Buzzacott
CHARTERED ACCOUNTANTS

PolyMAT

Post-audit Management Report

Year ended 31 August 2017

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KEY CONTACTS

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Executive summary

PURPOSE OF THE EXTERNAL AUDIT

- Our work during the audit was performed with a view to expressing an opinion on the financial statements of PolyMAT for the year ended 31 August 2017 and to issue a regularity assurance opinion.

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

- The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance.

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

- This report and its contents were submitted in draft form to Kellie Dalton for comment prior to finalisation.

AUDIT PROGRESS

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

EXPECTED OPINIONS

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

Financial statements opinion: **Clean**

We expect to express our judgement that the financial statements give a true and fair view and have been properly prepared in accordance with the Academies Accounts Direction 2016 to 2017 issued by the ESFA, Companies Act 2006 and that the information in the Trustees' report is consistent with the financial statements. The format and structure of the audit report has been updated this year to accord with the latest technical guidance.

Regularity assurance opinion: **Clean**

We intend to state that in the course of our work, nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Key audit findings

ACCOUNTS FORMAT AND COMPLIANCE

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2016 to 2017 (the Accounts Direction). Compliance with the Accounts Direction also ensures that the requirements of Companies and Charities legislation are met.

There have been only a small number of changes introduced by the 2016/17 the Accounts Direction. The notable changes of relevance to the Academy were as follows:

- A sensitivity analysis should be provided as part of the disclosures relating to the Local Government Pension Scheme setting out the impact of small changes to the actuarial assumptions on the overall pension liability.
- Where the Academy makes a contribution towards the Apprenticeship Levy, the value of this contribution should be separately analysed within the staff costs note.

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

ACCOUNTING POLICIES, ESTIMATES, AND DISCLOSURES

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

AUDIT ADJUSTMENTS AND UNADJUSTED MISSTATEMENTS

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

Other than presentational amendments which have no impact on the reported results for the year, there were no adjustments made to the figures presented to us for audit.

Other than clearly trivial misstatements, we are pleased to report that no misstatements were identified during our audit.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

KEY AUDIT RISKS AND OUTCOMES

As part of our pre-audit planning process, we identified those areas where we believe there is a higher possibility that a material error may appear in the financial statements. In the pages which follow we have provided a brief summary of the outcome of our audit work in relation to those higher risk areas.

KEY AUDIT RISKS AND OUTCOMES (CONTINUED)

Risk area	Summary and conclusion
Capital project	During the year, the Academy obtained a grant from the Condition Improvement Fund for roof replacement. Given the significant financial value attached to the project, it is important that the costs are correctly capitalised or expensed as appropriate. We have reviewed the amounts expended in relation to the capital project and sample checked the expenditure to gain assurance over the accounting treatment. The amounts sample checked were considered capital in nature and the treatment was deemed appropriate. We also reviewed the repairs and maintenance expenditure for the year to identify potential costs expended on the project which may have been incorrectly written off. This review did not reveal any additional costs which should have been capitalised. We also reviewed cut-off, i.e. the financial period in which the expenditure has been recognised, and the disclosures made surrounding the year end capital commitment. We ensured that the asset was disclosed as an asset in the course of construction at 31 August 2017 because the roof was in the process of being replaced at the year end.
Revenue recognition	There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in the wrong period. We carried out a detailed analytical review against expectations based on our understanding of the Academy and against the prior year. Reasonable explanations were obtained from management and significant variances identified which were substantiated as appropriate. No significant issues arose during our sample based checks including on our work on ESFA and non-ESFA income.

KEY AUDIT RISKS AND OUTCOMES (CONTINUED)

Risk area	Summary and conclusion
Regularity	Regularity and the use of government funding continues to be a substantial focus of the ESFA and National Audit Office. Ensuring regularity within the Academy is the responsibility of the Board and all of the current focus on regularity in the academy sector has only increased the level of responsibility for the Board to monitor and document management of risk including risk of irregularity. The regularity self-assessment was provided for audit, which was completed by the Academy's finance team and reviewed by the Accounting Officer. The regularity self-assessment confirms the processes in place to ensure regularity, propriety and compliance within the Academy. In particular, the self-assessment confirms that: • Procedures are in place in connection with general procurement, use of credit cards and expenses; • Procedures are in place in order to ensure appropriate remuneration of payroll staff, agency staff and consultants; and • Procedures are in place to ensure that conflicts of interest and related party transactions are identified and disclosed in the financial statements where appropriate. The Academy has not informed us of any material control weakness or irregularity in these areas. Based on our review of the self-assessment questionnaire and the work undertaken to verify the responses provided, we are satisfied that the conclusion reached in our regularity assurance report is appropriate.
Related party transactions	In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK Accounting Standards and the ESFA Academies Accounts Direction requires transparent disclosure of all transactions and balances arising between the Academy and its related parties. In addition, the ESFA Academies Handbook places restrictions on the permissibility of certain related party transactions. The Academy's procedures for identifying related parties and associated transactions were reviewed. This includes the requirement for each of the Trustees and member of the Academy Senior Management Team to update their declaration of interests annually, and to declare any interests they have at the commencement of business meetings. Based on the work undertaken, we have no concerns over the completeness of related party transaction disclosures. We will obtain written representations for you also, asking the Board and management to confirm their satisfaction with the completeness of the disclosures made.

KEY AUDIT RISKS AND OUTCOMES (CONTINUED)

Risk area	Summary and conclusion
Accounting estimates	Certain accounting entries within the financial statements are made on the basis of an estimate and changes in the underlying assumptions could lead to a shift in the reported results. The most material estimates within the Academy's financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges) and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme. As noted earlier in this report, we are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated in accordance at an appropriate rate. The year-end liability in respect of the Local Government Pension Scheme is consistent with the estimate provided by the scheme's actuary and the assumptions used appear reasonable.
Management override of controls	There is an inherent risk in all organisations that management may be in a position to override controls or agreed protocol. Such actions may be taken in order to conceal or process unauthorised or inappropriate transactions, or may occur due to weaknesses in the control environment. Such actions could lead to either deliberate or inadvertent misstatement of the results portrayed by the financial statements. Journal entries were reviewed, particularly those surrounding the year end and explanations were sought for any large or unusual items. All items tested and discussed with management were deemed to be appropriate.

Financial performance and position

AUDITED RESULTS

Based on the audited financial statements, **the Academy's total reserves decreased by an amount of £310,000** (2016: £1,904,000) during the year providing net assets of £25,212,000 at the balance sheet date (2016: £25,521,000).

Excluding movements on tangible fixed assets, the defined benefit pension liability, and other non-recurring items, **the Academy's "operational" surplus for the year was £155,000** (2016: £503,000), as reconciled below.

	£'000
Overall net movement in funds	**(310)**
Add: movement attributable to the tangible fixed assets fund (note 1)	66
Add: LGPS actuarial loss (note 2)	39
Add: LGPS service cost adjustment (note 2)	296
Add: LGPS interest cost adjustment (note 2)	64
Operational surplus for the year	**155**

AUDITED RESULTS (continued)

Note 1 Movement on tangible fixed assets fund

Movements on the tangible fixed assets fund broadly mirrors the movements on the Academy's tangible fixed assets, reflecting the utilisation of funding towards the purchase of tangible fixed assets and the annual depreciation charge against the Academy's assets. For the purposes of determining the "operational" surplus, the movements on this fund have been excluded.

Note 2 LGPS (Local Government Pension Scheme adjustments

The Academy is one of several employing bodies Included within the London Borough of Greenwich Pension Fund. The scheme's actuaries, Barnett Waddingham, have prepared a valuation of the assets and liabilities which are specific to PolyMAT so that the net liability may be included on the balance sheet. For the purposes of determining the "operational" surplus', the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2016 have been excluded.

COMPARISON OF KEY FINANCIAL RATIOS

For your information, we have included at Appendix 1 to this report a comparison of the Academy's key financial ratios for 2014, 2015, 2016 and 2017 and also against the sector averages for 2014, 2015 and 2016.

Other information

LETTER OF REPRESENTATIONS

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

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

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

OTHER WORK UNDERTAKEN AS PART OF THE 2016/17 AUDIT CYCLE

As set out in our External Audit Strategy to you we have also been engaged to provide you with the following services:

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

OTHER WORK UNDERTAKEN AS PART OF THE 2016/17 AUDIT CYCLE (continued)

- ESFA Accounts Return assurance
  Our work on the Accounts Return assurance has begun. We do not have any concerns at this stage and we will work with management to ensure that the Accounts Return together with our assurance report is filed ahead of the 19 January deadline.

USE OF THIS REPORT

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

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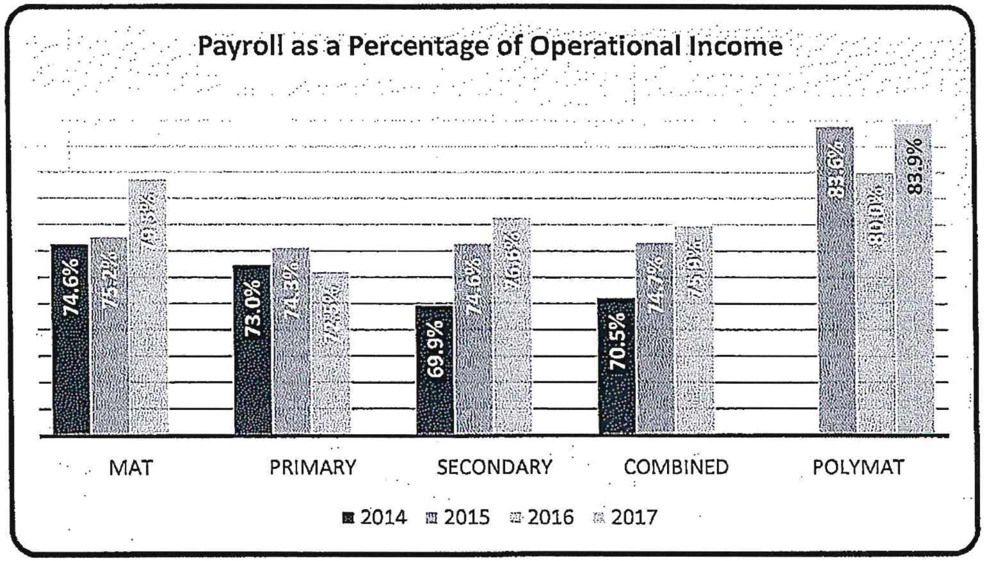
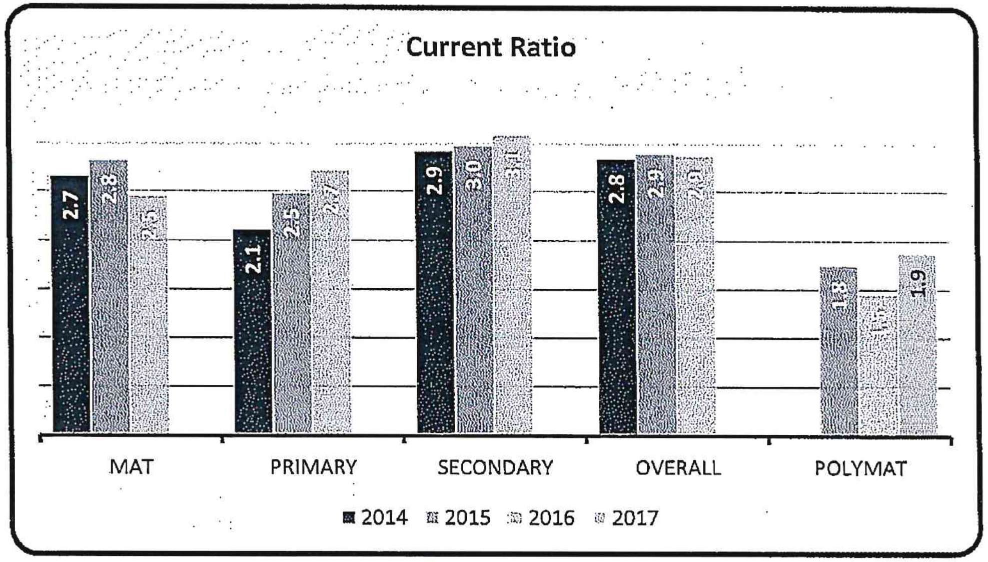
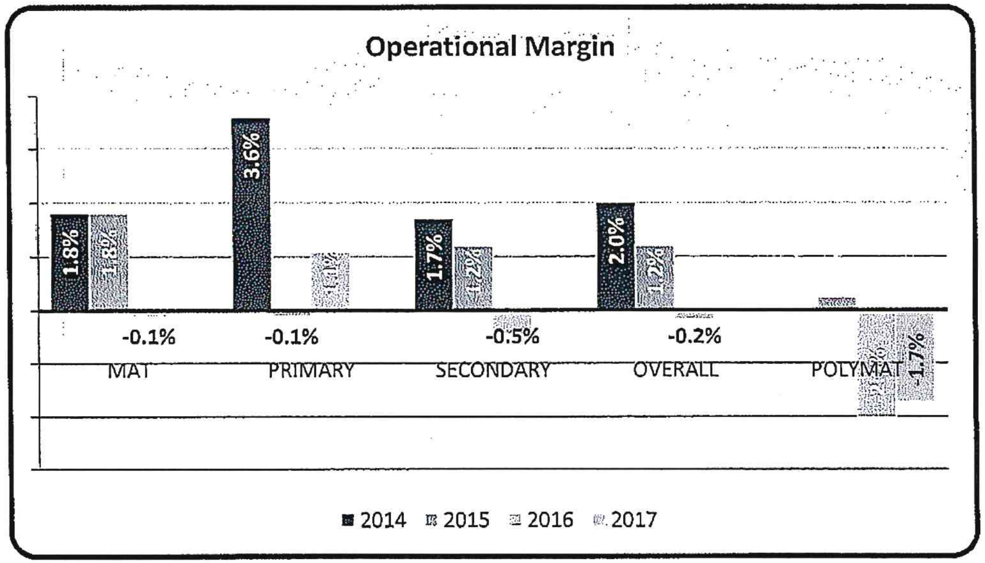
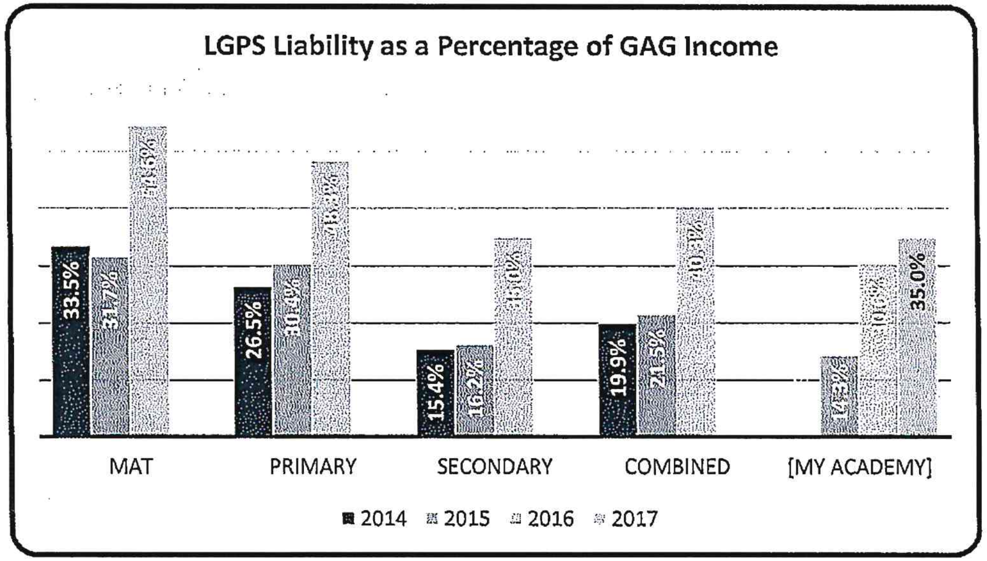
Appendix 1: Comparison of financial ratios









INTRODUCTION

The above charts present some key financial ratios for the Academy for the past four financial periods. We have also provided corresponding ratios* for the sector for 2014, 2015 and 2016. The ratios presented may differ from your own ratios where a slightly different formula is used.

**Figures taken from approximately 100 academies based in the South East of England and Greater London. Although the sector average figures provide a guide to how the Academy compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.*

PAYROLL AS A PERCENTAGE OF INCOME

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

Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Despite holding teacher pay rises to 1%, staff on-cost increases in National Insurance and pensions have driven up total costs.

Typically, staff costs make up 65% - 80% of both total costs and total income. The higher the percentage, the lower the amount of resources that are available for spending in other areas, e.g. curriculum expenses, improving facilities and saving for major projects, which may impact over the longer term on sustainable school improvement.

PAYROLL AS A PERCENTAGE OF INCOME (continued)

This ratio has been increasing over the past three years and the average of 75.9% shown here is at the very top of the acceptable range. Whilst the overall average has increased by 1.2%, MAT costs are rising more steeply at 3.9% whilst Primaries managed to reduce their ratio in 2015/16.

Academies are under pressure to reduce staff costs or find alternative sources of income. Being aware of organisational capacity and having detailed workforce analysis will be essential. Adopting a model of pupil contact time in evaluating efficiency of curriculum planning has been shown to be effective.

CURRENT RATIO

Formula: Total current assets ÷ Total current liabilities

The current ratio is a measure of an academy's solvency. It compares the amount of cash and other assets with the level of current liabilities. A higher ratio will provide a greater margin of security to an academy in meeting liabilities as they fall due. However, a very high ratio may mean funds are being set aside unnecessarily rather than being used to further the work of the academy.

As expected the majority of academies and MATs are maintaining a healthy current ratio figure. Whilst there is no exact definition of a "healthy" current ratio, a figure ranging between 1.5-3.5 suggests that an academy is maintaining adequate assets to cover its liabilities that arise in the next 12 months. This is particularly important given that academies are prohibited from borrowing money.

OPERATIONAL MARGIN

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

This ratio compares an academy's net surplus or deficit for the year to its total income. Unlike commercial organisations, the aim of an academy is not to generate profits on trading or capital gains but to provide quality education and fully utilise its resources in so doing.

The graph shows a significant decrease in the margin as a percentage of income from 2014 to 2016 with 2016 deficits averaging 0.2%. This trend is reflective of the difficult economic conditions in which academies are operating. Interestingly, the Primary academies in the data set have shown an improvement from a very poor previous year.

Of our sample, 47% of academies were in operational surplus compared to 64% the previous year. The general challenges in the sector would explain this but it is important to remember that specific, sometimes planned, circumstances can affect individual academies in each year. This ratio is taken before transfers to the fixed assets fund. Therefore, many academy trusts are actually drawing on their revenue reserves to a greater extent than is shown here.

LGPS LIABILITY AS A PERCENTAGE OF GAG INCOME

Formula: Pension liability ÷ GAG income

This ratio demonstrates the scale of the LGPS liability. As the pension liability is determined by independent actuaries and is the product of many factors, including the state of the wider economy and the workplace profile for individual academies, the ratio is largely outside the academy's influence. A high ratio may indicate that the drain on annual contributions will be difficult for the school to manage.

LGPS LIABILITY AS A PERCENTAGE OF GAG INCOME (continued)

The startling increase in the average academy LGPS liability as a percentage of GAG income from 21.5% in 2015 to 40.3% in 2016 was primarily as a result of changing actuarial assumptions including the extent to which the actuaries were discounting the value of the obligations to pay out pensions in the future.

As slight changes in the actuarial assumptions used can have a substantial impact on the overall net pension liability, we have provided in the table below a comparison of the Academy's 2017 LGPS retirement benefit assumptions against those of other educational organisations.

	Sector Average %	PolyMAT %
Assumptions		
Price increases	2.5	2.7
Salary increases	3.4	4.2
Pension increases	2.5	2.7
Discount rate	2.5	2.6
Increase (decrease) in LGPS liability from 01/09/16 to 31/08/17	**(16.0)**	**13.4**
Value of LGPS liability at 31 August 2017 (£000s)	**N/a**	**3,371**
LGPS liability as a percentage of GAG income	**36**	**35**

The level of Teacher's Pension contributions from their revision date in April 2019 is not yet known. It is likely that these will also rise significantly and future planning should take account of this.