

AUDIT • TAX • ADVISORY

Hadrian Academy Trust

Audit Findings

For the year ended 31 August 2021

Presented to the Trustees on 29/11/2021

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MHA MacIntyre Hudson present our audit report and management letter solely for the attention of Hadrian Academy Trust following our audit of the financial statements for the year ended 31 August 2021. This report summarises key issues in connection with the audit of the financial statements and with the regularity assurance engagement, which we consider should be drawn to the attention of the Trustees.

We note that the Academy is required to provide a copy of this report to the Education and Skills Funding Agency (ESFA) by 31 December 2021 together with the Academy financial statements.

The report has been prepared solely for the purpose of recording the audit scope, approach and risk areas and for communicating audit issues raised with those charged with governance.

We would be grateful if you will in due course advise us what action you propose to take on the recommendations in the report and also if you would like our further assistance on these or any other matters.

The report has been prepared in compliance with the ESFA’s requirement for reporting to both the Trustees and the ESFA through a management letter. No reports may be provided to third parties, with the exception of the ESFA, without our prior consent. Consent will only be granted on the basis that such reports are not prepared with the interests of anyone other than the Academy in mind and we accept no duty of care or responsibility to any other party. The report may not be relied upon for any other purpose. No responsibilities are accepted by MHA MacIntyre Hudson towards any party acting or refraining from action as a result of this report.

Finally, we would like to express our thanks to all the Academy’s staff that assisted us in carrying out our work - particularly Joanna Loisel and her team.

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2 The audit process

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2.1 Audit approach and scope

The objective of the audit of the financial statements is to enable us to provide an audit opinion on whether the financial statements of the Academy show a true and fair view of the state of the Academy Trust's affairs at 31 August 2021 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended and whether the information in the Trustees' Report is consistent with the financial statements.

We also consider whether the financial statements comply with United Kingdom Generally Accepted Accounting Practice, the Academies Accounts Direction 2020 to 2021 issued by the Education and Skills Funding Agency and the Statement of Recommended Practice for Charities.

Our audit work is designed to provide the required assurance that the financial statements are free from material error, and to enable us to have a reasonable expectation of detecting material misstatements in the financial statements that result from irregularities or fraud. However, our audit of the financial statements is not a comprehensive report covering all of the systems and controls.

Our general audit approach was determined by our assessment of the audit risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the Academy operates. We tested controls, carried out analytical review tests and completed substantive testing, verifying specific transactions or balances. At the planning stage, we designed audit tests to provide us with sufficient audit evidence to support an opinion as to whether the financial statements show a true and fair view.

To summarise our approach, we:

- updated our understanding of the organisation and its environment;
- reviewed the design and implementation of key internal financial control systems; and

- planned and performed an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

Significant risks are those which are derived from business risks that may result in a material misstatement, relate to unusual transactions that occur infrequently, or judgmental matters where measurement is uncertain. In areas where we identified the potential for significant risk, we extended our audit testing to include more detailed substantive work. Our work in other areas was proportionately less detailed.

2.2 Areas covered by the audit

During the course of our audit work and regularity engagement we reviewed the accounting systems and procedures operated by the Academy. Our work included:

- reviewing the existence and completeness of General Annual Grant (GAG) and other income;
- review of bank reconciliations;
- checking the authorisation of expenditure;
- review of payroll control, calculation and authorisation;
- review of authorisation and validity of journals;
- checking the validity of balance sheet items;
- checking that income and expenditure relating to the GAG has been reflected accurately in the accounts;
- reviewing the register of interests and minutes to ensure that all related parties have been disclosed adequately;
- reviewing the related party transactions in respect of at cost issues;
- checking that all capital expenditure has been correctly identified in the accounts; and
- checking restricted income and expenditure allocation.

3 Key audit areas

The key areas of audit focus which we have identified as part of our overall audit strategy are outlined in the table below:

	Audit Area and key risks	Considerations on approach
1	<p>Financial reporting</p> <p>There is a risk that the respective Trustees' Report and financial statements are not fully compliant with the Charities SORP FRS102 (Updated October 2019) and the Academies Accounts Direction 2021, or are materially misstated through errors in their compilation.</p>	<p>We have reviewed the Trustees' and Strategic Reports for consistency with the financial statements and to ensure they comply with applicable regulatory (Academies Accounts Direction 2021) and SORP requirements.</p>
2	<p>Misstatement of income - Grant Funding and other income</p> <p>There is significant grant funding received by the Academy Trust in addition to General Annual Grant (GAG) funding. Other income should be recognised as restricted income where appropriate, and in accordance with Charities SORP FRS 102 (Updated October 2019) and the funding agreement.</p>	<p>We have considered three aspects for each material income stream:</p> <ul style="list-style-type: none"> • Completeness (is it all there?); • Recognition (is the correct amount recognised in the period under consideration?); and • Fund accounting (are there restrictions on use and are these correctly recorded?) <p>The "recognition" aspect draws upon three main criteria of "probability", "entitlement" and "measurement".</p>
3	<p>Management override</p> <p>There is a risk of management override of controls of the Academy Trust.</p>	<p>We are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:</p> <ul style="list-style-type: none"> • Understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and testing the appropriateness of a sample of such entries and adjustments; • Reviewing accounting estimates for biases that could result in material misstatement due to fraud; and • Obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of operations or that otherwise appear to be unusual given our understanding of the Academy Trust and its environment.

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	Audit Area and key risks	Considerations on approach
4	<p>Expenditure – Existence and Allocation</p> <p>The Trustees are responsible for ensuring that expenditure from restricted funds is correctly allocated. We will review the allocation of income and expenditure of restricted and unrestricted funds; ensuring restricted funds are used for the purposes intended.</p>	<p>We reviewed the allocation of expenditure between restricted and unrestricted funds, checking that expenses are correctly allocated and used for the purposes intended.</p>
5	<p>Payroll - Accuracy, Existence and Completeness</p> <p>Salary costs are the largest item of expenditure of the Academy.</p>	<p>We reviewed the reconciliations of the payroll records with the disclosures in the financial statements. We tested controls over payroll and completed substantive testing to provide assurance that the payroll information is accurately reflected in the financial statements.</p>
6	<p>Pension Scheme Liability - Valuation</p> <p>The FRS102 pension liability represents the Academy Trust’s share of the deficit of the Local Government Pension Scheme. The amount recognised is an estimate, and is recorded from the valuation undertaken by the Scheme’s actuary. There remains a risk that the amount may be materially misstated if the assumptions used by the Scheme’s actuary are not appropriate. Academies should ensure they obtain valuations at 31 August 2021 including the impact of the McCloud judgment.</p>	<p>We reviewed the actuarial valuation for the Academy that has been presented by the actuary. We completed review procedures on the estimates to determine our reliance on this work. We ensured that the Academy checks the data which has been provided for the actuarial report and we considered the relevance of the assumptions used by the actuary in preparing the valuation.</p> <p>We checked the pension disclosures in the financial statements to ensure these reflected the assumptions used.</p>
7	<p>Regularity</p> <p>The ESFA have highlighted in the Academy Financial Handbook their Schedule of Requirements (the ‘musts’) that are an essential obligation for all Academies.</p>	<p>We have considered your answers to our questions and evidence relating to the ‘must’ requirements as part of our audit work.</p>

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8	<p>Fixed Assets – Existence and Completeness</p> <p>The risk that assets are incorrectly included in the financial statements</p>	<p>We have reviewed assets capitalised to ensure the accounting policies have been applied. We have tested the existence of fixed assets, on a sample basis, to gain comfort that the assets recorded in the fixed asset register are valid assets owned and used by the Academy Trust.</p>
9	<p>Creditors – Completeness and Valuation</p> <p>The risk that liabilities are incomplete</p>	<p>We have tested trade creditors and accruals to ensure that the balances are valid, accurate and complete. Tax liabilities and other creditors have been reviewed and verified to supporting documentation. We have considered whether possible capital works and other liabilities around the year end need to be accrued.</p> <p>We have checked if any provisions are required for potential clawbacks of income and whether these should be reflected in the accounts if material.</p> <p>We have considered income recognition policies for income arising from capital grants such as the School Building Programme, and pupil funding relating to universal infant free school meals.</p>

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11	<p>Future plans and Going Concern</p> <p>The Trustees will need to consider whether the Academy Trust will be a “going concern”, giving consideration to at least 12 months from the date of approval of the accounts (i.e. to 31 December 2022).</p> <p>Going concern is defined as being able to continue in ‘operational existence’ for at least 12 months from the date of signing the financial statements.</p> <p>As per Going concern – ISA 570 (Revised 2019), there is now a requirement to document robust challenge of management’s assessment of going concern, including the obtaining evidence regarding, and to conclude on, whether a material uncertainty relating to going concern exists. We also need to perform a final consideration of all evidence obtained relating to going concern. As per the revised ISA 570, our standard audit report will also be updated to provide a positive conclusion on the appropriateness of the going concern basis and whether material uncertainties exist.</p>	<p>We have reviewed the Academy Trust’s financial forecasts, including three year forecasts, to ensure the assumptions are reasonable.</p> <p>If a net deficit was identified, we will have reviewed and discussed your plans to mitigate this position.</p> <p>Due to the unprecedented situation regarding the Covid-19 pandemic we have considered the impact that this could have on the organisation and your planned response (see separate risk below).</p> <p>We have described our work on going concern in greater detail within our audit report, and undertaken the new “stand back” requirement for auditors at the end of the audit work.</p>

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13	<p>Reporting Covid-19 in your Financial Statements</p> <p>The Charity SORP-making body has issued advice on the financial reporting implications that may arise from the measures being put in place to contain the impact of the COVID-19 virus.</p> <p>https://www.charitySORP.org/media/648486/sorp-covid-19.pdf</p> <p>It refers to considerations to be taken into account when producing the Trustees' report and also considers post balance sheet event reporting. This guidance must be considered when preparing the 31 August 2021 accounts, as well as any guidance in the Academies Accounts Direction for 31 August 2021.</p> <p>We will consider the impact that this could have on the organisation regarding going concern and your planned response.</p> <p>ESFA have issued a supplementary bulletin in Summer 2021 relating to the auditing and accounting treatment of COVID-19 funding streams.</p>	<p>We have considered the organisation's response to the guidance issued by the Charity SORP Committee on Covid-19 as well as guidance issued by ESFA/AAD, and by our own accountancy bodies.</p> <p>We have reviewed your Trustees' Report and financial statements to ensure the appropriate disclosure has been included in the 31 August 2021 accounts in line with the events that have occurred to the date of signing the accounts.</p>

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3.1 Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and the impact of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

We have assessed the materiality for this assignment by considering the total income of the Academy, net of capital income together with other relevant indicators. A lower measure of materiality was set for those specific areas where the nature of the transactions requires this, for example in respect of related party transactions.

Where individual errors, or accumulated errors found during the course of the audit, are in excess of materiality, these are discussed with you and adjustments made to the financial statements. If the adjustments had not been made, our audit report would be modified. Where adjustments are found during the audit which are below the relevant materiality level, these have been sent for consideration by the Trustees.

3.2 Independence and ethical considerations

Under current UK Ethical Standards, we are required to write to you to give you full and fair disclosure of any matters that may relate to our independence, or the perception of our independence, as the Academy's auditors. The Financial Reporting Council's Ethical Standard applies to this assignment.

MHA MacIntyre Hudson operates safeguards in order to ensure that we act independently. We have ensured that the partners and staff on this audit do not have any connections with the Academy, or with its trustees or its staff.

We note that in addition to performing the statutory audit, we also provide the following non-audit services:

- a) preparation of statutory financial statements from Academy trial balance;
- b) certification of the Teachers Pension return;
- c) provision of general advice/VAT advice as required;
- d) preparation of corporation tax computation and CT600 return/ forms P11D
- e) preparation of Academies Accounts Return

The following safeguards are in place in respect of the provision of the above non audit services to ensure our independence:

- a) Preparation of statutory financial statements from the Academy trial balance is considered to be a mechanical function presenting the Academy's results for the period to 31 August 2021 into the required format. Any adjustments to the figures will be made following discussion and approval by the Academy. The process of preparation of the financial statements is reviewed by an MHA MacIntyre Hudson independent manager prior to completion;
- b) The completion of the TPA return does not affect our statutory audit work;
- c) General advice and assistance with accounting queries during the period is not considered significant for this Academy. VAT advice is provided by our VAT experts who are independent of the audit team.
- d) The completion of the taxation computation and other corporation tax compliance is carried out by a separate tax team.
- e) Assistance with preparation of the Accounts Return is a mechanical function derived from the statutory accounts and following discussion with the Academy Trust.

4 Amendments to Financial Statements

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4.1 Amendments to financial statements

A summary of adjustments made to the Academy trial balance to finalise the financial statements and also the unadjusted misstatements have been sent to you.

As Trustees of the Academy, you are responsible for preparation of the financial statements and for the review of the adjusted and unadjusted items. Trustees are required in the letter of representation to confirm that the recorded items do not require adjustment in the financial statements. Those below the trivial threshold will not be included in the letter of representation.

4.2 Significant concerns

During the course of our audit and regularity assurance engagement for the year ended 31 August 2021 we noted matters which we consider should be brought to your attention. We note that these matters came to light during the course of our normal audit and assurance tests. These tests are designed to assist us in forming our opinion on the financial statements and providing a limited assurance conclusion on regularity. 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 and assurance tests, we would, of course, inform you as soon as practical.

We note in Section 5 the issues arising from our regularity audit. Significant concerns arising from the 'true and fair' audit of the financial statements, which do not impact regularity, are included at Section 6. The importance of these issues has been considered and the perceived risk rated as high, medium or low, following our discussion with the Business Manager. Recommendations for changes in procedures in order to address these areas have also been included.

4.3 Regularity opinion

Our regularity opinion in the financial statements must reflect all significant and material issues that have been raised in this management letter.

There are no significant issues detailed in this management letter which are required to be included in the regularity opinion, hence the regularity opinion in the financial statements has not been modified.

Where we have identified areas of irregularity, but have concluded that the irregularity is not material by virtue of the value or nature of the issue, this has been included in the summary tables below. This is included in order for the Education and Skills Funding Agency to have full information relating to all regularity issues, enabling them to draw an overall conclusion on regularity in the Academy Trust.

The Trustees' responses to the issues raised, together with a timescale for action, have been included where these have been received prior to the finalisation of this report

Recommendations made by us in the previous year relating to the audit of the financial statements and the regularity audit have been included together with any changes on the issues raised.

5 Regularity issues

No issues which have an impact on the regularity opinion were found during the course of the audit

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No issues which have an impact on the regularity opinion were found during the course of the audit

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Issues and potential consequences reported in 2020	Status in current year	Trustees' response	Timescale and responsibility for implementation
Nothing to note.			

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Your organisation is a highly valued client of our firm and we would like to thank you for entrusting us with your professional advisory services.

We take a genuine interest in the success of our clients and value constructive feedback on all aspects of our services and continually seek improvement opportunities.

If you have any questions or would like to discuss any of the matters covered in our Audit Findings Management Letter, please do not hesitate to contact us.

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