

Allotts Business Services Limited

Management Report
to
Consilium Academies

Year Ended 31 August 2018



Consilium Academies

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 Academies Trust 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 and liaised with 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 Academies Trust give a true and fair view of the state of the Academies Trust'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 Academies Trust 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 Academies Trust, 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 Academies Trust
- review and testing of income and expenditure for compliance with the funding and other agreements, the Academies Financial Handbook and the Academies Trust's system of controls
- examination of relevant documents
- review of the activities carried out by the Academies Trust
- 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
- The acquisition of academies in the period
- Tendering and 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 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. • 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 trade and other debtors have been agreed to post year-end receipts. • 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 has 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 Academies Trust 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 trustees and key management personnel were agreed. <p>No material errors re employee remuneration were noted.</p>
6	Tendering and procurement	<ul style="list-style-type: none"> • We reviewed the tendering process and confirm it followed the Academies Trust's procurement policy and the requirements of the ESFA. • A sample of capital expenditure has been tested to invoices. • We reviewed the terms of capital grants received and confirmed that expenditure 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 was noted.</p>
7	Academies joining the trust during the period	<ul style="list-style-type: none"> • Thornhill Academy and Washington Academy converted into academies and joined the trust on 1 September 2017 • Heworth Grange Academy converted to an academy and joined the trust on 1 February 2018 • Moorside High School converted to an academy and joined the trust on 1 April 2018 • Our audit work included the testing of balances and transactions from the date of joining the trust. • The disclosures in the financial statements relating to the transfer of these academies have been evaluated against accounting standards and the Academies Accounts Direction 2017 to 2018. <p>No indication of non-compliance with procedures in relation to assets and liabilities on conversion to academy status has been identified</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 Academies Trust through ineffective or absent controls or a highly inefficient use of the Academies Trust'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	Management information	
	<p>Observations</p> <ul style="list-style-type: none"> It was necessary to make several significant and large adjustments to the academy trust's accounting information in arriving at the annual statutory accounts. In addition to accruals and prepayments, a correction of the payroll creditor not recorded in the accounting system of £913,587 was required and an adjustment of £853,402 representing inter academy transactions not correctly recorded in the accounting system. <p>Implications</p> <ul style="list-style-type: none"> There is a risk that the management information presented to the trustees is not accurate and may not provide the trustees with the correct information on which to make informed decisions regarding the financial position of the academy trust. 	<p>Recommendations</p> <ul style="list-style-type: none"> The Trust's finance team must ensure the accounting system is kept up to date and all transactions recorded accurately. In addition, inter academy balances and transactions must be correctly matched off with each and any difference investigated and corrected in a timely manner. <p>Priority : HIGH</p>
	Management Response	Timescale: 31 March 2019
	The Director of Finance has worked extensively since the Audit to correct and resolve this issue. All coding across the accounts has now been reviewed, processes amended and specific guidance and training will be provided where required. The Central team recognise the key importance of this issue and have acted expediently to satisfy the auditors requirements.	

2	Local Governor Business Interests	
	<p>Observations</p> <ul style="list-style-type: none"> It was identified as part of the audit process that the North East hub academies had not completed business interest declarations for their local governors It was noted that an interest register was maintained by each academy and that declarations were being made at each meeting of the governing bodies It was noted that declarations had been issued for the 2018/19 academic year <p>Implications</p> <ul style="list-style-type: none"> There is a risk that the business interests of local governors are not known to relevant staff members within the academy and they may accidentally incur transactions outside of the academies financial handbook guidelines. 	<p>Recommendations</p> <ul style="list-style-type: none"> The business declarations, as completed at other academies within the trust, should be completed as soon as possible and kept up to date going forward Any new academies joining the trust should be brought into the correct procedures as soon as possible after conversion <p>Priority : MEDIUM</p>
	Management Response	Timescale: 31 March 2019
	The Clerk to the Trust has resolved this issue and will ensure that all Academies comply with this on an annual basis, should any new Schools join the Trust and a standard procedure has now been re-established. The Clerking Services have been advised on the importance of ensuring compliance with this matter.	

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4.2.3. Status of Previous Recommendations

1	Financial Information	
	<p>Observations</p> <ul style="list-style-type: none"> • It was identified that the financial information on the HCSS package was not up to date at the year end. There were some extenuating circumstances associated to this, however it has some knock on issues including: <ol style="list-style-type: none"> 1. There were a number of old items on the bank reconciliation, which are either duplicated or require cleaning up 2. Inter academy balances exist but were not up to date and differed between the central fund and individual academies 3. VAT126 returns had not been completed for the trust from the point of transferring onto the HCSS system <p>Implications</p> <ul style="list-style-type: none"> • The trust finance reports would not show the most up to date figures or balances for the trust or individual academies is run at any given time • The trust is owed significant funds in VAT refunds, this will have an effect on cashflow for the trust • Transactions between academies may not be being fully reflected on both sides of the transaction or are incorrectly being reflected within other nominal codes. • The audit could not be completed in a timely manner; additional work was required to bring the financial information up to a state where it was usable in the financial statements 	<p>Recommendations</p> <ul style="list-style-type: none"> • The financial information should be brought up to date at each academy as quickly as possible • The outstanding items on bank reconciliations should be reviewed and cleared/reversed as necessary to give a true reflection of the bank balance at the current date • VAT returns should be completed and brought up to date to ensure the accounts are up to date and also to aid cashflow • Inter academy balances should be reviewed and brought back to a point where they agree between academies. Any postings that are not of an income/expense nature should be posted to balance sheet codes related to the inter academy balances. <p>Priority : HIGH</p>
	Management Response	Original Timescale: 31 March 2018
	<ul style="list-style-type: none"> • The majority of issues within the HCSS system have been resolved. Some issues remain with the system but we are confident these will be sorted soon. In the meantime, checks and improvements in system management will be made in the next quarter to mitigate any further potential inaccuracies. • The Finance Director position has been filled on a permanent basis from 1 January 2018 this will address capacity issues and raise the profile of fiscal management across the Trust which will remove any future capacity concerns and provide a greater emphasis on testing capability in Business management across the Trust. • VAT returns issues are now resolved and the VAT will be fully refunded. This has not affected cash flow. The bank reconciliations issues have now been resolved and accurate records are being maintained. • The Chief Operations officer and the FD will report to the Resources Committee on the Audit Action Plan to address all issues raised in the audit. 	
	Update	
	<p>The HCSS system is much improved on the previous year. The majority of the issues identified have been resolved during the year and new academies brought into the trust appear to be using the system correctly.</p> <p>There are, however, still some items which need revisiting and tidying up including:</p> <ol style="list-style-type: none"> 1. The inter-academy control accounts do not agree between the central account and individual schools 2. There are still some old or unmatched items on bank reconciliations that require clearing up 3. There are a number of items on debtors and creditors schedules at individual academies which are not reflected in the balances of the other academy 	

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2	Internal Audit	
	<p>Observation</p> <ul style="list-style-type: none"> It was noted that no report of the internal audit function was available to be reviewed as none had been completed in the year One review was in progress at the year-end but had not been completed and no report had yet been issued. <p>Implication</p> <ul style="list-style-type: none"> There has been no internal review report of the trust's functions for the year. As a growing trust this has increased the risk of systems not being followed correctly, particularly in new academies. The Responsible Officer has no external review to rely upon to support their regularity declaration 	<p>Recommendation</p> <ul style="list-style-type: none"> The internal audit function should be completed and regular reviews should be carried out This can be done formally by the external provider of the service or kept internal by reviews by head office staff at new academies to ensure policies are being implemented A set of procedures across the trust should be implemented to aid the trust in ensuring regularity issues are identified <p>Priority: HIGH</p>
	Management Response	Original Timescale: 31 December 2017
	<ul style="list-style-type: none"> An internal audit visit was completed at Armthorpe. The new Finance Director has already begun to take steps to ensure an internal audit will occur as a priority action. An "Audit Action Plan Programme for the Trust" has already been discussed with the Auditors, this will provide a time table of actions which will be reported and overseen by the Trust Resources Committee. Any actions arising from Audit reports will be implemented by the COO and the Finance Director in conjunction with the Resources Committee. in accordance with the committee approved timescales. 	
	Update	
	Recommendation fully implemented. The report that was in progress at the end of the previous year was completed and a further internal audit report also completed during the year.	

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3	Financial information provided to Trustees	
	<p>Observation</p> <ul style="list-style-type: none"> • It was noted that at the majority of full trust board meetings did not receive any formal and up to date financial information. • No management accounts have been produced to aid Trustees with the progress the trust is making against budgets. <p>Implication</p> <ul style="list-style-type: none"> • The trust board are not being kept fully informed about the current financial position of the trust or individual academies • No formal assessment of performance against budget is taking place to give challenge to academies in the trust who are underperforming or making deficits. 	<p>Recommendation</p> <ul style="list-style-type: none"> • Future trust board meetings should include some form of financial review • This review should be at full trust level but also showing performance of individual academies • The review should compare current performance with expectations as laid out in the budget or in comparison to the previous year to give some perspective of the relative performance <p>Priority : HIGH</p>
	Management Response	Original Timescale: 31 March 2018
	<ul style="list-style-type: none"> - The reconstitution of the Resources Committee provides the Trust with an Accountable Body in respect of financial matters and Budgets. The Committee will meet at least 3 Times a year in addition the Committee Members will receive regular fiscal updates from the Finance Director and the Finance Director will also hold a monthly Briefing session with Committee Chair. - This will be supported by monthly reporting by the Finance Director to the Central Executive Team ensuring all Schools and Local Governing Bodies are fully aware of their fiscal responsibilities regarding management of the school's budget at a local level. 	
	Update	
	<p>The recommendations have been fully implemented. Financial information has been evidenced as discussed at both full trustee and resources committee meetings during the year.</p>	

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4	Catering income cash sheets not signed	
	<p>Observation</p> <ul style="list-style-type: none"> It was noted at Wyvern that the cash sheets relating to the catering income boxes were not signed after the catering manager and checker had emptied the box to confirm the cash had been counted. <p>Implication</p> <ul style="list-style-type: none"> There is no fall back if the cash banked does not equal the amount included on the cash sheet. This could result in an opportunist member of staff falsifying the sheet and retaining some cash. 	<p>Recommendation</p> <ul style="list-style-type: none"> The cash should be counted in the presence of two staff members and both should sign the cash sheet to confirm they agree the amount being paid to the bank. <p>Priority: MEDIUM</p>
	Management Response	Original Timescale: 31 March 2018
	<ul style="list-style-type: none"> This has been flagged in Wyvern's internal procedures and an amended approach was put in place immediately by the new school business manager. No further action is necessary. 	
	Update	
	Evidence seen on review of current year that recommendations have been fully implemented.	

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5	Off-payroll working	
<p>Observation</p> <p>We note that the Trust purchased consultancy services totalling £64,800 during the year from Graham Soles Consultancy Ltd and GHS Consultancy LLP, businesses controlled by Mr G Soles. Mr Soles is listed as the Executive Director for School Improvement and a member of the senior management team. We draw your attention to the Academies Financial Handbook which states: “Academy trusts must ensure that their senior employees’ payroll arrangements fully meet their tax obligations and comply with HM Treasury’s guidance about the employment and contract arrangements of individuals on the avoidance of tax, as set out in HM Treasury’s Review of the Tax Arrangements of Public Sector Appointees. Failure to comply with these requirements can result in a fine by HM Treasury.”</p> <p>We also draw your attention to the Off-payroll working rules (IR35) for public authorities which, from 6 April 2017, require public authorities (including academies) to decide whether tax and national insurance should be deducted from any payments made to workers.</p> <p>Implication</p> <p>If the Off-payroll working rules (IR35) for public authorities apply to Mr Soles, and tax and national insurance have not been deducted, the Trust could become liable for the tax and national insurance.</p>	<p>Recommendation</p> <p>You should check whether the rules apply to Mr Soles. Details can be found at https://www.gov.uk/guidance/off-payroll-working-in-the-public-sector-reform-of-intermediaries-legislation</p> <p>You should also consider the “Review of the tax arrangements of public sector appointees” which can be found at https://www.gov.uk/government/publications/review-of-the-tax-arrangements-of-public-sector-appointees</p> <p>Priority : MEDIUM</p>	
Management Response		Original Timescale: 31 March 2018
<p>Mr Soles company is a Limited Liability Partnership. This has been fully reviewed by the central trust team, supported by their payroll provider, and meets all HMRC requirements under IR35 rules and covers tax and national insurance requirements which are met directly by GHS Consultancy LLP. (Graham Soles Consultancy Ltd was dissolved at the end of the financial year 2017). Off-payroll working rules (IR35) do not apply to this contract. Every contract for consultancy provision within the trust is reviewed on this basis and managed directly through the Contract Management framework to make sure that all appropriate legislation is met.</p>		
Update		
<p>The trust has now parted company with Mr Soles after attempting to bring his role onto the payroll. The trustees expressed concern that the structure included a third party having a significant influence on some of the trusts’ activities and moved to appoint an internal person in the role as part of a central team reorganisation.</p>		