

Droylsden Academy

*Audit Findings Report for the
year ended 31 August 2019*

Droylsden Academy

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Introduction

This document aims to assist the directors with regard to the financial statements by summarising the results of our audit work.

This memorandum has been prepared by MHA Moore and Smalley in connection with the audit of the financial statements of Droylsden Academy for the year ended 31 August 2019.

Scope

We are required under International Auditing Standards to communicate with those charged with governance the outcomes of our audit work.

Sufficient audit work is undertaken in order to provide an opinion on the financial statements and assurance over regularity. The work undertaken is not completed with the purpose of forming an opinion on the effectiveness of internal controls. Any recommendations identified have arisen from the audit work completed.

The importance of communicating with those charged with governance was emphasised in the letter from Lord Agnew sent to auditors in April. The ESFA is increasingly using the audit findings report to help inform the assessment of the quality of governance and control frameworks in trusts. A copy of this report will be submitted to the ESFA together with the financial statements.

The summary has been provided by MHA Moore and Smalley in connection with the external audit services supplied to Droylsden Academy and has been prepared solely for the benefit of these organisations. MHA Moore and Smalley neither owes nor accepts any duty of care to any third party and shall not be liable for any loss, damage and/or expense which is caused by any reliance that any other party may place on this information.

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Executive Summary

Key audit risks

We have obtained sufficient audit evidence to conclude on the risks identified in the Outline Audit Strategy.

Accounting policies, estimates and disclosures

We have reviewed the significant accounting estimates and have concluded that the assumptions used in their calculation are reasonable and estimates are not materially mis-stated.

Specific representations from the Governors

- The agreed audit adjustments on page 9 have been approved.
- The unadjusted misstatements on page 10 are not considered material to adjust for.
- The Directors are satisfied that any restriction on funding received in the current or previous years has either been satisfied or is correctly reflected in the funds carried forward at the end of the current year.

Agreed audit adjustments

The key adjustments made to the draft account were:-

- Adjustment for the FRS 102 pension liability

Unadjusted misstatements

Total unadjusted misstatements amount to £4,197 overstated deficit, which we do not consider to be material.

Recommendations

The current year recommendations and follow up of prior year recommendations are listed on pages 11 and 12.

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Audit and accounting issues

As part of the preparation of the accounts we generally discuss the correct accounting treatment for transactions with the Trust finance staff. The outcome of any discussion and the decisions reached are included below for your approval.

Significant findings	Treatment in accounts
<p>Local Authority Pension Scheme</p>	<p>The Local Authority Pension Scheme liability recognised in the accounts this year is £1,185k. This has changed from a net asset of £184k in the previous year. The movement is primarily due to two factors.</p> <ul style="list-style-type: none"> • An actuarial loss of £1,145k which is principally due to a reduction in the discount rate from 2.8% to 1.9% resulting from a reduction in corporate bond yields. This means that the present value of future liabilities has increased. • Pension costs in the year include £55k to account for the potential impact of the McCloud judgement. The McCloud case considered the difference in provisions for members of different ages when a new benefit structure was introduced in 2012. This was challenged on the basis of age discrimination and the differential now needs to be remedied. <p>No allowance has been included in the valuation for the potential impact of Guaranteed Minimum Pension (GMP) equalisation. This relates to the equalisation of benefits resulting from the different pension ages of men and women. Current industry guidance has indicated that the impact is likely to be between 0 and 1% of pension liabilities. An increase of say 0.5% in the net present value of future liabilities of £7,841k at 31 August 2019 would equate to £39k. In the context of your net pension liability of £1,185k this is not considered to be material.</p>
<p>Fixed assets</p>	<p>A number of fixed asset additions in the year relate to the property and have been included in long leasehold land and buildings. The depreciation policy for this category is to write off assets over 40 years. For some of the assets, their useful economic life is likely to be less than this. The Directors may wish to consider reviewing the fixed asset categories and creating a leasehold improvements category. The relevant assets can then be written off over a shorter period. This would increase the depreciation charge each year by approximately £23,000.</p>
<p>Old funds carried forward</p>	<p>Restricted funds carried forward includes balances brought forward from 31 August 2014 totalling £352,724. Unrestricted funds brought forward from pre August 2014 total £286,894. The Directors should formalise a plan to consider how they will be spent.</p>

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Key audit risks

The key audit risks identified at the planning stage are set out below, together with the results of our testing.

Risk	Audit procedures undertaken	Conclusion
<p>Recognition of Expenditure</p> <p>Expenditure may not have been allocated correctly against the General Annual Grant and other funding streams resulting in an incorrect carried forward balance.</p>	<p>GAG funding was agreed to confirmation from the EFA. The allocation of expenditure in conjunction with the funding agreement was reviewed and tested to ensure that it had been allocated correctly. Expenditure reviewed against other funding streams to ensure that the correct balance had been carried forward.</p>	<p>Sufficient audit testing has been performed to provide assurance that the restricted fund balances carried forward appear to have been correctly stated in all material respects.</p>
<p>Completeness of Income</p> <p>Income may not be allocated correctly between restricted and unrestricted funds. Income may not be recognised in the correct period.</p>	<p>The allocation of the various income streams was tested to ensure they are correctly allocated between unrestricted and restricted funding.</p>	<p>Sufficient audit testing has been undertaken to obtain evidence that income has been recognised in the correct period as well as it being appropriately allocated between restricted and unrestricted funds.</p>
<p>Fixed assets</p> <p>Fixed asset additions may not have been capitalised in accordance with the academy's policy</p>	<p>All repairs and maintenance expenditure was reviewed to identify potential capital items.</p>	<p>Sufficient audit testing has been undertaken to obtain evidence that fixed assets have been capitalised in accordance with the academy's policy.</p>
<p>Local Government Pension Scheme Deficit</p> <p>The FRS102 Pension Liability may not have been calculated correctly.</p>	<p>Qualifications of the actuary valuing the liability considered and also ensured that assumptions used are reasonable.</p>	<p>Sufficient audit testing has been undertaken to obtain evidence that the FRS 102 pension liability is not materially mis-stated.</p>

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Key audit risks (continued)

Risk	Audit procedures undertaken	Conclusion
<p>Disclosures</p> <p>All required disclosures may not be included correctly in the accounts.</p>	<p>Disclosure checklists were completed to ensure the requirements of the Companies Act, Charities SORP and Academies Accounts Direction have all been met.</p>	<p>The disclosures meet the requirements of the Companies Act, Charities SORP and Academies Accounts Direction.</p>
<p>Regularity</p> <p>Income and expenditure may not have been applied for the purposes intended and approval may not have been sought from the DFE as required for certain transactions</p>	<p>Income and expenditure were reviewed (including credit card and petty cash expenditure) to identify unusual or unexpected transactions which may not be valid or appropriate.</p> <p>We also reviewed to identify any transactions which would require prior approval from the Secretary of State to ensure that this had been obtained.</p> <p>We have reviewed governance arrangements in line with the Financial Handbook as detailed in Annexe B, section 4.14 of the Accounts Direction.</p>	<p>No transactions were identified which required prior approval from the DfE and this was confirmed to be the case by the Business Manager/Director of Finance. No irregular or improper use of funds was identified throughout the course of the audit fieldwork and there appear to be sufficient controls in place to enable the Accounting Officer to identify any such instances.</p> <p>No breaches of the requirements of the Academy Financial Handbook have been identified as a result of the work undertaken.</p>
<p>Management override</p> <p>Unauthorised transactions are processed in the accounting records.</p>	<p>We have reviewed cashbooks, credit card statements, expense claim forms and non-recurring journals for any non-routine transactions outside the normal course of business.</p>	<p>We have designed and performed such procedures as we considered necessary to give us a reasonable expectation of detecting, should they exist, instances of management override of controls and procedures that could result in material misstatements in the accounts. No such instances of management override have been detected.</p>

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Key audit risks (continued)

Risk	Audit procedures undertaken	Conclusion
<p>Going concern</p> <p>The risk that the charity is unable to continue in operation for at least a period of 12 months from the date of accounts approval.</p>	<p>We have reviewed the reserves position at the year end and budgets prepared.</p>	<p>Sufficient work has been completed to provide evidence that the preparation of accounts on a going concern basis is appropriate.</p>
<p>Trustees' annual report (TAR)</p> <p>The Trustee' annual report may not be consistent with the accounts and all required disclosures may not be included.</p>	<p>We have read the TAR and checked that key financial and non-financial information within the TAR is consistent with the accounts.</p> <p>Furthermore we have reviewed the content of the TAR for compliance with the applicable legal requirements.</p>	<p>Our work has provided sufficient evidence that the TAR has been prepared in accordance with applicable legal requirements, and we have not identified any material misstatements in the TAR</p>

No additional key risks have been identified during the course of the audit.

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Specific disclosures required in the accounts

We are required by Auditing Standards to make certain communications with you in writing as set out below:

Accounting policies, accounting estimates and disclosures within the financial statements	As part of our audit work we have reviewed the accounting policies adopted by the company, the accounting estimates used in drawing up the financial statements, and the disclosures included within the financial statements. There are no matters which we consider should be drawn to your attention concerning these qualitative aspects of the entity's accounting practices and financial reporting.
Expected modifications to the audit reports	There are no expected modifications to the audit reports.
Other matters required by Auditing Standards to be communicated to the Directors	There are no other matters that we are required by auditing standards to communicate to you.
Other matters relevant to the audit.	We have discussed with you the fact that we have provided accounting and additional internal scrutiny services in addition to acting as auditors. We wish to confirm to you that in our opinion the provision of such services does not affect our audit independence as these services are provided by a separate team of staff. In addition, all adjustments to the draft accounts are agreed with Senior Management and Directors, and any matters requiring the exercise of judgement, are decided upon by Senior Management and Directors.

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Specific representations from the Governors

As part of the completion process, we will ask you to provide a letter confirming representations made to us during the audit process.

<p>The letter of representation confirms that we have had access to all relevant information, books and records during the audit together with other representations which are provided annually.</p>	<p>Each year the Directors are asked to confirm their responsibility for the preparation of the accounts and that it is appropriate to prepare the accounts on a going concern basis and that the accounts include all relevant information up to and including the date on which the report and accounts are signed.</p> <p>You are also asked to confirm that you have no knowledge of any fraud, and that all related parties and related party transactions have been properly notified to us.</p>
<p>In addition there may be specific representations which are requested in relation to an individual period of accounts.</p>	<p>This year we will ask the Directors to confirm the following:</p> <ul style="list-style-type: none">• The agreed audit adjustments on page 9 have been approved.• The unadjusted differences on page 10 are not considered material to adjust for.• The Directors are satisfied that any restriction on funding received in the current or previous years has either been satisfied or is correctly reflected in the funds carried forward at the end of the current year.

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Agreed audit adjustments

This is a summary of the adjustments made to statutory accounts, since we received the original drafts. You will be asked to confirm that you approve these adjustments in the letter of representation.

	Droylsden Academy £
Accounts adjustments	
Deficit for the year per draft statutory accounts prior to accounts adjustments	(560,936)
Intangible assets amortisation charge	(1,842)
Deferred rates grant	(20,205)
Amend PAYE creditor	(1,293)
Accrue audit fees	(12,410)
Pension adjustment	(1,369,000)
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Deficit for the year per final statutory accounts	(1,965,686)
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Unadjusted misstatements

This is a summary of the differences identified during the course of our audit work, which have not been adjusted for. You will be asked to confirm that you do not consider it material to adjust the statutory accounts for these items in the letter of representation.

	Actual £
Understated prepayments	4,197
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Deficit overstated	4,197
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Prior year recommendations – follow up

These are our recommendations for improvements to the current systems and procedures which have come to light during the course of our audit work.

RANK:

(H)igh – Should be urgently attended to by the governors and management.

These are significant issues which may result in a qualification of the audit report in future periods if not satisfactorily addressed.

(M)oderate – Issues requiring the attention of the governors and management.

Issues ranked as moderate require close monitoring by the governors and senior management to ensure timely resolution.

(L)ow – Issues requiring management attention and correction.

Issues ranked as low are generally routine in nature and should be resolved by general management. The governors and senior management should be aware of these issues to enable monitoring of progress with their resolution. These issues may be reported to management in less detail than more highly rated issues.

Rank	Matters arising	Recommendation	Action taken
L	<p>Catering receipts as evidence of amounts banked</p> <p>On review of the catering income systems testing, it was identified that one receipt providing evidence of the amounts of cash collected by Loomis had not been maintained.</p>	<p>Receipts should be attached to the finance spreadsheet which logs the total takings to be banked as evidence that amounts collected are correct.</p>	<p>Since 1st November receipts are attached to the finance spreadsheets to evidence amounts collected.</p>

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Recommendations

Rank	Matters arising	Recommendation	Management response	Timescale
M	Companies House Records It was noted that Companies House was not up to date with the latest board of Governors (who are also directors under the Companies Act 2006). It is a requirement of the Companies Act 2006 that Companies House is up to date with statutory changes.	It is recommended that an exercise be undertaken to update Companies House records.	Companies House records are now updated.	In place
M	Depreciation A number of fixed asset additions in the year relate to the property and have been included in long leasehold land and buildings. The depreciation policy for this category is to write off assets over 40 years. For some of the assets, their useful economic life is likely to be less than this.	Review the depreciation rates for land and buildings. Consider whether a new category should be created for leasehold improvements to better reflect the work completed.	The fixed asset register will be updated to reflect the useful economic life.	30 th November 2019
L	Catering receipts In one instance, there was a £40 discrepancy between the cash as noted on the banking sheet and the actual amount received by the bank. This had not been fully investigated at the time. It is currently being reviewed by the bank.	Ensure that any cash discrepancies are fully investigated as soon as they are identified.	The discrepancy was investigated but the bank's response was inadequate. This issue will be followed up to obtain a final response.	31 st December 2019

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Recommendations (continued)

Rank	Matters arising	Recommendation	Management response	Timescale
L	<p>Wages contracts It was identified that 19 of 30 employees selected did not have a signed contract.</p> <p>Whilst there is other authorised documentation to confirm existence, this does not provide evidence that the employee agrees to the terms and conditions of employment.</p>	It is recommended that signed acceptance letters are obtained for all employees.	An audit of contracts is taking place to ensure all contract terms are accepted.	31 st March 2020

Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit tests, we would, of course, inform you immediately.

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