limited

Year Ended 31 August 2016

Armthorpe Shaw Wood Academy Limited
Management Report Year Ended 31 August 2016

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1. Introduction

The purpose of this report is to set out certain matters which came to our attention during the course of our work in connection with the audit of the financial statements and the independent reporting accountant's assurance report on regularity for the year ended 31 August 2016.

A further supplemental objective is to use our knowledge of the Academy gained during our routine audit work to make useful suggestions concerning your financial systems for you to consider when looking at potential improvements in this area.

Our report relates only to those matters which came to our attention as part of our normal audit and assurance report procedures which are principally designed to enable us to form an audit opinion on the financial statements and an assurance opinion on regularity. Our work is not designed to test all internal controls or identify all areas of control weakness and should not be relied upon to disclose errors or irregularities which are not material in relation to the financial statements or regularity report.

1.1. Acknowledgements

We would like to take this opportunity to thank all staff we met during our audit for their co-operation and assistance.

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2. Overall objective

Our work is designed to consider whether:

- the financial statements of the Academy give a true and fair view of the state of the academy's affairs at 31 August 2016 and of its incoming resources and application of resources, including its income and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the EFA Accounts Direction, the Companies Act 2006 and UK Generally Accepted Accounting Practice;
- the information given in the Report of Trustees is consistent with the financial statements; and
- anything has come to our attention which suggests in all material respects the expenditure disbursed and the income received has not been applied to the purposes intended by Parliament and the financial transactions do not confirm to the authorities which govern them.

A further objective of our work is to bring to your attention our findings, including:

- key audit issues;
- material weaknesses in internal control;
- adjusted and unadjusted audit errors;
- significant financial statements figures and variances

2.1. Audit approach

Our overall audit approach is risk based and our detailed approach to individual components of the financial statements is derived from the results of our risk assessment on each area.

Our objective is to obtain sufficient appropriate evidence in order to form an audit opinion on the financial statements. Our audit plan is tailored to ensure that we carry out the minimum amount of audit work required to achieve our objective. The level of detail of our testing depends on the risks identified and the relative complexity of individual audit areas. This ensures that we concentrate our audit work on the areas identified as being of the highest risk of material misstatement and our work in lower risk areas is proportionately lower.

2.2 Approach to regularity assurance

Our work is a limited assurance engagement as defined in our engagement letter. The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion. Our engagement includes examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure

2.3 Materiality

Materiality on the financial statements as a whole relates to the level at which misstatements or omissions individually or in aggregate would affect the decisions of users of the financial statements, and the financial statements would no longer show a true and fair view.

The assessment of what is material is a matter of professional judgement and includes consideration of both the amount (quantity) and the nature (quality) of misstatements.

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2.3 Materiality (continued)

In carrying out an audit, we are concerned that accounts as presented show a true and fair view. Truth and fairness does not imply absolute accuracy but rather that the accounts reasonably state the affairs of the entity and do not contain any significant inaccuracies.

Certain items within a set of accounts, such as trustees' emoluments or loans, must be legally disclosed and therefore in this context materiality would not be relevant. Similarly, certain transactions or balances including issues of irregularity or propriety, may reasonably be expected to influence the decisions of users at a lower level and we determine this level accordingly.

Material adjustments have been agreed and adjusted in the financial statements.

Lower value, unadjusted misstatements have been reviewed and it has been agreed that they should not be adjusted in the financial statements.

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3. Strategy and areas covered

3.1. Overall audit strategy

Our overall audit strategy included:

- discussions with management and reviewing interim figures, the budget return and Responsible Officer/ Internal Audit reports to update our understanding of the academy, to identify any changes and identify areas of higher risk;
- reviewing the design and implementation of internal control systems affecting the areas of the financial statements identified as higher risk;
- carrying out risk assessment procedures to assess the overall audit risk and risk on individual audit areas
- using the risk assessment to plan and develop an appropriate audit plan and procedures
- substantive testing, along with observation, enquiry and walk through tests of systems to confirm that the systems and controls as advised to us are operating effectively and as stated
- verifying any material balance sheet figures
- performing analytical review of income and expenditure
- confirming that the financial statements had been prepared in accordance with the Academies Accounts Direction 2015 to 2016 in all material respects

3.2. Regularity work

Our work on regularity included:

- enquiry of officers of the academy
- review and testing of income and expenditure for compliance with the funding and other agreements, the Academies Financial Handbook and the academy's system of controls
- examination of relevant documents
- review of the activities carried out by the academy
- review of the delegated authorities set out in the Academies Financial Handbook

3.3. Higher risk areas identified at the planning stage

The following areas were identified as high risk at the audit planning stage and our audit approach concentrated on these areas accordingly:

- Income recognition – under ISA 240 there is a presumed risk that income may be misstated due to incorrect revenue recognition
- Management override – under ISA 240 there is a presumed risk of the management override of controls in all entities
- Employee remuneration
- Tendering and other procurement procedures

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4. Key findings

4.1. Matters identified at the planning stage

	Issue identified	Notes
1	Income recognition	<ul style="list-style-type: none"> • General Annual Grant (GAG) and other EFA income included in the financial statements was successfully agreed to final funding confirmation from the EFA. • Management confirmed that there is no EFA clawback in respect of pupil numbers. We confirmed that pupil numbers are within the range where no clawback would be expected. • Accrued / deferred income had been correctly provided where income is for a period other than the year ended 31 August. <p>No material issues have been noted re the recognition of income.</p>
2	Management override	<ul style="list-style-type: none"> • We have carried out tests of observation and enquiry and walkthrough tests of systems and controls, as well as checking the adherence to control procedures when carrying out substantive testing. • We reviewed the nominal ledger for large and unusual items including journal entries. <p>No indication of management override of controls or manipulation of items in the financial statements was noted.</p>
3	Employee remuneration	<ul style="list-style-type: none"> • Employee remuneration is a major expense of the academy and hence a higher risk area to our audit. • We have carried out tests of observation and enquiry and walkthrough tests of systems and controls, as well as checking the adherence to control procedures when carrying out substantive testing. • A sample of employees was selected and salary successfully agreed to contracts, deductions tested and agreed and existence agreed to third party evidence. • The charge in the financial statements was reconciled to the payroll. • Disclosures relating to higher paid staff and trustees were agreed. <p>No material errors re employee remuneration were noted.</p>
4	Tendering and procurement procedures	<ul style="list-style-type: none"> • We reviewed the tendering process and confirm it followed the academy's procurement policy and the requirements of the EFA. • A sample of capital expenditure has been tested to invoices. <p>No indication of non-compliance with procedures was noted.</p>

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4.2. Matters identified during the fieldwork

Our work is not designed to test all internal controls or identify all areas of control weakness and should not be relied upon to disclose errors or irregularities which are not material in relation to the financial statements or regularity report. Our report relates only to those matters which came to our attention as part of our normal audit and assurance report procedures which are principally designed to enable us to form an audit opinion on the financial statements and an assurance opinion on regularity.

4.2.1. Grading structure

For each recommendation we have assigned a grading of High, Medium or Low priority depending on the importance or risk of the issue as explained below:

Priority	Classification
High	There is a significant risk of loss to the academy through ineffective or absent controls or a highly inefficient use of the academy's resources. Urgent action is required to rectify the matter.
Medium	There is a weakness or inefficiency which should be addressed promptly.
Low	A possible improvement in application, efficiency or recording of control procedures has been identified for management to consider.

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4.2.2. Issues and recommendations

1	Financial Statements not on school website	
	<p>Observation</p> <ul style="list-style-type: none"> It was noted the academy trust's 2015 accounts had not been published on the academy's website. <p>Implication</p> <p>This is not in compliance with the Academies Financial Handbook. Annex C of the Handbook states the academy 'must publish audited accounts on the trust's website by the end of January following the financial year to which the accounts relate.</p>	<p>Recommendation</p> <ul style="list-style-type: none"> Ensure that the accounts are published on the academy's website in order to comply with the Academies Financial Handbook. <p>Priority : HIGH</p>
	Management Response	Timescale: 31 December 2016
	These had been published on the website previously but must have been missed when we transferred out website to a new provider. These have now been put back on.	

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4.2.3. Issues and recommendations

2	Board Meetings	
	<p>Observation</p> <ul style="list-style-type: none"> It was noted that the board of trustees had formally met only twice during the year and the finance committee also only twice. <p>Implication</p> <p>This is not in compliance with the Academies Financial Handbook. Part 2.1.3 of the Handbook states: 'The board and its committees must meet regularly enough to discharge their responsibilities under their articles of association, funding agreement and this handbook, to ensure robust governance and effective financial management arrangements. Board meetings must take place at least three times a year (and business conducted only when quorate), although trust may well consider it appropriate to meet more frequently'.</p>	<p>Recommendation</p> <ul style="list-style-type: none"> The board of trustees and sub committees meet at least three times during the year. <p>Priority : HIGH</p>
	Management Response	Timescale: 31 August 2017
	We are in the process of recruiting new governors to ensure that more meetings are able to go ahead in future periods.	
3	VAT returns	
	<p>Observation</p> <ul style="list-style-type: none"> It was noted that VAT returns have not been submitted to HM Revenue & Customs on a timely basis. Returns for June, July & August 2016 had not been submitted to HMRC at the time of our audit visit. <p>Implication</p> <p>Not submitting VAT returns on a timely basis may impact the academy's cash flow.</p>	<p>Recommendation</p> <ul style="list-style-type: none"> Returns are completed on a timely basis and submitted to HMRC by the end of the month following the month for which the return is prepared. <p>Priority : MEDIUM</p>
	Management Response	Original Timescale: 31 December 2016
	Previously prepared a quarter in arrears. To complete on a more timely basis for the 2016/17 year and future periods.	