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The Skinners Academy

Post-audit Management Report

Year ended 31 August 2018

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Contents

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Executive summary

Purpose of the external audit

Our work was performed with a view to expressing a reasonable assurance opinion on the financial statements of The Skinners Academy (the Academy) for the year ended 31 August 2018 and to draw a limited assurance conclusion concerning regularity and propriety in the application of government funding.

Our audit work also included consideration of the internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance and/or to the Education and Skills Funding Agency (ESFA) in accordance with their requirements.

We appreciate that you will already be aware of some of the matters contained in this letter. However, in accordance with the ESFA's requirements and International Standards on Auditing (UK) (ISAs) we are communicating them to you formally.

This report and its contents were submitted in draft form to Olu Alalade (Chief Financial Officer) for comment prior to finalisation.

Audit progress

We are pleased to report that the audit, from our perspective, ran smoothly and that the timetable for the overall completion of the audit has been met. We would like to take this opportunity to thank all those with whom we dealt during the audit for their assistance and co-operation, in particular Olu Alalade and Christine Mykoo.

Expected opinions

Subject to the satisfactory receipt of the outstanding items and confirmations as set out below, we intend to issue the following opinions:

Financial statements opinion: **Clean**
We expect to express our judgement that the financial statements give a true and fair view and have been properly prepared in accordance with the Academies Accounts Direction 2017 to 2018 issued by the ESFA and Companies Act requirements. There is no significant change to the form or content of our audit report

Regularity assurance conclusion: **Clean**
We intend to state that in the course of our work, nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

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Key audit findings

Key audit issues and outcomes

As part of our pre-audit planning process, we identified those areas where we believe there is a higher probability that a material error may appear in the financial statements as well as areas of significant interest or concern for management and those charged with governance. In the pages which follow we have provided a brief summary of the outcome of our audit work in relation to those areas.

Risk area or issue	Summary and conclusion
Risk of clawback of funding	At the end of the 2017 financial year there were a number of funds held by the Academy for which the risk of clawback was increasing. This primarily related to three funds as outlined below: *GAG Funding* The carry forward limit for this fund is 12% of the current year income. For the year ended 31 August 2018 this equates to £943,845. The balanced carried forward of £837,296 is below this threshold. *Start Up Funding* These funds have been fully utilised during the financial year and no balance is carried forward. The year ended 31 August 2018 was the final year of the start up period and if not fully expended they would have been at risk of clawback. *Devolved Formula Capital (DFC) Funding* This funding is to be utilised within two years of receipt. We have confirmed that the amount carried forward of £42,103 within the fixed asset fund is equal to the grant received in 2017 (£20,463) plus the grant received in 2018 (£21,640). We have reviewed the final allocation of income and expenditure against each fund to ensure that the allocation has been made on an appropriate basis. The reduction of balances on these funds was largely due to the acceleration of planned capital works which were brought forward into 2018 to ensure that funds were utilised for the benefit of the Academy. The Academy should continue to closely monitor projected balances on the GAG fund as the risk of clawback will continue as long as the 12% limit as stipulated in the funding agreement remains. We have attached as Appendix 3 to this report a projection of the clawback position at the end of the 2018/19 financial year based on the current budget.

Risk area or issue	Summary and conclusion
Capital project	During the year, the Academy commenced number of major capital projects including a refresh of computer hardware, installation of CCTV, a new public address system and building of a climbing wall. The total value of capital works, as recognised by additions to fixed assets was £716,000. Given the timing of delivery and completion of some of these works, there was a further risk in relation to whether all relevant costs had been recognised in the correct accounting period and whether disclosures regarding any unaccrued capital commitments were complete. We have reviewed the amounts expended in relation to the capital project and sample checked the expenditure to gain assurance over the accounting treatment. The amounts sample checked were considered capital in nature and the treatment was deemed appropriate. We also review the repairs and maintenance expenditure for the year to identify potential costs expended on the project which may have been incorrectly written off. This review did not reveal any additional costs which should have been capitalised. We also reviewed cut-off, i.e. the financial period in which the expenditure has been recognised, and the disclosures made surrounding the year end capital commitment.
Income recognition	There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in the wrong period or at artificially inflated or suppressed amounts. We carried out detailed analytical review against expectations based on our understanding of the and against the prior year. Reasonable explanations were obtained from management and significant variances identified which were substantiated as appropriate. No significant issues arose during our sample based checks including on our work on ESFA and non-ESFA income.

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Risk area or issue	Summary and conclusion
Regularity	Regularity and the use of government funding continues to be a substantial focus of the ESFA and National Audit Office. Ensuring regularity within the Academy is the responsibility of the Board and all of the current focus on regularity in the academy sector has only increased the level of responsibility for the Board to monitor and document management of risk including risk of irregularity. ESFA expects all academies to implement appropriate procedures and policies which mitigate the risk of irregularity in (but not limited to) the following areas: • Procedures and policies in relation to risk management and ensuring that these are regularly considered; • Procedures and policies in relation to general procurement, use of credit cards and expense claims; • Procedures and policies in relation to the appropriate remuneration of payroll staff, agency staff and consultants; and • Procedures and policies in relation to the management of conflicts of interest and related party transactions. The regularity self-assessment was provided for audit, which was completed by the Academy's finance team and reviewed by the Accounting Officer. The regularity self-assessment confirms the processes in place to ensure regularity, propriety and compliance within the Academy in relation to the above areas and the other requirements set out in the Academies Financial Handbook. The Academy has not informed us of any material control weakness or irregularity. Based on our review of the self-assessment questionnaire, the work undertaken to verify the responses provided, and our consideration of the regularity and propriety of transactions selected for our sample based testing, we are satisfied that the conclusion reached in our regularity assurance report is appropriate.

Risk area or issue	Summary and conclusion
Related party transactions	In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK Accounting Standards and the ESFA Academies Accounts Direction requires transparent disclosure of all transactions and balances arising between the Academy and its related parties. In addition, the ESFA Academies Handbook places restrictions on the permissibility of certain related party transactions. The Academy's procedures for identifying related parties and associated transactions were reviewed. This includes the requirement for each of the Trustees and member of the Academy Senior Management Team to update their declaration of interests annually, and to declare any interests they have at the commencement of business meetings. Based on the work undertaken, we have no concerns over the completeness of related party transaction disclosures. We will obtain written representations from you also, asking the Board and management to confirm their satisfaction with the completeness of the disclosures made.
Management override of controls	There is an inherent risk in all organisations that management may be in a position to override controls or agreed protocol. Such actions may be taken in order to conceal or process unauthorised or inappropriate transactions, or may occur due to weaknesses in the control environment. Such actions could lead to either deliberate or inadvertent misstatement of the results portrayed by the financial statements. The risk is greater this year given the change around in key finance personnel during the year, thus increasing the likelihood of agreed procedures not being followed due to unfamiliarity. Journal entries were reviewed, particularly those surrounding the year end and explanations were sought for any large or unusual items. All items tested and discussed with management were deemed appropriate.

Risk area or issue	Summary and conclusion
Accounting estimates	Certain accounting entries within the financial statements are made on the basis of an estimate and changes in the underlying assumptions could lead to a shift in the reported results. The most material estimates within the Academy's financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges), and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme. We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated in accordance at an appropriate rate. The year-end liability in respect of the Local Government Pension Scheme is consistent with the estimate provided by the scheme's actuary and the assumptions used appear reasonable.

Risk area or issue	Summary and conclusion
Financial climate and reserves policy	The current financial climate is very challenging for the sector which is increasing the importance of carefully managing reserves and financial forecasting. The Academies Financial Handbook requires the Academy to prepare a 'balanced budget' (which can draw on unspent funds brought forward from previous years). The ESFA further asks to be notified within 14 days where an in-year deficit revenue budget is set (and this cannot be addressed through brought forward reserves). The Academy may feel therefore feel pressure to present a more favourable outturn. The results of the Trustees assessment of the going concern status of the Academy is provided in both the Trustees' report and within the principal accounting policies. This confirms that the Trustees have given due consideration to the going concern status of the Academy and that they conclude that the Academy Trust is a going concern. The balance sheet and year end reserves position was considered in conjunction with available budgets, our knowledge of the Academy's future plans and the reserves policy determined by the Trustees. We are satisfied that the Trustees have given due consideration to the going concern status of the Academy and we have no reason to contest the conclusion made in light of the evidence provided.

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Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2017 to 2018 (the Accounts Direction) which is issued annually. Compliance with the Accounts Direction also ensures that the requirements of Companies and Charities legislation are met.

There have been only a small number of changes introduced by the 2017/18 revision of the Accounts Direction. The notable changes of relevance to the Academy were as follows:

- **Trade Union Facility Time (TUFT):** For academy trusts with more than 49 full-time equivalent employees (for any seven month period of the year), there is now a requirement under the Trade Union (Facility Time Publication Requirement) Regulations 2017, for details to be provided within the annual report of the time spent and related cost of employees undertaking facility time (i.e. trade union duties).

- **Fundraising:** Under the provisions of the Charities (Protection and Social Investment) Act 2016, all academy trusts are required to include a statement within their annual report in relation to their fundraising practices, including their approach to fundraising and how they conform to standards of best practice. Where the Academy Trust does not actively fundraise, a statement should still be provided confirming this is the case. In addition, fundraising costs must now be analysed between direct and support costs.

- **Related party transactions:** Where goods or services have been acquired from related parties at a value in excess of £2,500, the disclosure note in the financial statements must confirm that the goods / services have been acquired at no more than cost and that this is supported by a statement of assurance from the related party.

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- **Funds reconciliation note:** In line with clarifications set out in SORP Information Sheet 1, the disclosure note which provides a reconciliation of the movements in the academy trust's reserves must now be expanded to include a reconciliation of the fund movements for the comparative period. In addition, a reconciliation is also needed showing the combined movement in reserves as a result of both current and comparative period income and expenditure on an aggregated basis.

In all respects, the Academy's annual report and financial statements have complied with the new requirements.

Accounting policies, estimates, and disclosures

Our work included a review of the adequacy of disclosures included in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Academy. We believe that the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the Academy and in compliance with the Accounts Direction. We have no further comment to make in this regard.

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Audit adjustments and unadjusted misstatements

Under Auditing Standards, we are required to provide you with details of any adjustments identified during the course of our audit work which have been made to the figures presented to us for audit.

Total impact of audit adjustments £31,129 increase in funds

Details of the adjustments which have been made to the figures presented to us for audit are provided at Appendix 1. These have all been discussed and agreed with Olu Alalade. We will obtain written representations from you, as Trustees, that you concur with these adjustments.

Unadjusted misstatements

Other than clearly trivial misstatements, all misstatements identified during our audit have been adjusted.

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Audit observations and recommendations

We are pleased to report that we found no significant deficiencies in the accounting and internal control systems during our audit.

The table below provides a summary of any observations made concerning weaknesses in the Academy's accounting and internal control systems. Observations included in the "A" grade (red) banding indicate that, in our opinion, immediate action is required. Conversely, observations included in the "C" grade (yellow) banding indicates that the matter, although important, does not warrant urgent attention.

Priority	No of points	Relating to
B Grade	**3**	• Incomplete personnel records* • Fixed asset register* • Authorisation of credit card expenditure*

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Items marked with an asterisk are observations which were also made and reported in our post-audit report to you last year, but which remain unresolved.

Further details in respect of the observations made and our associated recommendations are provided at Appendix 2 to this report.

We are, however, pleased to report that the following observations made last year have been satisfactorily dealt with:

Priority	Relating to
B Grade	• Authorisation of expenditure over £25,000 • Redundancy payments • Clawback
C Grade	• Companies House updates

Financial performance and position

Audited results

Based on the audited financial statements, **the Academy's total reserves increased by an amount of £303,000** (2017: £641,000) during the year providing net assets of £28,112,000 at the balance sheet date (2017: £27,809,000).

Excluding movements on tangible fixed assets, the defined benefit pension liability, and other non-recurring items, **the Academy's "operational" deficit for the year was £145,000** (2017: surplus of £862,000), as reconciled below.

It should be noted that the below operational deficit includes £616,000 of fixed asset additions financed through GAG funding.

	£'000
Overall net movement in funds	**303**
Add: net expenditure attributable to the fixed assets fund (note 1)	21
Less: LGPS actuarial gain (note 2)	(707)
Add: LGPS service cost adjustment (note 2)	198
Add: LGPS interest cost adjustment (note 2)	40
Operational deficit for the year	**(145)**

Note 1 Movement on fixed assets fund

For the purposes of determining the "operational" result, the net expenditure in respect of the fixed assets fund has been disregarded on the basis that the principal movements within this fund relates to capital funding received and the depreciation applied on assets purchased from such funds, are not in relation to the day-to-day operation of the Academy.

Note 2 LGPS (Local Government Pension Scheme) adjustments

The Academy is one of several employing bodies included within the London Borough of Hackney Pension Fund. The scheme's actuaries, Hymans Robertson, have prepared a valuation of the assets and liabilities which are specific to The Skinners Academy so that the net liability may be included on the balance sheet. For the purposes of determining the "operational" result, the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2017 have been excluded.

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Comparison of key financial ratios

For your information, we have included at Appendix 4 to this report a comparison of the Academy's key financial ratios for 2016, 2017 and 2018 and also against the sector averages for 2016 and 2017.

Note that the ratios presented in the Appendix may differ from your own ratios where a slightly different formula is used. In addition, the sector averages are drawn from data on approximately 100 academies based in the South East of England and Greater London and whilst they may provide a guide as to how the Academy compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.

Other information

Letter of representations

We take this opportunity to enclose a final draft of the letter of representations which we will ask management and the Trustees to sign at the same time as the approval and signature of the annual report and financial statements.

Integrity, objectivity and independence

In accordance with our profession's ethical guidance and further to the External Audit Strategy document issued to you as part of the pre-audit planning process, we confirm that there are no further matters to bring to your attention in relation to our integrity, objectivity and independence as auditors.

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Other work undertaken as part of the 2017/18 audit cycle

As set out in our External Audit Strategy we have also been engaged to provide you with the following services as part of this audit cycle:

- Teachers' Pension End of Year Certificate (EOYC) assurance

  We can confirm that we have concluded our work on this area. Our assurance report was issued to Teachers' Pensions along with the final End of Year Certificate. Our work did not raise any significant concerns which need to be drawn to your attention.

- ESFA Accounts Return assurance

  Our work on the Accounts Return assurance will begin in December. We do not have any concerns at this stage and we will work with management to ensure that the Accounts Return together with our assurance report is filed ahead of the 21 January 2019 deadline.

In addition to those services above, Buzzacott has also provided HR consultancy services to the Academy during the year under review. We have ensured that threats to our objectivity and independence as auditors are reduced to an acceptable level through the implementation of appropriate safeguards. These safeguards include the use of separate teams for non-audit services and, periodically, an external review of a sample of our files for demonstration of our compliance with the relevant ethical requirements.

Use of this report

This report has been prepared for the Academy's private use only. It has been prepared on the understanding that it will not be shared to any third party, other than the ESFA, or quoted or referred to, without our prior written consent and we can therefore assume no responsibility to any other party.

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Appendix 1: Audit and presentational adjustments

Audit adjustments

	AUDIT ADJUSTMENTS	Statement of financial activities		Balance sheet	
	Description	Debit (£000s)	Credit (£000s)	Debit (£000s)	Credit (£000s)
1	DR Income (Post 16 Bursary) CR Expenditure (Post 16 Bursary) DR Creditors (Deferred income) Being the reversal of transactions relating to 16-19 bursary funding which should be recognised as an agency arrangement in the accounts.	20,972	28,107	7,135	
2	DR Debtors (Prepayments) CR Expenditure (Recruitment costs) Being an additional prepayment noted during testing in relation to recruitment costs		11,371	11,371	
3	DR Creditors (Deferred income) CR Income (Capital funding) Being a reversal of Devolved Formula Capital Funding, which is to be recognised as income in the year of receipt.		12,623	12,623	

The above adjustments increased the Academy's overall reserve balances by £31,129.

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Presentational adjustments

	Presentational adjustments	Statement of financial activities		Balance sheet	
	Description	Debit (£000s)	Credit (£000s)	Debit (£000s)	Credit (£000s)
1	DR Income (Other ESFA) CR Income (Donations and capital grants) Being correction of the allocation of school condition funding received in the year.	81,364	81,364		
2	DR Income (Other) CR Income (Other ESFA) Being correction of allocation of income	15,500	15,500		
3	DR Expenditure (Other costs direct) CR Expenditure (Premises direct) Being a correction of the allocation of depreciation.	126,683	126,683		
4	DR Fixed assets (Motor vehicles cost) CR Fixed assets (Motor vehicles accumulated depn) Being an adjustment to ensure that motor vehicles still in use are shown within the fixed asset note to the accounts.	43,847	43,847		
5	DR Expenditure (Other costs support) CR Expenditure (Other costs direct) Being the adjustment to reallocate subscriptions and licenses relating to support activities.	30,474	30,474		
6	DR Fixed assets (Computer equipment accumulated depn) CR Fixed assets (Computer equipment cost) Being the adjustment to dispose of 85% of the fully depreciated equipment balance for which no breakdown is held.			1,854,517	1,854,517

The impact of the above adjustments is purely presentation.

Appendix 2: Audit observations and recommendations

	Observation and implication	Recommendation	Management comment
	Authorisation of credit card expenditure On review of credit card expenditure, one of the tested three months of credit card statements had not been signed as authorised although it is understood that this statement arose during the period between the current and previous Chief Finance Officer. Without this review process, there is a risk of inappropriate expenditure being incurred by the Academy, and a contingency plan should be in place for when the Chief Finance Officer is absent. Further, there is a risk of misclassification of items without a review process.	We recommend that credit card statements continue to be authorised by the new Chief Finance Officer, and that a contingency plan is put in place in case of his absence.	Arrangements have now been put in place to ensure the Principal reviews and signs off the credit card statements in the absence of the Chief Financial Officer.

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Observation and implication	Recommendation	Management comment
Fixed asset register The fixed asset register does not include adequate information on the individual assets held, and includes £2.1m of fully depreciated computer equipment from 2010 which is not split into separate assets. It was however noted that recent additions do largely have more detailed descriptions. The non-identification of separate assets within the register indicates inadequate monitoring over the Academy's assets. This may further lead to issues when disposing of items from the asset register with the actual cost and accumulated depreciation likely to be significantly overstated. Any misappropriation of assets will also be difficult to identify without the Academy holding adequate information.	We recommend that the Academy undertake a full clean of the fixed asset register and the cost and accumulated depreciation of assets no longer in is removed. All additions to the fixed asset register should be labelled with their asset tag number and location. Each individual asset should have their own separate line on the register with clearly labelled codes so that they can be traced to the actual asset.	It is accepted that the cost and accumulated depreciation of assets no longer in use is removed. This particularly impacted the ICT asset category which until the most recent refresh had up to 85% no longer in use. This ratio has now been applied to effect a write off. Asset tag numbers and locations will be added onto the register as new assets are purchased.

	Observation and implication	Recommendation	Management comment
	Updated salary information During testing of salaries it was noted that 9 out of 12 personnel files reviewed did not have up to date salary documentation filed. For a further one key employee no contract was held. Although we understand that a backlog of filing had contributed to this issue, if salaries cannot be clearly agreed back to documentation, there is a risk that employees are not paid at the correct rate.	We recommend that personnel files are kept up to date with regular authorised salary letters which agree to current pay.	There have been some administrative gaps since the resignation of the previous Human Resources Manager. Documentations for natural salary progression will be recommenced for both teaching and support staff. Other salary adjustments have all been supported with appropriate documentation, but some have yet to be placed in the respective personnel files due to the need to have them scanned for payroll reconciliation purposes. Unfortunately, during the testing period, the payroll officer was taken ill and hence the documents could not be retrieved. Focus is now on getting all notifications filed in personnel files respectively, an administrative task which will require some dedicated time.

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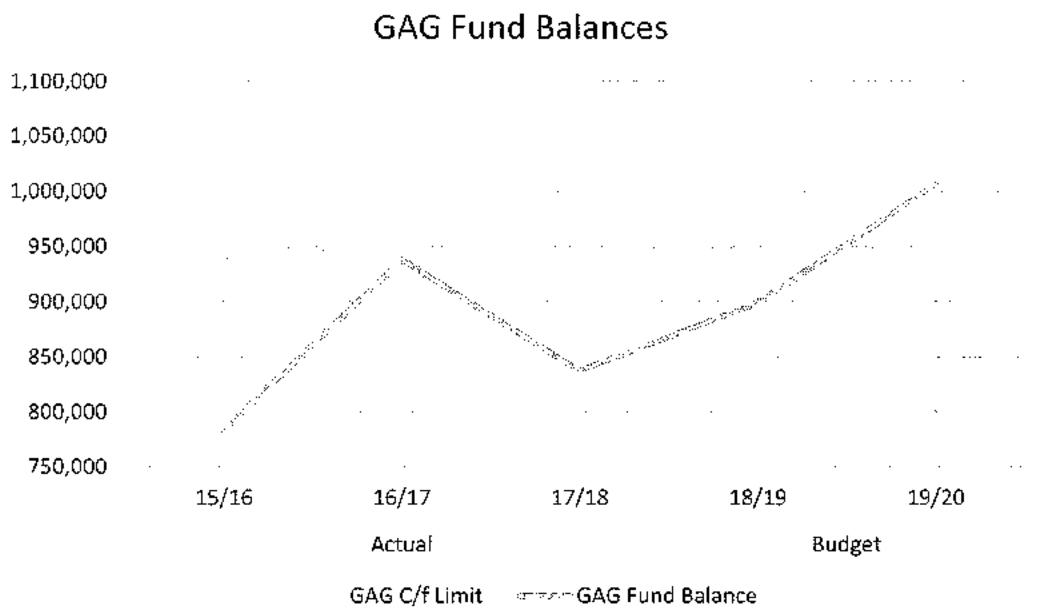
Appendix 3: Restricted GAG fund balance



Under the funding agreement with the Secretary of State the Academy is subject to limits at the end of each financial year on the amount of GAG that can be carried forward from one year to the next. An amount equal to 12% of GAG can be carried forward, of which up to 2% can be used for general recurrent purposes, with any balance being available for premises and capital costs.

The budget for 2018/19 and 2019/20 has been applied to the GAG balance at the end of the current financial year to provide a forecast position for each period. This analysis is based on the June 2018 5 year budget and does not take in to account anticipated capital works which have not been provided for within this budget.

The anticipated Academy GAG income, based on Lagged Pupil Numbers (November 2017) is projected to decrease in 2018/19 resulting in a reduction in the clawback threshold. This analysis indicates that in addition to capital works funded from other sources, at least a further £69,467 should be funded from GAG before the end of the 2019/20 financial year. Suitable projects have been earmarked, including a continued upgrade of the ICT hardware and infrastructure at the Academy.

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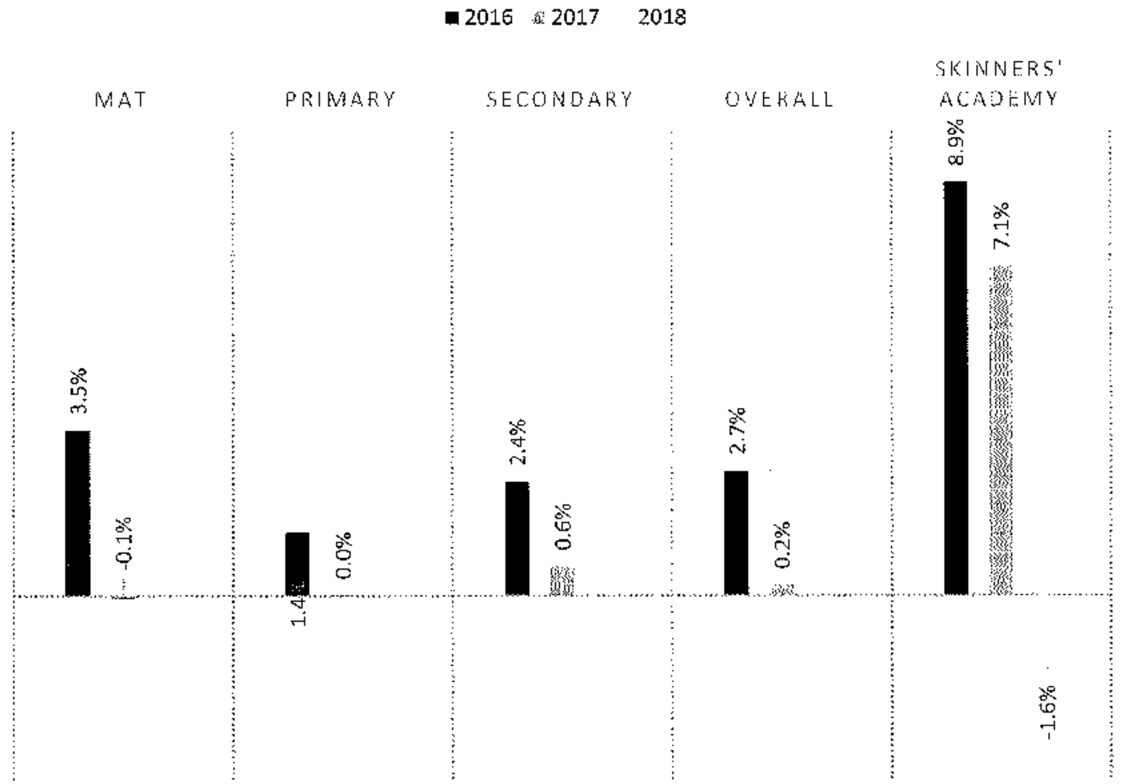
Appendix 4: Comparison of financial ratios

Operational margin

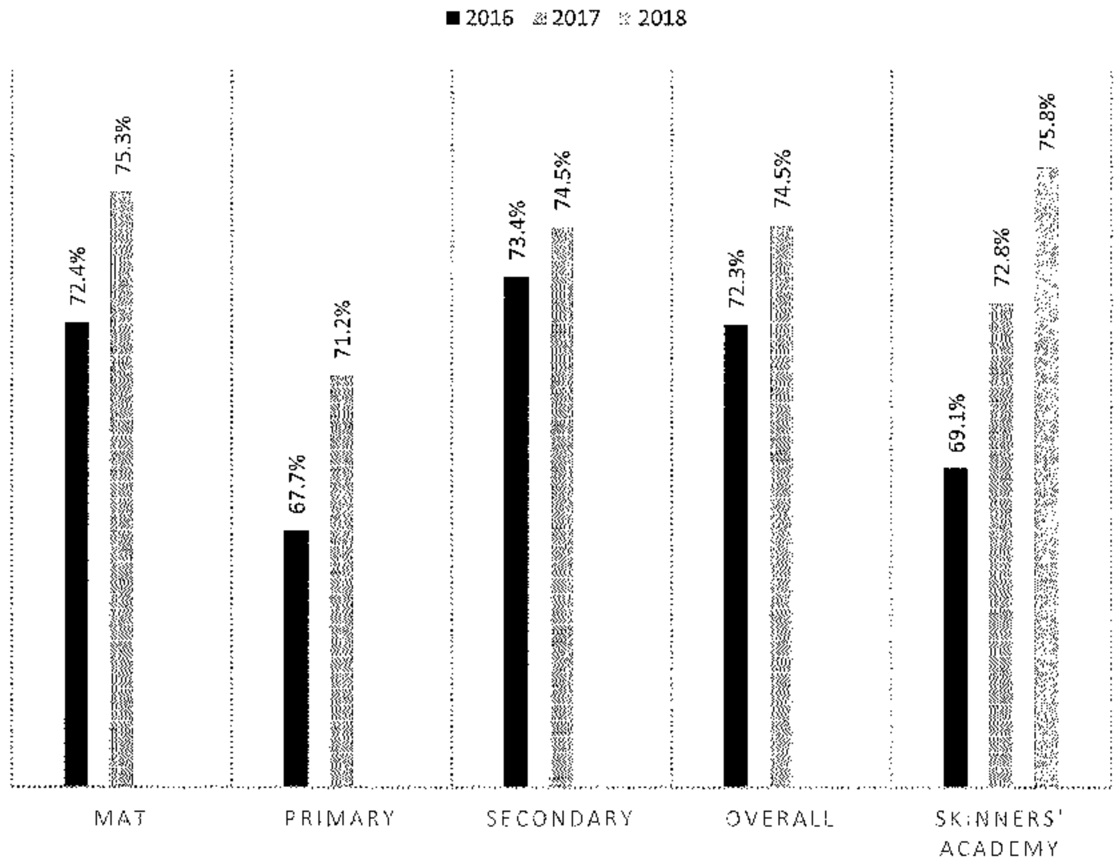


Formula: Surplus (deficit) for the year after transfers excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

Unlike commercial organisations, the aim of an academy trust is not to generate profits on trading or capital gains, but to provide quality education and fully utilise its resources in so doing.

The graph confirms the significant funding pressures faced by academy trusts – in 2016/17, all types of academy trusts were on average either breaking even, or suffering a small operation loss. Of our sample, 49% of academy trusts suffered an operational deficit in 2016/17 compared to 47% in 2015/16.

Payroll as a % of operational income



Formula: Total payroll costs (including defined benefit pension scheme adjustments and agency costs, but excluding severance payments) ÷ Total income (excluding capital grants, conversion balances, sponsorship and start up grants)

Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Typically, staff costs make up 65% - 80% of both total costs and total income. Across each type of Academy Trust, we have seen an increase in payroll costs. The rise of pension and National Insurance contribution rates have clearly been felt across the sector.

Using the data for 2016/17, we also considered the average number of higher paid employees per school (i.e. those earning in excess of £60,000 per annum) by type of academy trust.

Type of Trust	Average no. HPEs per school
Large MAT (15+ schools)	2.8
Medium MAT (5-14 schools)	2.1
Small MAT (2-4 schools)	3.2
Secondary	5.6
Primary	1.8

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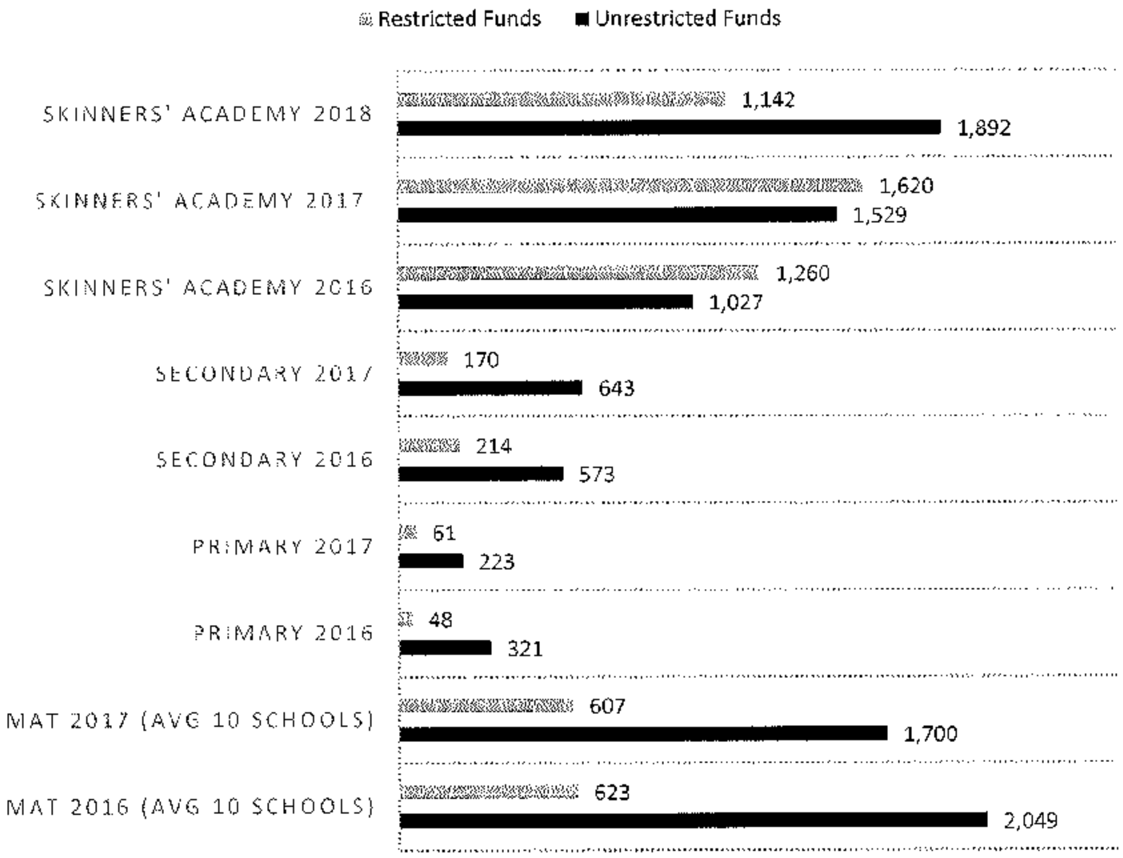
Reserves



The graph to the left shows the split of the Academy Trust's reserves between unrestricted funds (including designated funds) and restricted funds (excluding the fixed assets fund and pension reserve).

When considering a reserves policy, a common starting point for all academy trusts is how much cash they should be holding at any one time. This could be expressed with reference to monthly payroll or total expenditure requirements and it is often seen as more pragmatic to state an ideal range, as opposed to one figure. Moving on from this starting point, academy trusts will then want to consider capital work (be that new projects or contingencies for existing buildings) and other future exceptional costs, such as restructuring.