

Allotts Business Services Limited

Management Report
to
The Hayfield School

Year Ended 31 August 2018



The Hayfield School

Management Report Year Ended 31 August 2018

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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 2018.

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 2018 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 ESFA 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 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 2017 to 2018 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
- Expenditure recognised in the correct period
- Misallocation of income and expenditure between funds
- Employee remuneration
- Tendering and other procedures regarding the capital project in the year

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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 ESFA income included in the financial statements was successfully agreed to final funding confirmation from the ESFA. • Management confirmed that there is no ESFA 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. • Non-recurrent grant income and other material sources of income were agreed to offer letters and contracts to ensure correctly recognised in the period. • A sample of prepayments, accrued and deferred income have been tested to contracts or other relevant documentation. <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. • Accounting estimates, judgements and assumptions were reviewed. <p>No indication of management override of controls or manipulation of items in the financial statements was noted.</p>
3	Expenditure recognised in the correct period	<ul style="list-style-type: none"> • A sample of creditor balances were agreed to supplier statements, or where statements were not available to the purchase and payment activity around the year end. • A sample of accruals have been tested to invoices or other relevant documentation. • Invoices, supplier statements and post year-end payments were reviewed for unrecorded liabilities. <p>No material unrecorded liabilities have been noted and expenses appear to have been recognised in the correct period.</p>
4	Misallocation of income and expenditure between funds	<ul style="list-style-type: none"> • Substantive testing of income and expenditure included checking that items had been allocated to the correct fund. • Material sources of income were agreed to contracts and it was ensured that related expenditure had been allocated to them. • Management confirmed allocation of overheads to funds. We confirmed such allocations were materially correct. <p>No material misallocation of income and expenditure between funds was noted.</p>

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	Issue identified	Notes
5	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 was agreed. <p>No material errors re employee remuneration was noted.</p>
6	Tendering and other procedures regarding the capital project completed in the year	<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 ESFA. • A sample of capital project expenses have been tested to invoices. • We reviewed the terms of capital grants received and confirmed that expenditure on the project was compliant with these and monitoring reports to funders had been submitted as required. <p>No indication of non-compliance with procedures re the capital project were 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	Going Concern	
	<p>Observations</p> <p>When preparing the year-end financial statements the trustees are responsible for assessing the ability of the Trust to continue as a going concern for a period of not less than 12 months from the date of approval of the financial statements ie can the Trust pay its debts as they fall due. Following a review of financial forecasts, the trustees have concluded that the Trust does not have adequate funds to meet its liabilities as they fall due within the next 12 months. The situation has arisen due to the exceptional circumstances surrounding the closure of the 6th Form. We note that the Trust have contacted ESFA with a recovery plan with a view to obtaining a loan to assist with the expected cashflow shortage. We also note that the trustees are currently considering a cost cutting restructuring to remove the in-year deficits.</p> <p>If the trustees' assessment is that the Trust will not be a going concern, the financial statements would have to be prepared on a break up basis.</p> <p>We, as auditors, also have similar responsibilities in respect of going concern status. We have to consider whether the trustees' assessment is reasonable and whether any disclosures in the financial statements are adequate.</p> <p>Implications</p> <ul style="list-style-type: none"> Based on the information seen to date, the trustees believe that the Trust will be a going concern, but this is dependent upon support from ESFA. This represents a material uncertainty in respect of going concern. As a result of this, details surrounding the uncertainty have to be disclosed in the notes to the financial statements. <p>In addition, our audit report has to make reference to the uncertainty in the going concern section, but our overall opinion on the accounts will not be not modified. ESFA have confirmed that, as the opinion is not modified or qualified, we do not have to separately notify the ESFA or NAO.</p> <ul style="list-style-type: none"> We would remind you that the trustees are responsible for overseeing and ensuring effective financial performance of the Trust. They have responsibilities for this under the Companies Act, the Charities Act and the funding agreement with the Secretary of State for Education. The Accounting Officer also has specific responsibilities for financial matters, including a personal responsibility to Parliament for the financial resources under the Trust's control. ESFA may issue the Trust with a Financial Notice to Improve (FNI) which will set out what the Trust must do to address the deficit. If a FNI is issued, the delegated authorities in the Financial Handbook will be revoked and the Trust will have to have certain transactions approved by ESFA 	<p>Recommendations</p> <p>The Trust should continue to update and rework its budgets and continue to implement cost-cutting exercises wherever possible. It should also continue to liaise with, and co-operate with the ESFA.</p> <p>Priority : HIGH</p>

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	<ul style="list-style-type: none"> • Loss of the school's financial reputation • Ultimately, if the issue is not addressed, the Trust (ie the legal entity not the school itself) may have its funding agreement terminated and therefore have to cease operations. 	
Management Response		Timescale: immediate
	<p>A recovery action plan is prevalent within the Academy. The Head teacher and senior leaders are looking at curriculum remodelling with a view to making the necessary expenditure efficiencies to ensure that the school operates within the bounds of affordability despite significant budget cuts.</p>	

2	Membership structure	
	<p>Observations We note that all 5 members of the Trust are also trustees. One member is also an employee of the Trust. This is allowed under the Trust's articles of association, but is not best practice under the Financial Handbook</p> <p>Implications If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers.</p>	<p>Recommendations The Trust should review its governance structure by reference to the Financial Handbook.</p> <p>Priority : LOW</p>
Management Response		Timescale: 31 August 2019
	<p>The Head teacher will review the governance structure with the chair of governors with the intention of appointing members that are not trustees of the Academy. This will remove any conflict of interests to ensure that the trustees operate with three clear objectives, these being :-</p> <ul style="list-style-type: none"> • Strategic Responsibility • Financial Responsibility • Challenge <p>Members will have limited responsibility in terms of the day to day running but will hold executive powers over the board of trustees.</p>	

4.2.3. Status of previous recommendations

No previous issues were report