



# HILBRE HIGH SCHOOL HUMANITIES COLLEGE

FINAL REPORT TO THE FINANCE COMMITTEE

Audit for the year ended 31 August 2017

Date of issue: 7 December 2017

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# OVERVIEW

This summary covers those matters we believe to be material in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

This report has been prepared solely for the use of the Finance Committee and should not be shown to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability.

We have substantially completed our audit work in respect of the accounts for the year ended 31 August 2017 and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 4 for the audit and an unqualified opinion in respect of the regularity report.

KEY AREA	SUMMARY	PAGE
Audit status	We have substantially completed our work, although there are a number of outstanding items to be received and/or completed. Further detail on the status of our work is set out on the following page.	4
Scope and objectives	We remind you of the scope and objectives of our audit.	6
Independence	We have identified the following potential threats to our independence as auditors: <ul style="list-style-type: none"><li>• BDO performs a review of the Academy Accounts Return</li><li>• BDO performs a review of the Teachers' Pension Scheme</li><li>• BDO prepares the financial statements</li><li>• BDO provides assistance with preparing the budget forecast return</li></ul>	5
Audit risks	We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified in our audit strategy.	8
Regularity breaches	We have not noted any regularity breaches that are required to be brought to the Committee's attention.	
Key Audit and Accounting issues identified during audit	We have not noted any issues that require input from the Finance Committee	
Management letter	We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit. We also report on other deficiencies and observations.	14
Unadjusted audit differences	No adjustments were identified during the course of our audit	17
Triviality	Our final triviality is £1,240.	

# AUDIT STATUS AND TIMETABLE TO COMPLETION

We set out below the current status of the audit and our timetable to completion.

## AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 August 2017 and anticipate issuing an unqualified opinion on the financial statements and an unqualified opinion in respect of the regularity report.

The following matters are outstanding at the date of this report. We will update you on their current status at the Finance Committee meeting at which this report is considered.

### Issues to be resolved before we can complete our audit:

- Final review and approval by you of the final financial statements, including the Trustees' Report to be issued with the accounts
- Agreement of the final financial statements, including the Trustees Annual Report, to the latest draft.
- Post balance sheet events review to the date of signing the financial statements, including review of latest minutes and management accounts.
- Receipt of signed letters of representation as set out in Appendix III and IV.

## TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Finance Committee meeting	5 December 2017
Issue of draft of financial statements	5 December 2017
Trustees' meeting to approve financial statements	7 December 2017
Signing of financial statements	7 December 2017

# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’ in accordance with Auditing and Ethical Standards. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Finance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We confirm that there have been no changes to our independence since the planning stage of our audit and that:

- the firm complies with the Financial Reporting Council’s Ethical Standards and in our professional judgement, is independent and objective within the meaning of those standards; and
- in our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

This document considers such matters in the context of our audit for the year ended 31 August 2017.

A summary of fees for audit and non-audit services for the period from commencement date of the financial year being audited to date is set out below.

Audit services to date	Fee
Academy	£9,500

Non-audit services to date	Principal independence threats	Safeguards	Fee
BDO performs a review of the Academies Accounts Return	Auditing our own work; making judgement and policy decisions which are the responsibility of management.	The work is carried out by a separate team within the firm, subjected to independent review.	£1,600
BDO performs a review of the Teachers Pension Scheme	Auditing our own work; making judgement and policy decisions which are the responsibility of management.	The work is carried out by a separate team within the firm, subjected to independent review.	£750
BDO prepares the financial statements	Auditing our own work; making judgement and policy decisions which are the responsibility of management.	The work is carried out by a separate team within the firm, subjected to independent review.	£1,750
BDO provides assistance with preparing the budget forecast return	Auditing our own work; making judgement and policy decisions which are the responsibility of management.	The work is carried out by a separate team within the firm, subjected to independent review.	£1,200

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers:

- Audit in accordance with International Standards on Auditing (UK and Ireland) of the statutory financial statements.

To form an opinion on whether:

**1** The financial statements give a true and fair view of the state of the Academy's affairs, and of the Academy's income and expenditure, recognised gains and losses, and the statement of cash flow for the year.

**2** The financial statements have been properly prepared in accordance with UK GAAP, the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing accounts in accordance with Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (Charities SORP (FRS 102)) and the Academies Accounts Direction 2016 to 2017 issued by ESFA.

**3** The financial statements have been prepared in accordance with the appropriate legislation, which for this entity includes the Charities Act 2011, Companies Act 2006, the Academies Accounts Direction 2016 to 2017.

The audit scope covers the following matters required by the Academies Direction 2016 to 2017:

- 1) Regularity, Propriety and Compliance - We conduct a limited assurance engagement in accordance with the Academies Accounts Direction 2016 to 2017 issued by ESFA.
- 2) Whether the requirements of the Academies Accounts Direction 2016 to 2017 have been met.

The legislation under which we report also requires us to report by exception whether:

**1** Adequate accounting records have not been kept by the entity, or returns adequate for our audit have not been received from branches not visited by us.

**2** The financial statements are not in agreement with the accounting records and returns.

**3** Certain disclosures of Trustees' remuneration specified by law are not made.

**4** Other information contained in the Report of the Board is not consistent with the audited financial statements.

**5** A satisfactory system of internal control has not been maintained over transactions.

**6** We have not received all the information and explanations we require for our audit.

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Charities Act legislation under which we report also requires us to report by exception whether:

**1** The information given in the trustees' report is inconsistent with the financial statements.

**2** Sufficient accounting records have been kept by the Academy.

**3** The Academy individual accounts are in agreement with the accounting records and returns.

**4** We have obtained all the information and explanations which we think are necessary for the purposes of our audit.

# KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISK IDENTIFIED AT PLANNING			
RISK	BACKGROUND	WORK PERFORMED	CONCLUSION
<p><b>Regularity of income and expenditure</b></p> <p><b>SIGNIFICANT RISK</b></p>	<ul style="list-style-type: none"> <li>In accordance with the requirements of the Education and Skills Funding Agency (ESFA) as included in the Academies Accounts Direction 2016, we are required to obtain limited assurance about whether the expenditure disbursed and income received by the academy during the financial year have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.</li> </ul>	<p>In order to gain sufficient evidence to provide our opinion on the regularity and propriety of transactions, our included the following main procedures:</p> <ul style="list-style-type: none"> <li>For significant purchases tested during out audit work we reviewed whether the transactions were regular, related to genuine academy expenditure and was spent under the terms of the funding agreement which funds the expenditure;</li> <li>Reviewed the list of suppliers identifying ant unusual or related party suppliers;</li> <li>Reviewed a sample of purchases from credit cards or charge cards to ensure that are regular and relate to genuine school expenditure;</li> <li>Reviewed tendering procedures;</li> <li>Reviewed bank statements for unusual transactions;</li> <li>Reviewed ex-gratis and extra-contractual payments to the senior leadership team, governors and other senior staff members to ensure they have been properly approved by the governing body and are not excessive or unreasonable;</li> <li>Reviewed miscellaneous income codes in the nominal ledger for any unusual income that is not in accordance with the trusts' charitable objects;</li> <li>Obtained an understanding for any borrowings that the trust may have entered into (including operating leases exceeding 3 years in length) and ensure that such borrowing has been approved by the ESFA.</li> </ul>	<p>We have not noted any issues that are required to be brought to the attention of the Finance Committee.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

AUDIT RISK IDENTIFIED AT PLANNING			
RISK	BACKGROUND	WORK PERFORMED	CONCLUSION
<b>Revenue recognition - Income from grants and other income</b>  <b>SIGNIFICANT RISK</b>	<p>Under International Standard on Auditing 240 “The auditor’s responsibility to consider fraud in an audit of financial statements” there is an assumption that revenue recognition is a fraud risk.</p> <p>For Hilbre High School Humanities College the main income stream is the General Annual Grant (GAG):</p> <ul style="list-style-type: none"> <li>Income from grants should be recognised when the conditions of recognition have been satisfied.</li> <li>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</li> <li>Management may exercise judgment in determining when income should be recognised.</li> </ul> <p>Other sources of income include:</p> <ul style="list-style-type: none"> <li>Other government grants and capital grants.</li> <li>Hire of school facilities.</li> </ul>	<p>General Annual Grant:</p> <ul style="list-style-type: none"> <li>We documented and reviewed the systems concerning the recording of grant income and identify any key controls.</li> <li>We have set expectations of GAG income based on the GAG funding statement received from the ESFA.</li> <li>We have tested the underlying pupil numbers used by the ESFA to determine GAG funding by reviewing census data and agreeing a sample of pupils to HR records confirming their existence.</li> </ul> <p>Other income streams:</p> <ul style="list-style-type: none"> <li>We have documented and reviewed the systems concerning the recording of other income streams and identified key controls.</li> <li>We have reviewed other income streams by testing items on a sample basis to review whether the income has been appropriately and accurately recognised in the financial statements.</li> </ul>	<p>Total incoming resources for the year are £6.28m compared to £6.39m in 2016.</p> <p>The defined benefit pension scheme has made a further loss of £89k. When combined with a deficit of £832k before pension the net movement in funds in the year is a deficit of £918k compared to a deficit of £1,840k in the prior year. Prior year deficit was split £223k academy operations and £1,617k pension loss.</p> <p>The deficit in the current year is due to staff cost increases and funding lagging behind increasing pupil numbers.</p> <p>We have not noted any items that are required to be brought to the attention of the Finance Committee.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

AUDIT RISK IDENTIFIED AT PLANNING			
RISK	BACKGROUND	WORK PERFORMED	CONCLUSION
<b>Management override</b>  <b>SIGNIFICANT RISK</b>	<p>The primary responsibility for the detection of fraud rests with Management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p> <p>Our work around journals will focus on the completeness of data extracted from your accounting system and the validity of journals:</p> <ul style="list-style-type: none"> <li>• Depreciation of tangible fixed assets.</li> <li>• The number of pupils on roll.</li> <li>• The present value of the Local Government Pension Scheme defined benefit liability.</li> </ul> <p>Our initial review of significant accounting estimates at the planning stage of the audit show that management’s judgements are prudent and sensible.</p>	<p>Our review of journals targeted the following areas in addition to other more specific criteria we will determine based on our understanding of the entity:</p> <ul style="list-style-type: none"> <li>• Journals posted on unanticipated dates.</li> <li>• FRCP journals at year end.</li> <li>• Journals posted post year end.</li> <li>• Journals posted using temporary or guest accounts.</li> <li>• Journals posted that have little, unusual or no explanation or description i.e. “suspense”, “error”.</li> <li>• Material journals (or a combination of similar class that are material) posted by the Executive and Senior Management within Finance or individuals that we would not anticipate posting journals as part of their normal role.</li> <li>• Unbalanced journals.</li> </ul> <p>We have reviewed accounting estimated, including those used in assessing impairment and going concern; and in determining the amounts to recognise in relation to the pension scheme.</p>	<p>We have not noted any items that are required to be brought to the attention of the Finance Committee.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

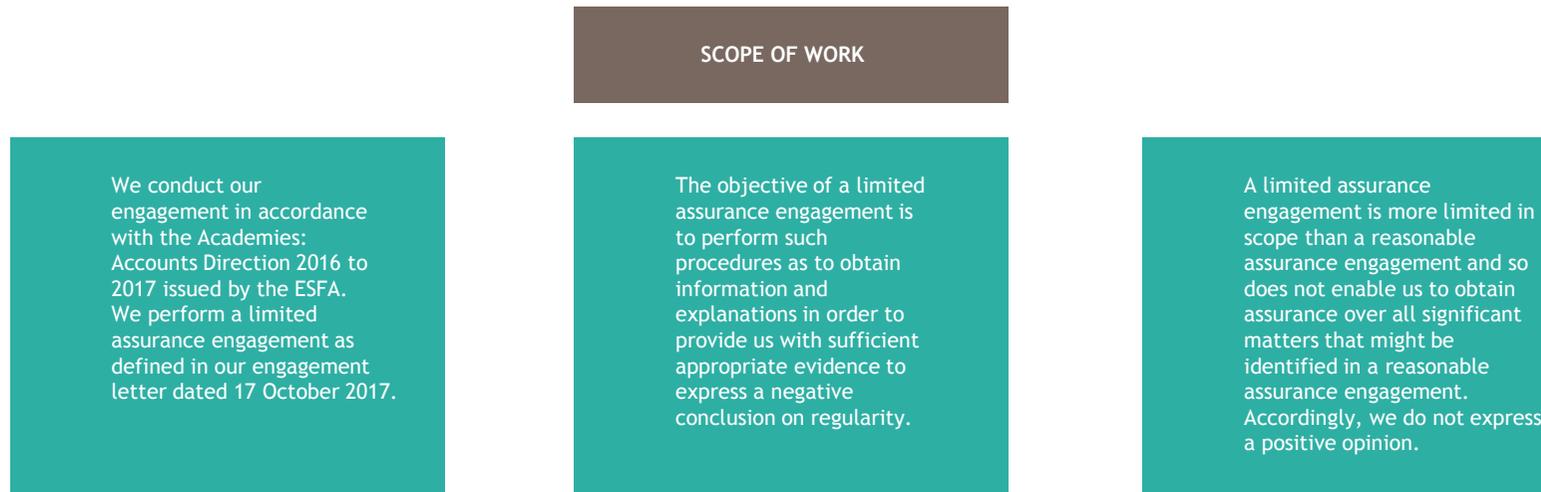
AUDIT RISK IDENTIFIED AT PLANNING			
RISK	BACKGROUND	WORK PERFORMED	CONCLUSION
<p><b>Related party transactions</b></p> <p><b>SIGNIFICANT RISK</b></p>	<ul style="list-style-type: none"> <li>• Due to the number of governors of the Academy and the external interests that governors may have, there is an increased risk of related party transactions not being identified.</li> <li>• FRS 102 requires an entity to include in its financial statements the disclosure necessary to draw attention to the possibility that its financial position and surplus or deficit have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</li> </ul>	<ul style="list-style-type: none"> <li>• Board minutes were reviewed to identify potential related parties . This included a review of governors conflicts of interest raised.</li> <li>• We discussed with management the processes in place to identify potential related parties and related party transactions</li> <li>• Additionally, our approach to regularity and review of expense will review for any irregular or excessive expenditure that may indicate a related party transaction.</li> </ul>	<p>We consider that related party transactions are correctly disclosed within the financial statements.</p> <p>We have not noted any items that are required to be brought to the attention of the Finance Committee.</p>
<p><b>Revised ISAs (UK)</b></p> <p><b>SIGNIFICANT RISK</b></p>	<p>In June 2016, the Financial Reporting Council (FRC) issued a new suite of International Standards on Auditing, ISAs (UK), which replaced the existing suite of ISAs (UK and Ireland) The revised ISAs place additional requirements on BDO as your auditors.</p> <p>The revised auditing standards place additional requirements on us with respect to:</p> <ul style="list-style-type: none"> <li>• Audit of disclosures</li> <li>• Audit of statutory and non-statutory information</li> <li>• Audit of going concern</li> <li>• Audit reporting</li> </ul>	<p>We maintain awareness of changes in accounting standards and remain competent in meeting the revised requirements. As part of our audit work we anticipate:</p> <ul style="list-style-type: none"> <li>• Documenting the systems and controls in place concerning the preparation of disclosures in the financial statements.</li> <li>• Ensure our review of disclosures is thoroughly documented.</li> <li>• Review legal and regulatory compliance of statutory and other information.</li> <li>• Read and consider other information and it's material consistency with the financial statements and our knowledge obtained throughout the audit.</li> <li>• Updating the format of our audit report to meet with the new regulatory requirements.</li> <li>• Obtaining sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.</li> <li>• Concluding, based upon the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.</li> <li>• Considering the adequacy of disclosures in respect of going concern.</li> </ul>	<p>We consider that revised ISAs changes have been correctly tested within the audit.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

AUDIT RISK IDENTIFIED AT PLANNING			
RISK	BACKGROUND	WORK PERFORMED	CONCLUSION
<p><b>Going Concern</b></p> <p><b>SIGNIFICANT RISK</b></p>	<p>The directors' are required to make an assessment as to whether the use of the going concern basis of accounting, in the preparation of the financial statements, is appropriate. In doing so, the directors must consider the ability of the entity to continue to operate for the foreseeable future.</p> <p>It was acknowledged that the Academy generated a deficit (before actuarial loss on pension scheme) of £223k in the year to 31 August 2016 and this has been followed with a deficit (before pension scheme) of £832k in the current year. The majority of the additional loss appears to have occurred due to increased staff costs.</p> <p>The increase in staff cost was identified as being the main reason for cash having fallen from £1.46m in 2016 to £900k in the current year.</p>	<p>We have reviewed the long term budgets, forecasts and funding arrangements during the audit and in the closing stages up to signing of the accounts. We reviewed any sensitivity analysis that management have performed.</p> <p>The Academy has generated a deficit of £918k compared to a deficit of £1,840k in 2016. The deficit for the current year excluding movement in the defined benefit pension scheme is £832k (2016: £223k). The main reason for the increase in net deficit in the year is staff costs which have increased from the prior year by £532k.</p> <p>As at 31 August 2017, the Academy has net liabilities of £2,993k (2016: £2,075 net liabilities). Excluding the pension liability, the Academy has net assets of £706k (2016: £1,322). The pension deficit is not a current liability and will be addressed over time by deficit contributions.</p> <p>Managements review of the Academy's ability to continue to operate as a going concern consists of a comparison of actual performance against budget and forecast budgets till the end of the 2019/19 year. It is forecast that in-year deficits will fall dramatically over the next two years (18/19: deficit of £84k) as increases in funding catch up with the increases in pupil numbers. (Note that funding lags one year behind changes in pupil numbers).</p> <p>The original forecast deficit for the 2017/18 year (excluding depreciation and actuarial pension movements) was £335k. However, based on performance to October 2017, this deficit has been re-forecast to £285k - positive variance of £50k.</p> <p>The Academy held cash of £901k (2016: £1,455k) as at 31 August 2017. The movement in cash each year is largely consistent with the operation performance of the Academy. Based on the reforecast, it is expected that there will be net cash out flow of c. £300k in 2017/18.</p> <p>The position has been strengthened by the Academy's ability to increase pupil numbers further having taken on a lease for the Community Learning Centre. The lease is an extension to the original PFI lease that the Academy has with respect to the school buildings. The lease is treated as an operating lease with monthly payments expensed to the SoFA.</p> <p>As such, given the anticipated increases in future funding, as a result of increasing pupil numbers which has been evidenced, we do not consider there to be a current issue over the going concern assumption.</p>	<p>We have not noted any items that are required to be brought to the attention of the Finance Committee.</p>

# REGULARITY, PROPRIETY AND COMPLIANCE



In order to gain sufficient evidence to provide our opinion on the regularity and propriety of transactions, our work included the following main procedures:

- for significant purchases tested during our audit work we ensured that the transaction is regular, relates to genuine college expenditure and is spent under the terms of the funding agreement which funds the expenditure;
- reviewing the list of suppliers to identifying any unusual or related party suppliers;
- reviewing a sample of purchases from credit cards or charge cards to ensure they are regular and relate to genuine school expenditure;
- reviewing of tendering procedures;
- reviewing bank statements for unusual transactions;
- reviewing ex-gratia and extra-contractual payments to the senior leadership team, governors and other senior staff members to ensure they have been properly approved by the governing body and are not excessive or unreasonable;
- reviewing miscellaneous income codes in the nominal ledger for any unusual income that is not in accordance with the trusts' charitable objects;
- obtain an understanding for any borrowing that the trust may have entered into (including operating leases exceeding 3 years in length) and ensure that such borrowing has been approved by the ESFA.

## **FINDINGS**

We did not identify any breaches in regularity and as such propose to issue an unmodified regularity opinion.

# CONTROL ENVIRONMENT

## Management Letter

We are required to report to you, in writing, deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the group's/charity's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Gifts received by staff	We bring to your attention the importance of having procedures in place, with respect to gifts received by staff, in terms of declaring gifts that are received assessing whether gifts received are appropriate.	<p>Given the public scrutiny that Academy's are subject to, it is imperative that the Academy is seen to be acting professionally and independently.</p> <p>If there are no procedures in place to assess the nature of gifts received and to record those gifts, there is a risk that inappropriate gifts may be accepted which could call in to question the integrity of staff.</p>	It is recommended that procedures and policies be implemented to record and monitor the nature and reasonableness of gifts received.	We do have a gifts and hospitality policy in place. However, this was last reviewed in March 2016 and we intend to review and update at the next finance governors meeting.

# CONTROL ENVIRONMENT

## Follow up of prior year deficiencies

We repeat below the recommendations from our prior year audit which had not been fully resolved during the current year.

AREA	ISSUE AND IMPACT	ORIGINAL RECOMMENDATION	LATEST MANAGEMENT RESPONSE	OUR COMMENTS
Reserves policy	<p>Currently there is no reserves policy in place.</p> <p>Without a policy in place, it is difficult for management to monitor whether the reserve levels maintained are appropriate</p>	Develop and implement a reserves policy, with reference to the Financial Handbook and Academies Accounts Direction.	The Academy currently does have a Capital Reserves Policy dated June 2016, however this does not state a specific minimum amount that the reserve should be maintained at. The Finance Governors have agreed to set a minimum limit of £300,000 and the policy will be taken to Full governors and approved at the next meeting.	We are aware that the reserves policy (July 2017) has been discussed, reviewed and agreed by the Board of Trustees and that the decision has been taken not to quantify the minimum level of reserves that the Trustees deem is necessary to hold.



# APPENDICES

# APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit adjustments that the Finance Committee is required to consider.

We will report to you all corrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £1,240 to be trivial, unless the misstatement is indicative of fraud.

No differences have been identified during the audit.

# APPENDIX II: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- International Standard on Auditing (UK and Ireland) 320 'Audit Materiality' addresses the concept of materiality and explains it as, information is defined as material if its 'misstatements, including omissions that could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its own omission or misstatement. Materiality provides a threshold or benchmark against which any errors or differences of opinion between management and ourselves can be evaluated.'
- It is important to understand that an item may be considered material for reasons other than size, if for example, it had an impact on:
  - Narrative disclosure e.g. accounting policies, going concern
  - Compliance with loan covenants
  - Instances when greater precision is required (e.g. directors' emoluments).

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Academy, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.
  - We determine materiality in order to:
    - Assist in establishing the scope of our audit engagement and audit tests
    - Calculate sample sizes
    - Assist in evaluating the effect of known and likely misstatements on the financial statements.
-

# APPENDIX II: MATERIALITY

## CONTINUED

### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Finance Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
  - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
  - We will obtain written representations from the Board confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
  - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
    - Clear-cut errors whose correction would cause non-compliance with loan covenants, management compensation agreements, other contractual obligations or governmental regulations that we consider are significant
    - Other misstatements that we believe are material or clearly wrong.
-

# APPENDIX II: MATERIALITY

## MATERIALITY - FINAL AND PLANNING

Materiality was reviewed after planning materiality had been set. Final materiality values were as follows:

	MATERIALITY (FINAL)	CLEARLY TRIVIAL THRESHOLD
Hilbre High School Humanities College	£62,000	£1,240

Final materiality thresholds were based on 1% of total incoming resources

# APPENDIX III: DRAFT REPRESENTATION LETTER

BDO LLP  
5 Temple Square  
Temple Street  
Liverpool  
L2 5RH

Dear Sirs

## **Financial Statements of Hilbre High School Humanities College for the year ended 31/08/2017**

1. We confirm that the following representations given to you in connection with your audit of the academy's financial statements (the "financial statements") for the year ended 31 August 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other Governors and officials of the Academy.
2. We have fulfilled our responsibilities as Governors for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of Academy as of 31 August 2017 and of the results of its operations and cash flows for the year then ended in accordance with UK Generally Accepted Accounting Principles (UK GAAP), including FRS 102, and for making accurate representations to you.
3. We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Academy have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and trustee meetings have been made available to you.
4. In relation to those laws and regulations which provide the legal framework within which our business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.
5. There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.
6. We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.
7. To the best of our knowledge we are not aware of any fraud or suspected fraud involving governors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.
8. To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by governors, employees, former employees, analysts, regulators or any other party.

# APPENDIX III: DRAFT REPRESENTATION LETTER

## Continued

9. Other than disclosed in the Notes to the financial statements, there were no loans, transactions or arrangements between the Academy and its governors and their connected persons at any time in the year which were required to be disclosed.
10. We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Companies Act 2006 and UK GAAP.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.
12. We consider that the Academy is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in the Notes to the financial statements are sufficient.
13. We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.
14. We consider that all leases entered in to by the Academy are operating leases and that it is correct for buildings, which the Academy occupies and which are subject to PFI agreement, are not recognised on the balance sheet of the Academy.
15. All grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions during the period in the application of such income.
16. We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.
17. We confirm that the financial statements are free of material misstatements, including omissions.
18. We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each trustee has taken all the steps that they ought to have taken as a trustee in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

.....

(Signed on behalf of the Board of Trustees)

Date: ..... (this should be the same date that the audit report is to be signed)

# APPENDIX IV: DRAFT REGULARITY REPRESENTATION LETTER

## \*\*\*TO BE TYPED ON YOUR HEADED NOTEPAPER

BDO LLP  
5 Temple Square  
Temple Street  
Liverpool  
L2 5RH

Dear Sirs

**Financial Statements of Hilbre High School Humanities College  
For the year ended 31 August 2017**

We confirm that the following representations given to you in connection with your review of the statement on regularity, propriety and compliance for the year ended 31 August 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other board members and officials of the academy as appropriate.

We have fulfilled our responsibilities as governors for the preparation and presentation of the statement on regularity, propriety and compliance as set out in the terms of the regularity engagement letter and for making accurate representations to you.

We confirm that we have provided to you complete, accurate and timely information relevant to your engagement.

We confirm that income from the Education and Skills Funding Agency, grants and income for specific purposes and from other restricted funds administered by the academy have been applied for the purposes for which they were received.

We confirm that we have considered our responsibility to notify the Education and Skills Funding Agency of material irregularity, impropriety and non-compliance with ESFA terms and conditions of funding, under the funding agreement in place between the academy trust and the Secretary of State. As part of our consideration we have had due regard to the requirements of the Academies Financial Handbook.

We confirm that we have disclosed below all known instances of irregular or improper use of funds by the academy trust, or non-compliance with the terms and conditions of funding under the academy trust's funding agreement and the Academies Financial Handbook in the year ended 31 August 2017 and to the date of this letter.

We confirm that we are not aware of any instances and we have not made any reports to the Education and Skills Funding Agency.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

.....  
(Signed on behalf of the Board of Trustees)

Date: (this must be the same date that the regularity report is to be signed)



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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