THE
NORTHERN
SCHOOL
OF ART

Formerly Cleveland College of Art & Design

Annual Report and Financial Statements
Year ended 31 July 2018

Contents

Reference and Administrative Details

Board of Governors

A full list of Governors is given from pages 15 to 17 of these financial statements.

Mrs J White acted as Clerk to the Corporation throughout the period.

Senior management team

Dr J R M Raby	Principal and CEO; Accounting officer
Mr S Slorach	Vice Principal (Resources)
Mr M Wheaton	Vice Principal (Higher Education)
Mr J Waddington	Vice Principal (Student Experience)
Mr P Chapman	Vice Principal (Employability & External Relations)

Principal place of business

The Northern School of Art, Green Lane, Linthorpe, Middlesbrough. TS5 7RJ

Professional advisors

Financial statements auditors and reporting accountants:

RSM UK Audit LLP, 1 St James' Gate, Newcastle upon Tyne, NE1 4AD

Internal auditors:

KPMG LLP, Quayside House, 110 Quayside, Newcastle, NE1 3DX

Bankers:

Barclays Bank plc, Teesdale Business Park, Sabatier Close, Stockton on Tees, TS17 6YJ

Strategic report

OBJECTIVES AND STRATEGY

The governing body present their annual report together with the financial statements and auditor's report for The Northern School of Art for the year ended 31 July 2018.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting The Northern School of Art. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

The Institution changed name from Cleveland College of Art and Design to The Northern School of Art in the academic year 2017/2018, approved by the Secretary of State in March 2018. Although legally remaining a College, shall be referred to as the School throughout the report.

Mission, Vision, Strategy and/or Objectives

In June 2017 the School adopted a strategic plan for the period August 2017 to July 2020.

The institution's essential mission concerns the quality of students' learning experience and outcomes. Its mission statement reflects this:

"Exceptional education for creative careers."

In practice this means that the desire to improve the quality of students' experience and outcomes must be of primary concern. It was this motivation that lay behind the creation of the Student Experience Team in late 2016-17.

The School has characterised objectives in a highly abbreviated form as:

"More students on better courses"

Values

Creativity and Excellence

The School aims to place creative practice by students and staff at the centre of what it does, with excellent outcomes as the goal.

Professional Practice, Employability and Enterprise

The institution aims to develop students' skills for employment and enterprise through curricula informed by staff and student engagement with the creative industries. The School values the encouragement of professional practice in students and the continuing professional development of staff, improving their performance and contribution to the education sector and creative industries.

Student Engagement, Collaboration and Community

The school aims to promote student engagement within their learning environment as a partnership with staff, to aid delivery of a high quality student experience and to promote understanding and appreciation of art and design. The institution aims to develop complementary areas of study that support interdisciplinary collaboration and learning and engagement with external partners.

Our Behaviours

Concern for the quality of student experience

A high quality student experience is the essential prerequisite for the institution's success. This means a high quality experience in terms of teaching, learning and assessment, and that the curriculum must continue to be relevant and delivered by staff whose knowledge is up-to-date.

A positive, collegiate approach

The reputations and fortunes of the institution's FE and HE courses and programmes are, to a large extent, entwined. There are many positive opportunities for expansion of provision and FE and HE colleagues should work together to achieve this.

Professionalism

All staff should seek to achieve high standards and behaviours – in other words being professional. Part of being a professional is that work is subject to review and comment in order to maintain and improve standards. Staff should work together with appropriate planning for improvement, and individuals should seek to provide and receive feedback in a manner which improves outcomes for the institution and its students.

Always seeking improvement; appropriately self-critical

The institution should always seek to improve the quality of provision to students, and all staff should seek to be appropriately self-critical, focusing on future improvement.

Equality and diversity

The School is committed to the principles of equality and diversity and aims to ensure that all employees and service users are treated fairly and equally regardless of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, or sexual orientation.

Financial objectives

To pursue, refine and maintain a financial strategy as the basis of the sustainable financial health of the School in order to ensure:

1. The long term reputation and viability of the institution for the benefit of students, staff and the creative industries by maintaining operating surpluses and positive cash generation;
2. Meeting the obligations of financial covenants set by the institution's loan providers;
3. The availability of sufficient resources to match its stated strategic objectives; and
4. The financing of developments, capital investments and long term maintenance expenditure.

Resources

The School has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the two main campuses, one in Hartlepool and one in Middlesbrough.

The School employs 210 (155 FTE) people, of whom 62 (54 FTE) are teaching staff.

The School enrolled approximately 1,280 students. The School's student population includes 583 FE students, 512 higher education students, 97 Saturday club students and 88 adult learners.

The School has £3.796 million of net assets (including £1.8 million pension liability) and long-term debt of £2.031 million.

The School continues to have a good reputation locally and nationally. Continuing to build and maintain the School quality brand is essential for the success at attracting students and external relationships, to ensure strategic objectives and aims are achieved.

Stakeholders

In line with other colleges and with universities, The Northern School of Art has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- Staff;
- Local, national and international employers;
- Local authorities / combined authority;
- Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE and HE institutions;
- Trade unions;
- Professional bodies.

The School recognises the importance of these relationships and engages in regular communication with them through the School Internet site and by meetings.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the school to publish information on facility time arrangements for trade union officials at the school

Numbers of employees who were relevant period	FTE employee number
1	1

Percentage of time	Number of employees
0%	0
1-50%	1
51-99%	0
100%	0

Total cost of facility time	1,250
Total pay bill	25,000
Percentage of total bill spent on facility time	5%

Time spent on paid trade union activities as a percentage of total paid facility time	5%

DEVELOPMENT AND PERFORMANCE

Financial Results

The School generated a deficit before other gains and losses in the year of £341,000 (2016/17 – deficit of £570,000), with total comprehensive income of £552,000, (2016/17 - £1,862,000). The reduction in total comprehensive income is primarily due to the reduction in actuarial gains in respect of pensions, from £2.432 million to £0.893 million.

Developments

Tangible fixed asset additions during the year amounted to £1,470,000. This was split between freehold land and buildings of £1,038,000 and equipment purchased of £432,000. In the main, this related to the new build project completed in year at the Hartlepool Campus. Both phase 1 and phase 2 of the Hartlepool building project is now complete. As a result assets in the course of construction totalling £11,158,000 has been transferred to freehold buildings.

Reserves

The Northern School of Art is dependent on two key sources of funds, being ESFA funding for the FE operations and student fees for the HE operations. This means that if there were to be a significant fall in these funding sources it is likely that the School would have to review its options and how the School is structured. The risk of both ESFA and student fees ceasing to be available is considered unlikely.

The School may operate at a deficit, drawing upon unrestricted funds, on condition that this is a temporary measure and that a credible plan is in place to recover the financial position of the School. This is subject to banking covenants not being breached where credit facilities are in place.

It is recommended that the School holds a minimum of £500k unrestricted reserves in order to carry out operations for a period of time which will assist in covering cash should a major income stream reduce.

The School has accumulated unrestricted reserves of £3,796,000 (2016/17 – £3,244,000) and cash and short term investment balances of £463,000 (2016/17 - £1,957,000). The Institution wishes to continue to accumulate reserves and cash balances in order to fund future investment and take advantage of opportunities as they arise. Cash balances had reduced over the year end as £1.2 million of a revolving credit facility was repaid to Barclays bank.

Sources of income

The School continues to reduce reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18 the FE funding bodies provided 32.64% (2016/17 36.6%) of the School's total income, whilst HE fees provide the largest income stream at 50.77% (2016/17 48.3%).

FUTURE PROSPECTS

Developments

The School has invested recently in its facilities and aims to increase financial performance by continuing to develop and build on several efficiency schemes across the institution. Further investment is planned in order to support the strategic plan moving forward.

Financial plan

The School governors approved a three year financial plan in July 2017 which sets objectives for the period to 2020.

Treasury policies and objectives

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation.

The objectives of treasury management within the School are aligned to the financial objectives, in that;

- To maintain a positive cash balance
- Meet the obligations of financial covenants
- To generate sufficient levels of income to support continued investment in resources

Cash flows and liquidity

At £453,000 net cash inflow from operating activities, the School has improved on the previous year (2016/17 outflow of £30,000). This is due to a reduction in £341,000 deficit for the year from the previous year (£570,000), plus several adjustments, including an increase in creditors due within one year and increased interest payable.

Going concern

After making appropriate enquiries, the Corporation considers that the School has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.
The School is continuing in pursuing the objectives set out in the strategic plan, and continues to explore opportunities as they arise.

The £11 million investment on the Hartlepool Campus was concluded in 2017/18, with further investment and development of the School planned, it is anticipated this will be key in attracting new students and enable the School to continue to work toward the achievement of the current strategic plan.

The School is committed to continuing to improve the financial position whist continuing to invest, maintenance of a financial health score of 'Satisfactory' or better during any investment period is a minimum aim of any forecasting.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management

The School has well developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for risk management and its approach to managing risks and internal controls is explained in the Statement on Corporate Governance.

Based on the strategic plan, the Audit Committee undertakes a comprehensive review of the risks to which the Institution is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the School. The Audit Committee reviews whether adequate internal controls are in place and if further review and changes are required. In addition to the annual review, the Audit Committee will also consider any risks which may arise as a result of a new area of work being undertaken by the School.

A risk register is maintained at the School level which is reviewed at each Audit Committee and reported to the board on a regular basis. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the School and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

The main risk factors affecting the School are outlined below along with the action taken to minimise them. Not all the factors are within the School's control. Other factors besides those listed below may also adversely affect the Institution.

1. Government funding

The School has considerable reliance on continued government funding through the ESFA and through HEFCE. In 2017/18, 39.7% of the Institution's revenue was ultimately publicly funded (at both FE and HE levels) and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The School is aware of several issues which may impact on future funding:

Further Education Funding

- Cuts to career education, advice, information and guidance in schools may lead to a reduction in student numbers due to young people not being well informed in their choices regarding their future.
- Regional devolution will have an impact on funding, the creation of Tees Valley Combined Authority will change the way the Institution receives FE funding, from 2018/19, there will be full devolution of funding. The Tees Valley Combined Authority will be responsible for allocations to providers and the outcomes to be achieved, consistent with statutory entitlements.

Higher Education Funding

- High student expectations due to the cost of attending higher education, either in terms of academic quality, employability or facilities. In turn this creates a need to ensure investment in infrastructure, teaching and career support are maintained to a high standard.
- Reducing government grants to fund HE institutions means the School becomes more dependent on the HE fee income to fund HE activities.

This risk is mitigated in a number of ways:

- More than half of the School income is generated from fees and other streams such as catering and printing.
- By ensuring the School is rigorous in delivering high quality education

- Maintaining high employability results
- Investing in Institution resources to ensure industry level resources
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies and the creative industry
- Ensuring the School is focused on those priority sectors which will continue to benefit from public funding.

2. Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme funding requirements on the School's balance sheet in line with the requirements of FRS 102. Future contributions are included in the forecast projections.

3. Failure to maintain the financial viability of the School

The School's current financial health grade is classified as "Satisfactory". This is largely the consequence of the large investment in the Hartlepool Campus and resource investments for new courses. Notwithstanding that, the continuing challenge to the School's financial position remains the constraint on further education funding from Government whilst maintaining the student experience. This risk is mitigated in a number of ways:

- By rigorous budget setting procedures
- Regular in year budget monitoring
- Robust financial controls
- Exploring ongoing procurement efficiencies

4. Failure to achieve bank financial covenants

A breach in financial covenants may result in, at worst, the outstanding debt becoming immediately repayable, and at best, a renegotiated loan, probably at a higher margin with increased security. In order to mitigate the risk of a breach:

- Covenant calculations are included in monthly management account reports, which are reported periodically to Principalship, Corporation board and the bank.
- Covenant calculations form part of the budgeting procedure to ensure compliance.
- A review of governors assessment of going concern form part of the end of year external audit.
- The Institution has excellent communications with the banking relationship manager, which would enable discussions to take place early in the event of a possible breach.

KEY PERFORMANCE INDICATORS

Key performance Indicator	Measure/Target	Actual for 2017/18
EBITDA	**529**	**455**
Staff costs as % of income	**64.93%**	**68.51%**
Debt Servicing	**=>100%**	**820%**
Operational Gearing	**=<500%**	**455%**
Financial Health Score	**Satisfactory**	**Satisfactory**

Student achievements

Students continue to prosper at the School. FE success rates had a slight decline in 2017/18 from 2016/17 from 92.5 per cent to 90.1 per cent. This was due to slightly increased levels of withdrawal after the six week census point. The Institution has reviewed this and has identified areas for improvement.

HE success reduced from 77.2 per cent in 2016/17 to 73 per cent. The School continues to work to support students and to improve in year retention.

OTHER INFORMATION

Public Benefit

The Northern School of Art is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 15-17. In setting and reviewing the School's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education.

In delivering its mission, the School provides the following identifiable public benefits through the advancement of education:

- High-quality teaching and learning
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Educational partners including schools, colleges and higher educational institutions
- Links with creative sector employers, industry and commerce; regionally and nationally
- Links with the Combined Authority

Equality

The Northern School of Art is committed to the principles of equality and diversity and aims to ensure that all employees and School users are treated fairly and equally regardless of age, disability, gender orientation, marriage and civil partnership, pregnancy, maternity and paternity, race, religion or belief, sex, or sexual orientation.

All School users are expected to uphold this statement to ensure a welcoming and supportive environment for all throughout the complete learning or employment experience within the School. Equality and Diversity Training is mandatory for all staff.

The School's Equality and Diversity Policy aims to prevent discriminatory practices and promote an inclusive culture where all staff and students have the opportunity to work and study in an accepting and welcoming environment that fosters their ability to reach their full potential. This policy is monitored on an annual basis and is published on the School's website and VLE.

The School publishes an Annual Equality and Diversity Report which includes analysis of all relevant data to ensure compliance with all relevant equality legislation including the Equality Act 2010.

The School believes that all forms of discriminatory behaviour are deemed unacceptable in any form, including bullying, harassment and victimisation. Any incidences of discriminatory behaviour will be not be tolerated and will be appropriately challenged in all cases.

Disability statement

The Northern School of Art is committed to the principles of equality and diversity and welcomes applications from students and staff with a disability or learning difficulty. The School aims to support all individual needs wherever possible to enable both staff and students to achieve their full potential.

In accordance with the duties laid out in the Equality Act 2010, the School will not discriminate against a disabled person throughout the whole learning or employment experience within the School and in the delivery of services in provides.

The School will endeavour to make all reasonable adjustments for a disabled person to access any service provided by the Institution. By doing so, the School will not treat a disabled person less favourably (for a reason related to his/her disability) than it treats other learners.

The School cannot, however, be expected to take action or make reasonable adjustments for a disabled person if that disability has not been disclosed. It is therefore vital that staff and students declare their disability to the School at the earliest opportunity through the mechanisms provided.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, requires education providers, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2016 to 31 July 2017, the School paid 94.22 per cent of its invoices within 30 days and the School continues to improve payment performance. The School incurred no interest charges in respect of late payment for this period.

EVENTS AFTER THE REPORTING PERIOD

Since the passing of the reporting period, The School has created a subsidiary company, Northern School of Art Devco Limited. Creation of Northern School of Art Devco Limited is to facilitate the construction of a new campus building in Middlesbrough.

DISCLOSURE OF INFORMATION TO AUDITORS

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the School's auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the School's auditors are aware of that information.

Approved by order of the members of the Corporation on 14 December 2018 and signed on its behalf by:

Dr G D Robson

Chair

Governance Statement

The following statement is provided to enable readers of the annual report and accounts of the School to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2017 to 31st July 2018 and up to the date of approval of the annual report and financial statements.

The School endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
ii. having due regard to the principals and guidance of the Financial Reporting Councils UK Corporate Governance Code 2016 insofar as those are applicable to the further education sector.

The School is committed to exhibiting best practice in all aspects of corporate governance, although the Schools has not adopted and therefore do not apply the UK Corporate Governance Code. However, the School has reported on Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code considered to be relevant to the further education sector and best practice.

In the opinion of the Governors, the School complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

The Corporation

The members who served on the Corporation during the year **<u>and up to the date of signature of this report</u>** were as listed in the table below.

	Date of Appointment	**Term of office**	**Date of resignation**	**Status of appointment**	**Committees served**	**Attendance in 2017/18**
Dr G D Robson	19.12.08 Reappointed 03.07.15	4 years		Independent	LGF Programme Board Search Committee	7/8 87%
Mr I Butchart	19.12.08 Reappointed 31.12.15	4 years		Independent	Audit	8/8 100%
Mr P Smith	19.12.05 Reappointed 31.12.15	4 years		Independent	Remuneration LGF Programme Board	8/8 100%

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2017/18
					Search Committee	
Dr J R M Raby	01.05.08	Whilst in Post		Principal	HE Academic Board LGF Programme Board Search Committee	7/8 87%
Mrs S Fawcett	12.07.11 Reappointed 03.07.15	4 years		Independent	LGF Programme Board	6/8 75%
Mr I Swain	02.10.09 Reappointed 30.09.15	4 years		Independent	Audit Remuneration LGF Programme Board Search Committee	7/8 87%
Professor R Simmons	04.07.14 Reappointed 31.08.18	4 years		Independent	Remuneration	6/8 75%
Professor J Rapley	13.02.15	4 years		Independent	LGF Programme Board HE Academic Board	7/8 87%
Mrs D Ogden	01.05.15	4 years		Independent	Audit	3/8 37%
Ms A Goodwill	01.09.12 Reappointed 03.07.15	4 years		Academic Staff		2/8 25%
Mr K Goldsborough	11.11.16	4 years		Independent		7/8 87%
Mr D Hughes	11.11.16	4 years		Independent	Audit	8/8 100%

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2017/18
Mr T Bailey	09.12.16	4 years		Independent		5/8 62%
Ms J Havakin	28.04.17	3 years		Academic Staff		7/8 87%
Ms E Hardwick	28.04.17	3 years		Academic Staff	HE Academic Board	8/8 100%
Ms A Norris	06.07.17	1 year		Student Governor		5/6 83%
Ms P Jones	06.07.17	1 year		Student Governor		4/6 66%

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the School together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets eight times throughout the academic year.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are HE Academic, Local Growth Fund Programme, Audit, Remuneration and Search. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the School's website or from the Clerk to the Corporation at the school's registered address.

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

All governors are able to take independent professional advice in furtherance of their duties at the School's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are provided on an ad hoc basis.

The Corporation has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Corporation considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee, consisting of four members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years. Any reappointments are reviewed for individual contribution and with due regard for Nolan advice on length of service of governors.

Corporation performance

The Corporation carried out a self assessment of its own performance for the year ended 31st July 2018 and graded itself as "GOOD" on the Ofsted scale.

HE Academic Board (HEAB)

The HEAB comprises three members of the Corporation and meets twice per year and operates in accordance with written terms of reference approved by the Corporation.

The HEAC holds delegated responsibility for the oversight and evaluation of the student learning experience, including the quality management infrastructure and its alignment to the quality assurance framework of the degree-awarding body (Arts University Bournemouth).

Local Growth Fund Programme Board

The LGF Project Board comprises four members of the Corporation (excluding the Accounting Officer and Chair) and meets regularly throughout a project, usually monthly. The LGF Project Board operates in accordance with written terms of reference approved by the Corporation.

The Project Board is responsible to the Corporation Board for the successful construction of a new campus building in Hartlepool and other premises improvements. It will make such decisions to achieve this on behalf of the Corporation Board.

This Committee has now been disbanded after the successful completion of the project.

Remuneration Committee

Throughout the year ending 31 July 2018 the School's Remuneration Committee comprised three members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

Details of remuneration for the year ended 31 July 2018 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises four members of the Corporation (excluding the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the School's internal and financial statements auditors, who have access to the Committee for independent discussion, without the presence of School management. The Committee also receives and considers reports from the main FE funding bodies as they affect the School's business.

The School's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Corporation on the appointment of internal and financial statements auditors and their remuneration for audit and non-audit work as well as reporting annually to the Corporation.

Internal control

Scope of responsibility

The Corporation is ultimately responsible for the Institution's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the School's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between The Northern School of Art and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of School policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Northern School of Art for the year ended 31 July 2018 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the School is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the School's significant risks that has been in place for the period ending 31 July 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

The School has an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the School is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum, annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the School. The report includes the HIA's independent opinion on the adequacy and effectiveness of the School's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive managers within the School who have responsibility for the development and maintenance of the internal control framework
- comments made by the School's financial statements auditors, the reporting accountant for regularity assurance, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor and other sources of assurance, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its September 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the School has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "*the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets*".

After making appropriate enquiries, the Corporation considers that the School has adequate resources to continue in operational existence for the foreseeable future. For this reason it adopts the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 14th December 2018 and signed on its behalf by:

Dr G D Robson

Chair

Dr J R M Raby

Accounting Officer

Statement of Regularity, Propriety and Compliance

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the school's grant funding agreement and contracts with ESFA. As part of our consideration we have had due regard to the requirements of the grant funding agreements and contracts with ESFA.

We confirm on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the School, or material non-compliance with the terms and conditions of funding under the School's grant funding agreements and contract with ESFA.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the ESFA.

Dr J R M Raby	Dr G D Robson
Accounting Officer	Chair of Governors
14th Dec 2018	14th Dec 2018

Statement of Responsibilities of the Members of the Corporation

The members of the corporation, as charity trustees, are required to present audited financial statements for each financial year.

Within the terms and conditions of the school's grant funding agreements and contracts with ESFA, the corporation – through its accounting officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the school and its surplus / deficit of income over expenditure for that period.

In preparing the financial statements, the Corporation is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the School will continue in operation.

The corporation is also required to prepare a Members' Report which describes what it is trying to do and how it is going about it, including information about the legal and administrative status of the school.

The corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the school and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The corporation is responsible for the maintenance and integrity of the school's website; the work carried out by auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective management of the school's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA are not put at risk.

Approved by order of the members of the corporation on 14th December 2018 and signed on its behalf by:

Dr G D Robson

Chair of governors

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART

Opinion

We have audited the financial statements of The Northern School of Art (the "School") for the year ended 31 July 2018 which comprise the School statement of comprehensive income, the School balance sheet, the School statement of changes in reserves, the School statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the School's affairs as at 31 July 2018 and of the School's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the school in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the school's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report and Financial Statements[1] other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2017 to 2018 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit.

1.1 Responsibilities of the Corporation of The Northern School of Art

As explained more fully in the Statement of the Corporation's Responsibilities on pages 23 to 24, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation is responsible for assessing the School's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation either intend to liquidate the College or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at http://www.frc.org.uk/auditorsresponsibilities this description forms part of our auditor's report.

Use of our report

This report is made solely to the Corporation, as a body, in accordance with the Funding Agreement published by the Education and Skills Funding Agency and our engagement letter dated 27th June 2018. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants

1 St James' Gate, Newcastle upon Tyne, NE1 4AD

14th December 2018

Statement of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2018	Year ended 31 July 2017
		£'000	£'000
INCOME			
Funding body grants	2	3,418	3,563
Tuition fees and education contracts	3	4,408	4,200
Research grants and contracts	4	27	35
Other income	5	694	649
Investment income	6	3	2
Total income		**8,550**	**8,449**
EXPENDITURE			
Staff costs	7	5,679	5,418
Other operating expenses	8	2,395	2,555
Depreciation	10	643	897
Interest and other finance costs	9	174	149
Total expenditure		**8,891**	**9,019**
Deficit before other gains and losses		**(341)**	**(570)**
Deficit for the year		**(341)**	**(570)**
Re-measurement of net defined benefit liability	20	893	2,432
Total Comprehensive Income for the year		**552**	**1,862**
Represented by:			
Unrestricted comprehensive income		**552**	**1,862**
		552	**1,862**

The statement of comprehensive income is in respect of continuing activities.

Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1st August 2016	(1,154)	2,638	1,382
Deficit from the income and expenditure account	(570)	-	(570)
Other comprehensive income	2,432	-	2,432
Transfers between revaluation and income and	330	(330)	-
expenditure reserves	490	(490)	-
	2,682	(820)	1,862
Balance at 31st July 2017	1,528	1,716	3,244
Deficit from the income and expenditure account	(341)	-	(341)
Other comprehensive income	893	-	893
Transfers between revaluation and income and expenditure reserves	129	(129)	-
Total comprehensive income for the year	681	(129)	552
Balance at 31 July 2018	2,209	1,587	3,796

Balance sheets as at 31 July 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible Fixed assets	10	16,426	15,599
		16,426	**15,599**
Current assets			
Stocks		19	18
Debtors	11	197	135
Cash at bank and in hand	16	463	1,957
		679	**2,110**
Creditors – amounts falling due within one year	12	(1,130)	(1,029)
Net current assets		**(451)**	**1,081**
Total assets less current liabilities		**15,975**	**16,680**
Creditors – amounts falling due after more than one year	13	(10,320)	(10,980)
Provisions			
Other provisions	15	(93)	(97)
Defined benefit pensions scheme	20	(1,766)	(2,359)
Total net assets		**3,796**	**3,244**
Unrestricted Reserves			
Income and expenditure reserve		2,209	1,528
Revaluation reserve		1,587	1,716
Total unrestricted reserves		**3,796**	**3,244**
Total reserves		**3,796**	**3,244**

The financial statements on pages 28 to 51 were approved and authorised for issue by the Corporation on 14th December 2018 and were signed on its behalf on that date by:

Dr G D Robson

Chair

Dr J R M Raby

Accounting Officer

Statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
Deficit for the year		(341)	(570)
Adjustment for non-cash items			
Depreciation		643	854
Release of government grants		(261)	
(Increase)/decrease in stocks		(1)	2
Increase in debtors		(62)	(31)
Increase/(decrease) in creditors due within one year		65	(682)
decrease in provisions		(4)	(5)
Pensions costs less contributions payable		300	357
Adjustment for investing or financing activities			
Investment income		(3)	(4)
Interest payable		117	47
Net cash flow from operating activities		453	(30)
Cash flows from investing activities			
Investment income		3	2
Capital grants received		901	3,514
Payments made to acquire fixed assets		(1,468)	(6,051)
		(564)	(2,535)
Cash flows from financing activities			
Interest paid		(117)	(47)
New unsecured loans		-	1,500
Repayments of amounts borrowed		(1,266)	-
		(1,383)	1,453
decrease in cash and cash equivalents in the		**(1,494)**	**(1,112)**
Cash and cash equivalents at beginning of the year	16	1,957	3,069
Cash and cash equivalents at end of the year	16	463	1,957

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

The Northern School of Art is a corporation established under the Further and Higher Education Act 1992 as an English general college of further education. The address of the School's principal place of business is given on page 2. The nature of the School's operations is set out in the Strategic Report.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2017 to 2018 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The School is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Schools accounting policies.

The financial statements are presented in sterling which is also the functional currency of the School. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets.

Going concern

The activities of the School, together with the factors likely to affect its future development and performance are set out in the Members Report. The financial position of the School, its cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The School currently has £2m of loans outstanding with lenders on terms negotiated in 2016. Additionally there is £1.2m of uncommitted facility available for unconditional drawdown. The terms of the existing agreements are for; Barclays 5 year revolving facility and Hartlepool Borough Council 20 year. The School's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

In 2017/18 the School has made a deficit outturn of £341,000, in comparison to a deficit of £570,000 in 2016/17, although staffing costs have increased, the reduction in deficit is due to an increase in income and a reduction in operating expenses. The outturn includes a non-cash depreciation charge of £643,000 (2016/17: £897,000) whilst the operating cash flow improved to a net £453,000 inflow compared to a £30,000 outflow in the previous year.

Cash holding has reduced to £463,000 in 2017/18 from £1,957,000 in 2016/17. The reduction is due to the School reducing its revolving credit facility with Barclays Bank by £1.2million for a period of time when cash was not required. This has subsequently been drawn back down in early August to increase operating cash balances by £1.2million shortly after year end.

Accordingly, the School has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

Revenue grant funding
Government revenue grants are accounted for under the accrual model and are recognised where a reliable estimate of the fair value of the asset received or receivable can be made on a systematic basis over the periods in which the related costs for which the grant compensates are recognised.
Funding body recurrent grant for Adult Education Budget ('AEB') is measured in line with best estimates for the year of what is receivable. Any under achievement of the AEB outside of permitted tolerance levels is adjusted for and reflected in the level of recurrent grant recognised in the statement of comprehensive income. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end.

16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments and is recognised when receivable.

Levy-funded and ESFA funding for co-investment model apprenticeships income is measured in line with best estimates of the provision delivered in the year.

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is recognised when received or receivable.

Grants from non-government sources, including grants relating to assets, are recognised in income when the performance-related conditions have been met and the grant will be received. Income received in advance of performance related conditions being met is recognised as a liability.

Capital grant funding - government grants
Government capital grants for assets, including land, are accounted for under the accrual model. The grant income received or receivable will be recognised over the expected useful life of the asset, with any amount of the asset-related grant that is deferred being recognised as deferred income. The deferred income is allocated between creditors due within one year and those due after more than one year and recognised in income when the performance-related conditions have been met and the grant will be received.

Other income

Income from the supply of services is recognised at fair value of the consideration received or receivable and represents the value of services to the extent there is a right to consideration.
Income from tuition fees, including employer funding for co-investment funded apprenticeships is recognised over the period for which it is received. All income from short-term deposits is accrued in the period in which it is earned on a receivable basis.

Fee income

Income from tuition fees is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

Investment income

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned on a receivable basis.

Agency arrangements

The School acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the School where the School is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Retirement benefits

Retirement benefits to employees of the School are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). Which are multi-employer defined benefit plans.

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the Group in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of valuations using a projected unit method. The TPS is a multi-employer scheme but sufficient information is not available to use defined benefit accounting and therefore it is accounted for as a defined contribution scheme, with the amount charged to the statement of comprehensive income being the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Teesside Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme, and the assets of the scheme are held separately. Pension schemes are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability/asset is charged to comprehensive income and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts include in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Short term Employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the School. Any unused benefits are accrued and measured as the additional amount the School expects to pay as a result of the unused entitlement.

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the School's income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Assets in the course of construction

Assets in the course of construction are accounted for at cost less any identified impairment loss. Cost includes professional fees and fees directly attributable to costs. They are not depreciated until they are brought in to use.

Land and buildings

Freehold land is not depreciated as it is considered to have an infinite useful life.

Freehold buildings are depreciated over their expected useful economic life to the School of 40 years. The School has a policy of depreciating major adaptations to buildings over the period of their useful economic life of 40 years.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

On adoption of FRS 102, the School followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the School, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

- technical equipment 5 years
- computer equipment 5 years
- furniture, fixtures and fittings 5 years

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

Stocks

Stocks are stated at the lower of their cost and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Financial Instruments

The School has chosen to adopt Sections 11 and 12 of FRS 102 in full in respect of financial instruments.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the School becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets measured at fair value through the profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless arrangement constitutes a financing transaction. A financial asset or financial liability that is payable or receivable within one year is measured at the undiscounted amount expected to be received or paid net of impairment, unless it is a financing transaction.

Financial assets and financial liabilities are offset only when there is a current legally enforceable right to set off the recognised amounts and the intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Taxation

The School is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the School is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The School receives no similar exemption in respect of Value Added Tax, therefore the School can not recover input VAT it suffers on goods and services purchased. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Provisions and contingent liabilities

Provisions are recognised when

- the School has a present legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefit will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

A contingent liability arises from a past event that gives the School a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the School. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, management have made the following judgements:

- Determine whether leases entered into by the School either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 26, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 to value the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Recurrent grants		
Education and Skills Funding Agency - adult	87	139
Education and Skills Funding Agency – 16 -18	2,695	2,957
Higher Education Funding Council	356	424
Specific grants		
Releases of government capital grants	261	43
HE grant	19	-
Total	**3,418**	**3,563**

3 Tuition fees and education contracts

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Tuition fees	4,408	4,200
Total	**4,408**	**4,200**

4 Other grants and contracts

	Year ended 31 July 2018 £'000	Year ended 31 2017 £'000
Other grants and contracts	27	35
Total	**27**	**35**

5 Other income

	Year ended 31 July 2018 £'000	Year ended 31 2017 £'000
Catering and residences	212	218
Other Grant Income	180	71
Miscellaneous income	302	360
Total	**694**	**649**

6 Investment income

	Year ended 31 July 2018 £'000	Year ended 31 2017 £'000
Other interest receivable	3	2
Total	**3**	**2**

7 Staff costs

The average number of persons (including key management personnel) employed by the School during the year, described as full-time equivalents, was:

	2018 No.	2017 No.
Teaching staff	54	52
Non-teaching staff	101	100
	155	**152**
Staff costs for the above persons		
Wages and salaries	4,448	4,083
Social security costs	404	386
Other pension costs	827	808
Payroll sub total	**5,679**	**5,277**
Restructuring costs	-	141
Total Staff costs	**5,679**	**5,418**

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the School and are represented by the Principalship which comprises the Principal, Vice Principal – Resources, Vice Principal – HE, Vice Principal – Student Experience and Vice Principal – Employability and External Relations.

Emoluments of Key management personnel, Accounting Officer and other higher paid staff

	2018 No.	2017 No.
The number of key management personnel including the Accounting Officer was:	**5**	**5**

The number of key management personnel and other staff who received annual emoluments, excluding employer contributions to national insurance and pensions but including benefits in kind, in the following ranges was:

	Key management personnel	
	2018 No.	**2017 No.**
£50,001 to £60,000 p.a.	-	3
£60,001 to £70,000 p.a.	3	-
£70,001 to £80,000 p.a.	1	1
£120,001 to £130,000 p.a.	1	1
	5	**5**

Key management personnel compensation is made up as follows:

	2018 £'000	2017 £'000
Salaries- gross of salary sacrifice and waived emoluments	385	355
Employers National Insurance	47	43
	432	**398**
Pension contributions	62	56
Total key management personnel compensation	494	454

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place.

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2018 £'000	2017 £'000
Salary	124	122
Pension contributions	21	20

8 Other operating expenses

	2018 £'000	2017 £'000
Teaching costs	688	801
Non-teaching costs	1,079	1,147
Premises costs	628	607
Total	**2,395**	**2,555**

Other operating expenses include:

	2018	2017
Auditors' remuneration:		
Financial statements audit	15	16
Internal audit	14	13
Other services provided by the financial statements auditor – Teachers Pensions Audit	1	1
Hire of assets under operating leases	35	32

9 Interest and other finance costs

	2018 £'000	2017 £'000
On bank loans, overdrafts and other loans:	117	47
	117	47
Net interest on defined pension liability (note 20)	57	102
Total	**174**	**149**

10 Tangible fixed assets

	Land and Freehold buildings	Equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2017	9,235	2,303	10,120	21,658
Additions	-	432	1,038	1,470
Transfer	11,158	-	(11,158)	-
Disposals	1,285	255	-	1,540
At 31 July 2018	**21,678**	**2,990**	**-**	**24,668**
Depreciation				
At 1 August 2017	4,055	2,004	-	6,059
Charge for the year	454	189	-	643
Disposals	1,285	255	-	1,540
At 31 July 2018	**5,794**	**2,448**	**-**	**8,242**
Net book value at 31 July 2018	**15,884**	**542**	**-**	**16,426**
Net book value at 31 July 2017	5,180	299	10,120	15,599

Land and buildings were valued in 1996 at depreciated replacement cost at the time of incorporation. Inherited land and buildings at incorporation, currently held, total just over £1.5million (NBV), the School has made additions totalling £14 million (NBV) to date.

Assets in the course of construction totalling £11.1 million was the new build at the School's higher education campus in Hartlepool, which has now been in use for the full academic year and so has been transferred to freehold land and buildings.

Land and freehold building disposals of £1.2 million is in relation to the partial disposal of the Church Square Building, Hartlepool, following the phase two demolition. Equipment disposals of £255,000, is in relation to fully written down equipment which have been disposed of throughout the year.

11 Debtors

	2018	2017
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	43	2
Prepayments and accrued income	154	133
Total	**197**	**135**

12 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	53	51
Trade payables	227	205
Other taxation and social security	176	176
Accruals and deferred income	212	197
Deferred income - government capital grants	263	229
Deferred income - government revenue grants		13
Amounts owed to the ESFA	188	115
Amounts owed to Other	11	43
Total	**1,130**	**1,029**

13 Creditors: amounts falling due after one year

	2018 £'000	2017 £'000
Bank loans	2,031	3,297
Deferred income - government capital grants	8,289	7,683
Total	**10,320**	**10,980**

14 Maturity of debt

Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	2018 £'000	2017 £'000
In one year or less	53	51
Between one and two years	112	108
Between two and five years	808	2,027
In five years or more	1,111	1,162
Total	**2,084**	**3,348**

In 15/16 the School took out a £1.8 million unsecured loan with Barclays bank on a 5 year revolving basis with an overall interest rate of 2.49%, in 17/18 the School repaid £1.2 million, this amount is available for the institution to drawdown should this be required.

In 16/17 the Institution took out an additional unsecured loan of £1.5 million with Hartlepool Borough Council. This loan has an overall interest rate of 3.85% and is a capital repayment loan over 20 years.

15 Provisions for liabilities

	Enhanced pensions
	£'000
At 1 August 2017	97
Expenditure in the period	**(6)**
Additions in period	**2**
At 31 July 2018	**93**

Defined benefit obligations relate to the liabilities under the School's membership of the Local Government Pension Scheme. Further details are given in Note 20.

The enhanced pension provision relates to the cost of staff who have already left the School's employment and commitments for reorganisation costs from which the School cannot reasonably withdraw at the balance sheet date.

The principal assumptions for this calculation have not changed in a material way in the last twelve months:

	2018	**2017**
Price inflation	3.50%	3.50%
Discount rate	1.70%	1.70%

16 Cash and cash equivalents

	At 1 August 2017	**Cash flows**	**Other changes**	**At 31 July 2018**
	£'000	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	1,957	(1,494)	-	463
Total	**1,957**	**(1,494)**	**-**	**463**

17 Capital Commitments

	2018	2017
	£'000	£'000
Contracts for future capital expenditure not provided	-	370

18 Lease obligations

At 31 July the School had future minimum lease payments under non-cancellable operating leases as follows:

	2018	2017
	£'000	£'000
Other		
Not later than one year	44	32
Later than one year and not later than five years	150	18
	194	50
Total lease payments due	**194**	**50**

19 Events after the reporting period

Northern School of Art Devco was incorporated on 18th September 2018, the registered address being The Northern School of Art, Green Lane, Middlesbrough. TS5 7RJ.

The listed Officers being;

Dr JRM Raby

Mr S Slorach

Mr P Chapman

Mr I Swain

Mrs J White

The creation of Northern School of Art Devco Limited is to facilitate the construction of a new campus building in Middlesbrough.

20 Defined benefit obligations

The School's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Teesside Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Kier Pensions Group. Both are multi-employer defined-benefit plans.

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

Total pension cost for the year		**2018 £000**		**2017 £000**
Teachers' Pension Scheme: contributions paid		309		321
Local Government Pension Scheme:				
Contributions paid	269		225	
FRS 102 (28) charge	243		255	
Charge to the Statement of Comprehensive Income		512		480
Enhanced pension charge to Statement of Comprehensive Income		6		7
Total Pension Cost for Year within staff costs		**827**		**808**

Contributions amounting to £32,000 (2017 £33,000) were payable to the scheme at 31st July and are included within creditors.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer.

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. The latest actuarial valuation was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014.

Valuation of the Teachers' Pension Scheme

The valuation report was published in June 2014. The key results of the valuation and subsequent consultation are:

- Total scheme liabilities for service (pensions currently payable and the estimated cost of future benefits) of £191.5 billion
- Value of notional assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) of £176.6 billion
- Notional past service deficit of £14.9 billion
- Assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings
- Rate of real earnings growth is assumed to be 2.75%
- Assumed nominal rate of return is 5.06%

The TPS valuation for 2012 determined an employer rate of 16.48% (including a 0.08% administration fees), which was payable from September 2015. The next valuation of the TPS is currently underway based on March 2017 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.
The pension costs paid to TPS in the year amounted to £309,000 (2017: £321,000)

The TPS is a multi-employer pension plan and there is insufficient information to account for the scheme on as a defined benefit plan so it is accounted for as a defined contribution plan.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Teesside Local Authority. The total contributions made for the year ended 31 July 2018 were £381,000, of which employer's contributions totalled £269,000 and employees' contributions totalled £112,000. The agreed contribution rates for future years are 17.3% for employers and range from 5.5% to 7.5% for employees, depending on salary.

The current valuation does not reflect the expected increase in benefits and therefore liability as a result of Guaranteed Minimum Pension ('GMP') equalisation between men and women which is required as a result of the removal of the Additional State Pension. Methodologies for a long-term solution are still being investigated by the Government as set out in the published (January 2018) outcome of the Government Consultation 'Indexation and Equalisation of GMP in Public Sector Pensions Schemes' and therefore the expected impact cannot be reliably estimated and consequently no provision/liability has been recognised.

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2018 by a qualified independent actuary.

	At 31 July 2018	**At 31 July 2017**
Rate of increase in salaries	3.10%	3.00%
Future pensions increases	2.10%	2.00%
Discount rate for scheme liabilities	2.80%	2.60%
Inflation assumption (CPI)	2.10%	2.00%
Commutation of pensions to lump sums	-	-

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 July 2018	At 31 July 2017
	Years	years
Retiring today		
Males	22.90	22.80
Females	25.00	24.90
Retiring in 20 years		
Males	25.10	25.00
Females	27.30	27.20

The School's share of the assets in the plan at the balance sheet date and the expected rates of return were:

	Fair Value at 31 July 2018	Fair Value at 31 July 2017
	£'000	£'000
Equity instruments	9,557	9,524
Bonds	-	12
Property	1,008	771
Cash	2,357	1,541
Other	170	193
Total fair value of plan assets	**13,092**	**12,040**
Actual return on plan assets	**1,019**	**1,708**

The amount included in the balance sheet in respect of the defined benefit pension plan and enhanced pensions benefits is as follows:

	2018	2017
	£'000	£'000
Fair value of plan assets	**13,092**	**12,040**
Present value of plan liabilities	**(14,814)**	**(14,355)**
Present value of unfunded liabilities	**(46)**	**(46)**
Net pensions liability	**(1,768)**	**(2,361)**

Amounts recognised in the Statement of Comprehensive Income in respect of the plan are as follows:

	2018 £'000	2017 £'000
Amounts included in staff costs		
Current service cost	512	480
Total	**512**	**480**
Amounts included in investment income		
Net interest income	57	102
	57	**102**
Amount recognised in Other Comprehensive Income		
Return on pension plan assets	706	1,460
Experience losses arising on defined benefit obligations	187	972
Amount recognised in Other Comprehensive Income	**893**	**2,432**

Movement in net defined benefit liability during year

	2018 £'000	2017 £'000
Net defined benefit liability in scheme at 1 August	(2,359)	(4,432)
Movement in year:		
Current service cost	(512)	(480)
Employer contributions	269	225
Net interest on the defined liability	(57)	(102)
Actuarial gain or loss	893	2,430
Net defined benefit liability at 31 July	**(1,766)**	**(2,359)**

Asset and Liability Reconciliation

	2018 £'000	2017 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	14,401	14,749
Current service cost	512	480
Interest cost	370	350
Contributions by Scheme participants	112	98
Changes in financial assumptions	(187)	(970)
Estimated benefits paid	(348)	(306)
Defined benefit obligations at end of period	**14,860**	**14,401**

Changes in fair value of plan assets

Fair value of plan assets at start of period	12,040	10,315
Interest on plan assets	313	248
Return on plan assets	706	1,460
Employer contributions	269	225
Contributions by Scheme participants	112	98
Estimated benefits paid	(348)	(306)
Fair value of plan assets at end of period	**13,092**	**12,040**

21 Related party transactions

Due to the nature of the School's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the School's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £3,500; 5 governors (2017: £5,000; 5 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the School during the year (2017: None).

22 Amounts disbursed as agent

Learner support funds

	2018	**2017**
	£'000	**£'000**
Funding body grants – Hardship Support	8	16
Funding body grants – Bursary Support	90	97
Other Funding body grants	34	25
Disbursed to students	(64)	(71)
Administration costs		(2)
Balance unspent as at 31 July, included in creditors	68	65

Funding body grants are available solely for students. In the majority of instances, the School only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART AND THE SECRETARY OF FOR EDUCATION ACTING THROUGH EDUCATION AND SKILLS FUNDING AGENCY

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 27th June 2018 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by The Northern School of Art during the period 01 August 2017 to 31 July 2018 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

The framework that has been applied is set out in the Post-16 Audit Code of Practice (the "ACoP") issued by the ESFA. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the ESFA has other assurance arrangements in place.

We are independent of the Northern School of Art in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion

Responsibilities of Corporation of The Northern School of Art for regularity

The Corporation of The Northern School of Art is responsible, under the grant funding agreements and contracts with the ESFA and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The corporation of The Northern School of Art is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the ACoP.

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 the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement 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.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 01 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the grant funding agreements and contracts with the ESFA and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

Use of our report

This report is made solely to the Corporation of The Northern School of Art and the Secretary of State for Education acting through the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of The Northern School of Art and the Secretary of State for Education acting through the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation of The Northern School of Art and the Secretary of State for Education acting through the ESFA for our work, for this report, or for the conclusion we have formed.

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants

1 St James' Gate, Newcastle upon Tyne, NE1 4AD
14th December 2018