

A photograph of a classroom where several students have their hands raised, indicating an interactive learning environment. The focus is on the hands in the foreground, with a blurred background showing other students and a chalkboard.

Audit Findings Report
Shireland Collegiate Academy Trust
Year ended 31 August 2018

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1. Introduction

The purpose of this document

The purpose of this report is to provide constructive observations arising from the audit process. Included within are:

- details of any expected modifications to our audit report;
- details of any adjusted and unadjusted misstatements in the financial statements (with the exception of those deemed to be “clearly trivial”);
- any material weaknesses in systems we have identified during the course of our audit work; and
- our views about the quality of accounting practices and financial reporting procedures, together with any further relevant matters.

In accordance with the International Standard on Auditing (UK) 260, Communication of audit matters to those charged with Management and Governance, (ISA260), we are required to communicate matters arising from our audit to the Trustees.

Independence

We highlighted at the planning stage that in addition to our function as auditors you have agreed that we will provide Shireland Collegiate Academy Trust with the following services being:-

- Assistance with the preparation of the financial statements;
- Preparation of the Annual Accounts Return (AAR);

The fees for the above non-audit services we invoiced in the year totaled £2,500.

We noted in our planning report that the above services may be thought to bear upon our independence and the objectivity of the audit engagement partner and staff. The financial statements and the AAR have been subject to review by a manager independent of the audit team.

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Confidentiality and limitations

Please note the following important limitations with regard to the content of this letter:

- This letter has been prepared for the sole use of Shireland Collegiate Academy Trust;
- The content of this letter must not be disclosed or quoted to third parties, in whole or in part, without our prior written consent other than the need to submit a copy to the Education and Skills Funding Agency (“ESFA”) in accordance with the Academies Accounts Direction 2017 to 2018;
- We assume no responsibility to any other person;
- Our procedures are carried out solely for the purpose of our audit of the financial statements. Our audit is not designed to identify all matters that may be relevant to those charged with governance; accordingly the matters referred to within this letter may not be the only shortcomings that exist.

Recommendations

All issues raised in section five of this Audit Findings Report have been discussed with management.

Acknowledgements

We would like to thank all staff who were involved in the audit for their help and co-operation during our audit visit, particularly Jane Kellas and her team. It has been a pleasure to work with Jane, and we are grateful for the time she has taken to assist with our queries.



2. Significant audit risks and other areas of audit focus

We highlighted in our Audit Planning Report our initial assessment of the key audit risks relating to the Academy Trust's audit for the year ended 31 August 2018. We have commented below on our work on these areas.

Significant audit risks	Our approach to addressing the risk	Conclusion
<p>Revenue Recognition</p> <p>The Trust has a number of different income streams, the main ones being GAG, government grants and Local authority grants.</p> <p>The International Standards on Auditing (UK) consider revenue recognition to be an inherent fraud risk and on consideration of the Trust's sources of income, this cannot be rebutted.</p> <p>The Trust's accounting policies for income recognition should follow the criteria as set out in FRS 102 and the Charities SORP.</p>	<p>ESFA grants - We reviewed ESFA grants (including capital grants) received in the period and considered whether grants were recorded in line with the terms and conditions set. We also included an assessment of clawback of grants received and the treatment of any accrued or deferred elements.</p> <p>Other grants – We reviewed other grants (including capital grants) received in the period and considered whether grants were recorded in line with the terms and conditions set.</p> <p>Other income – We reviewed other income including hire of facilities, to ensure that it was recorded in the correct period and to the extent that the Trust had provided the goods or service.</p> <p>Haphazard sampling was used to test the recording of income and determine whether there was a risk of material misstatement.</p>	<p>Our audit work in this area has been successfully completed. We have obtained the audit evidence we require to conclude that revenue recognition is not materially misstated and there are no significant matters which need to be reported to you.</p>

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<p>Management override of control</p> <p>This is considered to be a significant audit risk given that the Trust's operations are small and the Accounting Officer has primary oversight over all key operational decisions.</p>	<p>We reviewed the appropriateness of journals during the year by reviewing large and unusual journals and a sample of other journals to confirm they were reasonable, adequately supported and accurate.</p> <p>We reviewed the outcome of the prior year's accounting estimates against actual outcomes to assess their suitability for setting accounting estimates in the current year's financial statements.</p> <p>Our audit testing involved an element of unpredictability into the timing and extent of testing.</p>	<p>There is no indication that the financial statements are misstated as a result of management override.</p>
<p>Valuation of Local Government Pension Scheme (LGPS)</p> <p>Accounting for defined benefit pension schemes is complicated and requires assumptions to be made of future changes in scheme membership, life expectancy and other factors. For this reason the accounting entries required under Financial Reporting Standard 102 are calculated by the scheme actuary.</p>	<p>We reviewed the assumptions made in arriving at the actuarial valuation and assessed them against our technical accounting team's accepted range of pension scheme assumptions. These had been identified from assessing a large number of defined benefit schemes and other statistical data. We also reviewed them against other similar sized academies.</p> <p>We ensured the accounting entries have been corrected accounted for and presented in the accounts as well as confirming that the basis of the actuarial valuations were consistent with the scheme rules and with prior actuarial valuations, checking the contributions per the report were in line with the payments made in the year and accessed the accuracy and completeness of the source data provided to the actuary,</p>	<p>The assumptions made were within our technical teams accepted range of pension scheme assumptions.</p> <p>The accounting entries have been correctly accounted for in accordance with FRS 102.</p>

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Going concern This is considered to be a significant audit risk given the reduction in government funding that is provided to the education sector	We reviewed the forecasts and budgets that the Trust had prepared and where necessary interrogated the assumptions used. We also reviewed any management accounts and grant documentation received post year end, against the budget to ensure that they are consistent with expectations.	Our planned audit work was carried out satisfactorily in this area.
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In addition to the above, we also identified the following areas of significant audit focus

Audit risk #1 – Recognition of salary costs

The controls regarding authorisation of the payroll and the existence of employees were reviewed. We sample tested the accuracy of the salary costs, as well as analytically reviewing the total expense for the year. Our planned audit work was carried out satisfactorily in this area.

Audit risk #2 – Transfer of new academy into the Trust

The opening balances for the two new academies were reviewed. Additionally assurance was gained over land and buildings brought into the Trust by reviewing land registry documents for proof of ownership. Our planned audit work was carried out satisfactorily in this area.

Audit risk #3 – Fund accounting

We reviewed the allocation of the income and expenditure against each fund and ensured that where there were restrictions these were adhered to during the year. Our planned audit work was carried out satisfactorily in this area.

Audit risk #4 – Key areas of judgement

The main key area of judgement surrounds the Local Government Pension Scheme which has been noted above. No further comments to make in relation to this key area of judgement.



3. Key reporting issues

Status of the audit

Our audit work was carried out in accordance with our audit plan communicated to you in our Audit Planning Report.

Throughout our work we considered the significant risks and areas of audit focus noted in our planning report, and no matters were identified which required us to change our planned audit approach. Further to this, no additional significant risks and areas of audit focus were identified. We have commented upon our initial assessment of the Academy Trust's risks within section 2.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Receipt of the signed Letter of Representation upon approval of the financial statements;
- Update of the subsequent events review and going concern information.

We do not anticipate that the completion of our work in these areas will give rise to any material adjustments.

Letter of Representation

We have forwarded the Letter of Representation, which we request that the Trustees approve and sign at the same time as the financial statements, under separate cover. This letter contains reference to matters such as:

- Your responsibilities as Trustees of the Academy Trust;
- Provision of information during the audit process;

- Confirmation that the statutory accounts are free from material misstatement, including confirmation as to why the Trustees believe that uncorrected misstatements should not be adjusted;

Anticipated audit report

Subject to conclusion of the above items, we do not expect any modifications to our audit report on the financial statements of the Academy Trust for the year ended 31 August 2018. However, our responsibilities with regard to the audit report extend up to the date on which it is signed and we will advise you of any changes to this position if necessary.

As Shireland Collegiate Academy Trust has been audited under company law, when the financial statements are signed you will receive one copy signed by the Senior Statutory Auditor in his own name as required by the Companies Act 2006. All other copies will be signed in the name of Moore Stephens LLP.

The copy signed by the partner in their own name should be kept securely and should not be distributed. You may distribute the copies signed in the name of Moore Stephens LLP and include that version on your website.

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Regularity conclusion

In addition to our report expressing an opinion on the financial statements, we also produce a report providing a conclusion on “regularity”. Our limited assurance regularity report must state whether anything has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period of account has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

We have requested management to complete our regularity self-assessment checklist to ensure that:

- Procedures are in place in connection with general procurement, tendering, use of credit cards and expenses;
- Procedures are in place in order to ensure appropriate remuneration of payroll staff, agency staff and consultants;
- Procedures are in place to ensure that conflicts of interest and related party transactions are identified and the disclosures in the financial statements are appropriate.

Based on this report The Academy Trust has not informed us of any control weakness or irregularity in these areas.

As well as reviewing the report we also held conversations with the Accounting Officer to confirm how they monitored compliance as well as carried out our own tests to confirm compliance tests with the Academies Handbook including : - reviewing related party transactions, website disclosures and special payments

Based upon our work carried out to date we anticipate issuing an unmodified regularity audit opinion.

Qualitative aspects of accounting practices and financial reporting

During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements and we discussed the following observations:

- The appropriateness of the accounting policies to the particular circumstances of the Academy Trust.
- The timing of transactions and the period in which they are recorded.
- The appropriateness of accounting estimates and judgements, including the consistency of assumptions and degree of prudence reflected in the accounting records.
- The potential effect on the financial statements of any uncertainties including significant risks and disclosures, such as pending litigation that are required to be disclosed in the financial statements.
- Material uncertainties related to events and conditions that may cast significant doubt on the Academy Trust's ability to continue as a going concern.
- Disagreements about matters that, individually or in aggregate, could be significant to the Academy Trust's financial statements or the auditor's report. These communications include consideration of whether the matters have or have not been resolved and the significance of the matters.
- Significant difficulties, if any, encountered during the audit.
- Significant matters, if any, arising from the audit that we discussed, or subject to correspondence with management; and written representations the auditor is requesting from management.
- Other matters, if any, arising from the audit that, in the auditors professional judgement, are significant to the oversight of the financial reporting process.



4. Adjusted and unadjusted misstatements

We are required to report to you all adjusted and unadjusted misstatements, with the exception of those deemed to be 'clearly trivial'.

Adjusted misstatements:

The following table sets out the misstatements that were identified as part of this year's audit which have been adjusted in the financial statements.

	Balance sheet impact £	SOFA Impact £
Net income / (expenditure) for the year presented for audit		23,079,263
Being adjustment regarding the Local Government Pension Liability – agreed as an audit adjustment due to timing of receipt of information	1,510,000	(1,510,000)
Total agreed audit adjustments	1,510,000	(1,510,000)
Net income / (expenditure) for the year per final accounts		21,569,263

All journals noted above have been processed through the financial statements.

Unadjusted misstatements:

There were no unadjusted misstatements above triviality noted during the audit.



5. Recommendations to processes and internal controls

The Academy Trust's management is responsible for the identification, assessment and monitoring of risk, and for developing, operating and monitoring the systems of internal control and for providing assurance to the Board of Trustees that it has done so. During the course of our audit of the financial statements for the year ended 31 August 2018, we examined the principal internal controls which management has established to enable it to ensure, as far as possible, the accuracy and reliability of the Academy Trust's financial information.

During our work we identified no such weaknesses in controls, however we have identified some recommendations for improvement as set out below.

The matters dealt with in this Audit Findings Report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Academy Trust. In consequence it cannot be relied upon necessarily to disclose possible frauds or other irregularities, or to disclose all possible weaknesses or improvements in internal control that a more extensive special examination may highlight.

Our observations from the audit are set out below together with our recommendations and suggested timescale:

Grades:	
	A Significant issue, address as a priority
	B Important issue, requires attention
	C Less urgent

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Observation:

Not all common directorships have been disclosed on pecuniary interest forms, which is a regulatory requirement and may lead to transactions with related parties not being identified.

Grade: C

Recommendation

Ensure that these are updated for all directorships by reminding trustees to disclose all relevant roles and to update the Academy if any of these change.

Management response

The Trust will change their processes to ask Trustees/Governors and Staff to review their declarations termly to ensure it is up to date.

Shireland Learning Limited

Observation:

There are a number of aged trade debtor balances which are not being periodically chased and collected by the company. Payments received are not being recorded in a timely manner leading to larger aged balances which are not a true reflection of trade debtors.

Grade: C

Recommendation

Ensure that all sales ledgers are constantly updated to have a enable a more accurate view of the current trade debtors position.

Management response

The Trust will review their debt collection process to ensure follow up action is taken in a timely manner and they will ensure all payments received are recorded promptly.

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We also made the following recommendations during the course of last years audit :

Observation: The GDPR will apply in the UK from 25 May 2018. The principles of GDPR are similar to those in the current Data Protection Act with added details and a new accountability requirement. The GDPR requires all Academy Trusts to have systems and procedures in place to comply with the principles of the Regulation.	Grade: C 
Recommendation That the new General Data Protection Regulations are reviewed and plans put in place to ensure full compliance in advance of the 25 May 2018.	Action Taken General Date Protection Regulations are in place during the year and the appropriate measure have been taken to ensure compliance. Conclusion No issues have been noted.



6. Sector developments

Dear Accounting Officer Letter

In her letter to Accounting Officers on 18 September 2018, Eileen Milner, Chief Executive, Education & Skills Funding Agency, highlighted the importance of Accounting Officers in using taxpayer's money wisely and stressing that budgets are used as Parliament intended with high standards of conduct and behaviour being maintained and making sure value for money is achieved.

She also again confirmed that the ESFA were taking a firmer stance with Trusts who do not submit two or more of their returns by the deadlines in any year with lists being published to publicly name these Trusts. The returns that will be in scope from 2018/19 are the land and buildings collection tool (due 5 November 2018), the financial statements (due 31 December 2018), the accounts return (due 21 January 2019), the budget forecast return outturn (due 21 May 2019) and the budget forecast return (due 30 July 2019).

New Academies Financial Handbook 2018

The new handbook came into effect on 1 September 2018. The key points arising from the update were around governance, related parties and budgeting/forecasting. Key points raised were:

- Governance – the handbook now includes a Top 10 list of 'musts' specifically for chairs and other trustees. Some of these are existing requirements though there are some new requirements in respect of meetings and the oversight of budgeting and forecasting.
- Related Party Transactions – from 1 April 2019 there is now a requirement to disclose all related party transactions to ESFA in advance of the transaction taking place and trusts must obtain prior ESFA approval for those related party transactions that exceed £20,000 either individually or cumulatively in an academic year;
- Budgeting/forecasting – budget forecasts should be accurate and based on realistic assumptions. Management accounts should be prepared on a monthly basis, setting out the trust's financial performance and position. These management accounts should be shared with the Chair of Trustees every month and with other trustees at least 6 times a year. The board should consider the management accounts each time they meet ensuring appropriate action is being taken to maintain financial viability including addressing variances to budgets.
- Controlling Executive Pay – the ESFA have challenged high pay, in particular contacting those trusts paying a salary over £150,000, or paying two or more salaries over £100,000, and asking them to justify the pay levels. The handbook has strengthened the expectations around the procedures that Trusts should be undertaking when setting executive pay.

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Teachers' Pension Scheme – Increase in contributions

Head teachers have recently been informed that the employer's contribution rate for schools under the Teachers' Pension Scheme will rise to 23.6% from September 2019. Although an increase was expected, few predicted such a significant increase and this will have a significant impact on future budgeting. Whilst the Treasury has said that the DfE will provide funding to help schools to meet the additional costs during the 2019-20 financial year there is concern about funding to cover these costs after this date.

Making Tax Digital

With effect from 1 April 2019, all organisations with business income in excess of the VAT registration threshold (currently £85,000 per annum) will be required to keep their VAT records digitally and provide their VAT return information to HMRC through Making Tax Digital ("MTD") compatible software. This software links to an organisation's accounting data.

The appropriate bridging software for MTD is not yet available (although pilots are underway), which makes it difficult for organisations to prepare their systems. Trusts should start preparing for the launch by reviewing your current systems to map the VAT audit trail and identify areas where digital linkage will be required. This may be particularly difficult where there may be a number of different accounting systems feeding into the VAT return and a number of calculations done outside of the ERP system e.g. Capital Goods Scheme, partial exemption and non-business apportionments.

HMRC has promised a "soft landing" but currently plans to implement penalties for non-compliance within 12 months of the introduction of MTD.

MTD will increase transparency of VAT numbers and HMRC will be able to benchmark organisations and identify risk by reviewing and comparing data. Therefore, the University should consider a deeper review of the quality of information available in your systems to future proof them as far as possible.

If you would like to know more about these sector developments please make contact with your Moore Stephens team.

Moore Stephens LLP, 150 Aldersgate Street, London EC1A 4AB
T +44 (0)20 7334 9191
www.moorestephens.co.uk

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