

Allotts Business Services Limited

**Management Report**  
to  
Link Learning Trust

Year Ended 31 August 2018



**Link Learning Trust  
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 Academy 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 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 Academy give a true and fair view of the state of the academy's affairs at 31 August 2018 and of its incoming resources and application of resources, including its income and expenditure for the period 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 academy 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 academy, 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 academy
- review and testing of income and expenditure for compliance with the funding and other agreements, the Academies Financial Handbook and the academy's system of controls
- examination of relevant documents
- review of the activities carried out by the academy
- 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

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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"> <li>• General Annual Grant (GAG) and other ESFA income included in the financial statements was successfully agreed to final funding confirmation from the ESFA.</li> <li>• 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.</li> <li>• Accrued / deferred income had been correctly provided where income is for a period other than the year ended 31 August.</li> <li>• Non-recurrent grant income and other material sources of income were agreed to offer letters and contracts to ensure correctly recognised in the period.</li> <li>• A sample of prepayments, accrued and deferred income have been tested to contracts or other relevant documentation.</li> </ul> <p>No material issues have been noted re the recognition of income.</p>
2	Management override	<ul style="list-style-type: none"> <li>• 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.</li> <li>• We reviewed the nominal ledger for large and unusual items including journal entries.</li> <li>• Accounting estimates, judgements and assumptions were reviewed.</li> </ul> <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"> <li>• 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 period end.</li> <li>• A sample of accruals have been tested to invoices or other relevant documentation.</li> <li>• Invoices, supplier statements and post year-end payments were reviewed for unrecorded liabilities.</li> </ul> <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"> <li>• Substantive testing of income and expenditure included checking that items had been allocated to the correct fund.</li> <li>• Material sources of income were agreed to contracts and it was ensured that related expenditure had been allocated to them.</li> <li>• Management confirmed allocation of overheads to funds. We confirmed such allocations were materially correct.</li> </ul> <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"> <li>• Employee remuneration is a major expense of the academy and hence a higher risk area to our audit.</li> <li>• 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.</li> <li>• A sample of employees was selected and salary successfully agreed to contracts, deductions tested and agreed and existence agreed to third party evidence.</li> <li>• The charge in the financial statements was reconciled to the payroll.</li> <li>• Disclosures relating to higher paid staff, senior leadership team and trustees were agreed.</li> </ul> <p>No material errors re employee remuneration were noted.</p>
6	Tendering and other procedures	<ul style="list-style-type: none"> <li>• We reviewed the tendering process and confirm it followed the academy's procurement policy and the requirements of the ESFA.</li> <li>• A sample of capital project expenses has been tested to invoices/documentation.</li> <li>• We reviewed the terms of capital grants received and confirmed that expenditure on the project was compliant with these and monitoring reports to funders had been submitted as required.</li> </ul> <p>No indication of non-compliance with procedures was noted.</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
<b>High</b>	There is a significant risk of loss to the academy through ineffective or absent controls or a highly inefficient use of the academy's resources. Urgent action is required to rectify the matter.
<b>Medium</b>	There is a weakness or inefficiency which should be addressed promptly.
<b>Low</b>	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	<b>Purchase orders</b>	
	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>It was observed from a sample selected at Brookburn primary school that purchase orders were verbally authorised but not always had written evidence to support this authorisation, prior to purchases being made. From testing selected all authorisation of the purchase orders had been documented and completed prior to any physical payment of invoices.</li> </ul> <p><b>Implications</b></p> <ul style="list-style-type: none"> <li>Failure to follow the standard procedures, could lead to unauthorised purchases being processed by the Trust.</li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>it is recommended that the standard procedures are followed to ensure that only authorised purchases are made.</li> </ul> <p><b>Priority : MEDIUM</b></p>
	<b>Management Response</b>	<b>Timescale: 31 December 2018</b>
	<p>A small number of orders were verbally authorised by the Headteacher however these had been signed for and dated after the date of the invoice. Procedures have been reviewed and staff informed that standard procedures must be followed.</p>	

**4.2.3. Status of previous recommendations**

1	<b>Employment Contracts</b>	
	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>It was noted that signed contracts of employment or signed agreements of terms with regard to staff who were subject to The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE 2006) from Manchester CC were not available for all members of staff.</li> </ul> <p><b>Implications</b></p> <ul style="list-style-type: none"> <li>It is a legal requirement that staff have written terms and conditions of employment. Terms and conditions of employment may be disputed leading to unnecessary legal costs in the future.</li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>It should be ensured that personnel files are up-to-date and that each employee has a signed contract of employment.</li> </ul> <p><b>Priority : MEDIUM</b></p>
	<b>Management Response</b>	<b>Timescale: 31 December 2017</b>
	<p>Completed, all personnel files are now up-to-date and each employee has a signed contract of employment.</p>	

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2	<b>Internal Audit</b>	
	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>It was observed that no internal audits or review of financial systems was carried out from incorporation to 31 August 2017.</li> </ul> <p><b>Implications</b></p> <ul style="list-style-type: none"> <li>It is a requirement per the Academies Financial Handbook, that the Academy has in place sound internal control, risk management and assurance processes.</li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>It should be ensured that an internal control functions is implemented and regular checks are carried out in line with the Financial handbook. We do understand that the Trust has appointed an internal auditor to carry out this function.</li> </ul> <p><b>Priority : HIGH</b></p>
	<b>Management Response</b>	<b>Timescale: 31 December 2017</b>
	<p>A firm of Internal auditors, have been appointed. Internal audit will support the financial efficiencies of the trust. Over the following twelve months four aspects will be focused on by internal audit.</p> <ol style="list-style-type: none"> <li>An overview of the trust financial systems and how this is implemented, February 2018</li> <li>Cash handling, April 2018</li> <li>Procurement, June 2018</li> <li>Appropriate aligned roles and monthly reporting with consistent approaches feeding into trust board reports, October 2018.</li> </ol> <p>Full reports on checks completed will be presented to Resources Committee on 1.2.18, 22.3.18, 17.5.18, 5.7.18 An action plan will be implemented in January to ensure effective monthly monitoring takes place of internal controls. The Accounting Officer will meet with school's business managers monthly to ensure checks are carried out, including spot checks on systems. A record of monitoring will be kept and reported to the board.</p>	

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3	<b>Purchase Systems</b>	
<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>It was observed that whilst each individual school was following the financial control and procedures it inherited on conversion, as a Multi Academy trust, a uniform set of policies and procedures should be introduced with both schools following the exact same systems.</li> </ul> <p><b>Implications</b></p> <ul style="list-style-type: none"> <li>Failure to implement standard policies can lead to inaccuracies in reporting and make comparisons between schools difficult to achieve.</li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>It is recommended that systems that both schools can follow are implemented as soon as possible, to ensure consistency and efficiencies are achieved. We understand that a policy is already been drafted and is waiting for Board approval, we recommend this be approved and implemented as soon as possible.</li> </ul> <p><b>Priority : HIGH</b></p>	<p><b>Timescale: 31 December 2017</b></p>
<b>Management Response</b>		
<p>The financial scheme and procedures was recommended and adopted by the board on 14.12.17. This will support the consistent approach of both schools. Internal audit will support the process and develop robust monitoring of the scheme. In January a working group has been set up by the trust board to align the administration and business support teams in both schools to achieve greater efficiencies. The full and updated financial scheme and procedures will continue to be implemented in January with an action plan to support this development. The action plan will make clear the focus and timescales for implementation with regular monthly monitoring taking place by the Accounting Officer. An internal audit will support the monitoring of internal checks quarterly. A reporting cycle will form part of the action plan, ensuring regular checks of procedures are carried out and reported on.</p>		
4	<b>Website</b>	
<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>It was observed that the Trust does not have a website for Link Learning Trust.</li> </ul> <p><b>Implications</b></p> <ul style="list-style-type: none"> <li>It is a requirement of the Trust to have a website, showing up to date details including that of its governance arrangements and the structure of its board. The Trust is also required to upload the accounts and management letter on the Trust website by 31 January 2018.</li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>We understand that the website will be launched in due course, we recommend that this be carried out as soon as possible, so that the Trust can upload the accounts and management letter in line with the Academies Handbook.</li> </ul> <p><b>Priority : LOW</b></p>	<p><b>Timescale: 31 December 2017</b></p>
<b>Management Response</b>		
<p>The website will be live by Friday 12<sup>th</sup> January 2018. Accounts and the management letter will be uploaded to both schools websites and to LINK Learning Trust website by 12.1.18</p>		