

Allotts Business Services Limited

Management Report
to
South Ossett Infants' Academy Trust

Year Ended 31 August 2016



South Ossett Infants' Academy Trust
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 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
- Expenditure recognised in the correct period
- Misallocation of income and expenditure between funds
- Employee remuneration

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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. • 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. • We have tested a sample of sales and income receipts around the year end to ensure that income is recognised in the correct 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. • We reviewed the nominal ledger for large and unusual items including journal entries. • 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 trade creditors 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 in employee remuneration was noted.</p>
6	Tendering 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. • 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>
7	Change in financial reporting framework	<ul style="list-style-type: none"> • This is the first period for which Financial Reporting Standard 102 (FRS102) and the Charities SORP (2015) are applicable to the academy, and for which the academy has been required to prepare financial statements in accordance with the Accounts Direction 2015-2016 (which is based on SORP 2015 and FRS102). • We have identified the differences between the current and previous accounting regimes and the specific accounting and disclosure requirements affecting the academy. • The financial statements have been prepared in accordance with Accounts Direction 2015-2016 and disclosures outlining the impact of the transition to FRS102 are included in the notes to the accounts.

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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	Governors Interests	
	<p>Observation</p> <ul style="list-style-type: none"> During the audit it was noted that although Governors interests forms were generally being filled in, and improvements had been made since the previous year, the information contained was not complete in all cases, <p>Implication</p> <ul style="list-style-type: none"> This makes it difficult for the academy to monitor any related parties that do exist. 	<p>Recommendation</p> <ul style="list-style-type: none"> Ensure all governors are aware of what information needs to be included on the forms. The employers of the trustee and close family members should be entered as a minimum, together with organisations in which the trustee has a position of responsibility. <p>Priority : Medium</p>
Management Response		Timescale: 31 December 2016
	<ul style="list-style-type: none"> Completed in accordance with original guidance. Going forward, at next Governors' meeting, December 2016, will be brought fully up to date. 	
2	Authorisation of debit card payments	
	<p>Observation</p> <ul style="list-style-type: none"> During the audit it was noted that transactions made on the Business Manager's debit card were not formally approved. <p>Implication</p> <ul style="list-style-type: none"> This could lead to inappropriate spending of school funds. 	<p>Recommendation</p> <ul style="list-style-type: none"> Ensure that the purchases are approved before the transaction takes place. If this is not practical, periodically an independent review should take place of credit card statements. <p>Priority : Medium</p>
Management Response		Timescale: 31 December 2016
	<ul style="list-style-type: none"> All debit card transactions are pre-approved by the Headteacher. Going forward, all debit card statements will be checked and initialled by the Headteacher. 	

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4.2.3. Status of previous recommendations

Progress against previous recommendations is as follows:

1	Leasing contracts	
	<p>Observations</p> <ul style="list-style-type: none"> During the year it was noted that a lease was taken out for 2 photocopiers. As the discounted cost of the lease is more than 90% of the machines bought outright, then this could be considered as a finance lease. If a finance lease is taken out it needs prior approval from the Secretary of State. 	<p>Recommendations</p> <ul style="list-style-type: none"> Review any new lease agreements to ensure correctly approved. <p>Priority : MEDIUM</p>
	Management Response	Original Timescale: 31 December 2015
	<ul style="list-style-type: none"> Not referred, as re-negotiation of existing arrangements. All subsequent leases have been, and will be, referred to the EFA. 	
	Update	
	<ul style="list-style-type: none"> No new lease agreements taken out during the year. 	

2	Governors Interests	
	<p>Observation</p> <ul style="list-style-type: none"> During the audit it was noted that although Governors interests forms were generally being filled in, and improvements had been made since the previous year, the information contained was not complete in all cases, <p>Implication</p> <ul style="list-style-type: none"> This makes it difficult for the academy to monitor any related parties that do exist. 	<p>Recommendation</p> <ul style="list-style-type: none"> Ensure all governors are aware of what information needs to be included on the forms. The employers of the trustee and close family members should be entered as a minimum, together with organisations in which the trustee has a position of responsibility. Staff trustees should confirm their employment at the academy <p>Priority : Medium</p>
	Management Response	Original Timescale: 31 December 2015
	<ul style="list-style-type: none"> Members Interests forms were circulated , and fully completed, at the governors' meeting on 14/12/15, and will be kept up to date. 	
	Update	
	<ul style="list-style-type: none"> Substantial improvement has taken place. However, some trustees are still not fully disclosing their interests. 	