

Haines Watts

External Audit Findings Report

Year ended 31 August 2022

DRAFT 29-11-2022



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Dear Sirs/Madams

Shireland Collegiate Academy Trust – Report of audit findings for the year ended 31 August 2022

The purpose of this report is to communicate to you the findings of our audit work in key areas and also to set out any matters arising during the course of our audit which we consider should be brought to your attention, together with any recommendations we have for possible improvements which could be made.

These matters came to light during the course of our normal audit and assurance tests which are designed to assist us in forming our opinion on the financial statements and providing a limited assurance conclusion on regularity. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit and assurance tests, we would, of course, inform you immediately.

This report has been prepared for the sole use of the Trustees and Management of Shireland Collegiate Academy Trust. We understand that you are required to provide a copy of this report to the Education & Skills Funding Agency. With the exception of this, no reports may be provided to third parties without our prior consent. Consent is, and will only be, granted on the basis that such reports are not prepared with the interests of anyone other than the Trust in mind and we accept no duty or responsibility to any other party. No responsibilities are accepted by Haines Watts Birmingham LLP towards any party acting or refraining from action as a result of this report.

We have complied with the Ethical Standards for Auditors and confirm that all threats to our independence, as identified to you in our external audit plan dated 3 October 2022, have been properly addressed through appropriate safeguards. No additional facts or matters have arisen during the course of the audit that we wish to draw to your attention and we confirm that we are independent and able to express an objective opinion on the financial statements.

Finally, we should like to express our thanks to all members of the Trust's staff who assisted us during the course of the audit.

Yours faithfully

DRAFT

Haines Watts Birmingham LLP

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1. Audit approach

There were no changes to our audit approach as set out to you in our External Audit Plan dated 3 October 2022 and no further significant risks were identified during the course of the audit.

Our assessment of audit materiality was as follows:

	2021/22 - final £	2021/22 - planned £
Overall materiality – financial statement level (1% of total income)	340,000	340,000
Performance materiality (80%)	255,000	255,000
Trivial threshold (2.5%)	8,500	8,500

Any unadjusted misstatements greater than the trivial threshold are noted in section 3 on page 6.

2. Summary of audit findings in significant risk areas and other key areas

Work done	Findings and recommendations	Action priority	Management response / timetable for action
Significant risk areas			
1. Income recognition – the risk that income may be misstated as a result of improper income recognition.			
<ul style="list-style-type: none"> Reviewed the revenue recognition policy. Performed substantive testing on grant income (revenue and capital), investment income and other income. Confirmed GAG funding to pupil data and ESFA payment profiles. Analytically reviewed income per pupil. Performed cut-off testing around the period end and confirmed accrued and deferred amounts. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required
2. Effectiveness of systems and controls – to protect against fraud / irregularity risk and ensure appropriate application of funds.			
<ul style="list-style-type: none"> Review of finance manual, policies and procedures. Review of internal audit work performed during the year. Walkthrough/observation and enquires of the systems and controls. Sample testing of key controls on income and purchasing. Analytical review and sample corroboration of expenditure variances. Review of journal postings and potential for management override. Review of large/unusual transactions. 	<p>Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.</p> <p>See section 4 for systems and controls weaknesses and recommendations noted.</p>	N/A	N/A – no action required

2. Summary of audit findings in significant risk areas and other key areas - continued

Work done	Findings and recommendations	Action priority	Management response / timetable for action
Significant risk areas - continued			
3. LGPS defined benefit pension scheme deficit provision – the risk that the valuation, accounting entries and/or related disclosures may be materially misstated.			
<ul style="list-style-type: none"> Obtain 2022 actuarial valuations and reports, review and benchmark the key data and underlying assumptions used by the actuary to calculate the deficit liability, in order to ensure that these appear reasonable. Review the related disclosures in the financial statements to ensure that this is complete and compliant. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required
Other key areas			
1. Compliance with key Laws & Regulations – instances of non-compliance with key laws and regulations could have a significant impact on the Trust.			
<ul style="list-style-type: none"> Review of compliance with the Academy Trust Handbook 2021 and the Academies Accounts Direction 2021 to 2022. Enquires as to whether there has been any correspondence from ESFA in terms of regulatory, governance or financial management matters. Discuss with management and review Trust board minutes for indication of any known or suspected instances of fraud, breach of laws and regs, or breach of the Trust’s own internal policies and procedures. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required

2. Summary of audit findings in significant risk areas and other key areas - continued

Work done	Findings and recommendations	Action priority	Management response / timetable for action
Other key areas - continued			
2. Payroll/staff costs – as the single largest item of revenue expenditure, there is a higher risk of undetected error.			
<ul style="list-style-type: none"> Analytical review of staff costs – year on year and by average salary cost of teaching and support staff. Global reconciliation to payroll records. Payroll system walkthrough testing and sample testing of controls and payment authorisations. Sample testing of employees to contract of employment. Pension contributions testing for the TPS EOYC. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required
3. Going concern – the risk that the going concern assumption is not appropriate.			
<ul style="list-style-type: none"> Review financial budgets and forecasts prepared to support the going concern assumption. We will consider whether these appear reasonable and whether any material uncertainties exist. Review the financial statements for adequate disclosure with regard to justification of the going concern assumption. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required

2. Summary of audit findings in significant risk areas and other key areas - continued

Work done	Findings and recommendations	Action priority	Management response / timetable for action
Other key areas - continued			
4. Related party disclosures – the risk that not all related party transactions may be identified and/or disclosed in the financial statements where necessary.			
<ul style="list-style-type: none"> Review of register of business interests together with and Trust procedures for identifying and recording related party transactions. Sample Companies House and Charity Commission searches for other directorships / trusteeships. Review of the annual report and notes to the financial statements to confirm adequate disclosure made. Review of ledgers throughout audit testing for any indication of unidentified transactions. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required
7. Shireland Biomedical University Technical College joining the Academy Trust – the risk that new joiners have inconsistent systems with those of the existing MAT and the treatment of assets and liabilities transferred in			
<ul style="list-style-type: none"> Update system notes with sample controls and walkthrough testing across all schools within the trust. Review the value of assets transferred on conversion to source documentation and review that the accounting treatment is in line with the Academies Accounts Direction 2021/22. 	Our audit testing and enquiries in these areas were carried out satisfactorily. No significant matters arose which we feel should be brought to your attention.	N/A	N/A – no action required

3. Audit adjustments and unadjusted misstatements

We ask you to confirm in your letter of representation to us that you adopt the **audit adjustments** and that you are satisfied none of the **unadjusted misstatements** as summarised below should be adjusted in the financial statements.

	S-CAT £	SLL £	Unrestricted - general £	Restricted - general £	Restricted - pension £	Restricted - FAs £	Total £
Surplus/(deficit) for the year per client (pre transfers)	(746,998)	-	(68,609)	294,664	-	(973,053)	(746,998)
Transferred in with academies joining the trust	18,066,264	-	320,270	-	-	17,745,994	18,066,264
Contribution to capital expenditure	-	-	(8,904)	(885,344)	-	894,248	-
Surplus/(deficit) for the year per client (after transfers)	17,319,266	-	242,757	(590,680)	-	17,667,189	17,319,266
Late client adjustments:-							
1 Salix loan reclassified to Balance Sheet	(15,767)	-	-	(15,767)	-	-	(15,767)
2 LGPS operating costs adjustment	(2,359,000)	-	-	-	(2,359,000)	-	(2,359,000)
3 LGPS actuarial gains	18,930,000	-	-	-	18,930,000	-	18,930,000
Audit adjustments:-							
1 Depreciation adjustment - leasehold land	(133,089)	-	-	-	-	(133,089)	(133,089)
Net movement in funds per audited accounts	33,741,410	-	242,757	(606,447)	16,571,000	17,534,100	33,741,410
Funds balance b/f	60,113,313	-	1,934,268	1,262,092	(21,649,000)	78,565,953	60,113,313
Funds balance c/f	93,854,723	-	2,177,025	655,645	(5,078,000)	96,100,053	93,854,723
Unadjusted errors:-							
<i>No unadjusted errors identified in excess of triviality</i>	-	-	-	-	-	-	-
Unadjusted effect on funds	-	-	-	-	-	-	-

4. Internal controls weaknesses and recommendations

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is, therefore, not designed to identify all control weaknesses and the matters reported below are limited to those deficiencies that we have identified during the audit.

Update on prior year’s findings:

Control issue identified 2020/21 (predecessor auditor)	Potential implications and recommendations	2021/22 update	Action priority	Management response
<p>Employee contracts Payroll substantive testing highlighted one unsigned contract as well as a missing salary review letter.</p>	<p>It was recommended that all employees have a signed contract of employment, as well as salary review letters on file to reduce the risk of any disagreements over employee terms and conditions, or changes in employee salaries.</p>	<p>In the sample selected for testing in 2020/21, a signed contract of employment was not available in 1 instance.</p> <p>There were also 2 instances of employee identification not being present in the employee personnel file.</p> <p>We recommend that proof of existence is retained and readily available in future.</p>	<p>Low risk</p>	<p><i>We will continue our work on ensuring all contracts are signed and take on the recommendation that proof of employee existence must be retained.</i></p>

4. Internal controls weaknesses and recommendations – continued

Current year findings:

Control issue identified 2021/22	Potential implications and recommendations	Action priority	Management response
No issues identified to report.	N/A	N/A	N/A

5. Other observations

Update on prior year’s findings:

Other areas where issues were identified during the 2021 audit (predecessor auditor)	Potential implications and recommendations	2021/22 update	Action priority	Management response
<p>Related party disclosure During a review of related party transactions and comparing them to payroll records it was noted not all disclosures made were on the published transparency document due to an administrative error.</p> <p>It was concluded that all disclosures had been made but not updated on the transparency document held on the website.</p>	<p>It was recommended that all related parties are identified on the payroll as part of the monthly reconciliation and authorisations procedure to ensure at the year end all parties are captured for reporting.</p> <p>It was also recommended continued independence is ensured when hiring new related parties.</p> <p>The Transparency Report was to be updated on the Trust website each time any changes are made.</p>	<p>All disclosures were noted as correctly made on the published transparency document for the current year.</p>	<p>Low risk</p>	<p>N/A – no further action needed at this time.</p>

5. Other observations – continued

Current year findings

Other areas where issues were identified during the 2021 audit (predecessor auditor)	Potential implications and recommendations	Action priority	Management response
<p>Management charge to SLL – VAT treatment Staff costs are recharged by the Trust to its trading subsidiary, Shireland Learning Limited. It was noted that no VAT has been charged on this supply even though the entities are not within a VAT group.</p> <p>We would expect to see that VAT is charged on this supply unless the entities are part of the same VAT group registration, or the contracts of employment of the employees concerned stipulate that the employee can be asked to work for either entity.</p>	<p>Although there is no net loss to HMRC (i.e. VAT paid in one entity and reclaimed in the other) there is a risk of HMRC applying late payment interest charges on S-CAT, being the entity that has not declared and paid over the VAT.</p> <p>We understand that the Trust does not account for VAT on staff recharges on the basis that the staff can be seconded between the Trust and the subsidiary, however the contracts of employment do not seem to address this. We would recommend that a VAT group is considered as this would eliminate the need and remove the risk of HMRC taking a different view.</p>	<p>Low risk</p>	<p><i>We will investigate the group VAT option as advised and look to ensure contracts clearly state that the Trust includes its trading subsidiary.</i></p>
<p>Depreciation of leasehold land It was noted that no depreciation has been charged on leasehold land in previous periods. Owing to the fact that there is a lease term, we can therefore attribute a useful economic life to leasehold land and as such it should be depreciated.</p>	<p>An adjustment of £133,098 has been put through the current year accounts to retrospectively correct the cumulative depreciation charge for leasehold land.</p> <p>We recommend that depreciation now continues to be charged on leasehold land each year.</p>	<p>Best practice</p>	<p><i>We have adjusted in year as advised and will continue with this practice.</i></p>

6. Regularity assurance engagement findings

We conducted our regularity assurance engagement in accordance with the Academies Accounts Direction 2021 to 2022 issued by ESFA. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement included examination, on a test basis, of evidence relevant to the regularity and propriety of the Trust's income and expenditure. The work undertaken to draw our conclusions included:

- An assessment of the risk of material irregularity, impropriety and non-compliance across the Trust's activities
- A review of governance procedures, including board composition, structure, and review of minutes of meetings
- A review of financial budgeting and monitoring procedures, including content and regularity of management accounts and distribution to board
- A review of related / connected party transactions in accordance with internal processes and the Academy Trust Handbook
- A review and sample testing of internal financial controls, including the trust's own internal scrutiny procedures
- A review and sample testing of procurement procedures

We anticipate that we will issue an unmodified regularity assurance report for the year, subject to the satisfactory clearance of any outstanding matters outlined in this report.

6. Regularity assurance engagement findings – continued

Update on prior year’s findings:

Issue identified 2020/21	Recommendations 2021/21	2021/22 update	Action priority	Management response / timetable for action
N/A – no issues reported.	N/A	N/A	N/A	N/A

Current year findings:

Issue identified 2021/22	Potential implications and recommendations	Action priority	Management response / timetable for action
N/A – no further issues identified during 2022 audit.	N/A	N/A	N/A

7. Outstanding matters

Prior to issuing our audit report we require:

- final update on subsequent events and going concern;
- the approval of the accounts by the Trustees;
- the signed Letters of Representation.

8. Anticipated audit report

We anticipate that we will issue an unmodified audit report for the year, subject to the satisfactory clearance of the outstanding matters outlined above.

9. Draft letters of representation

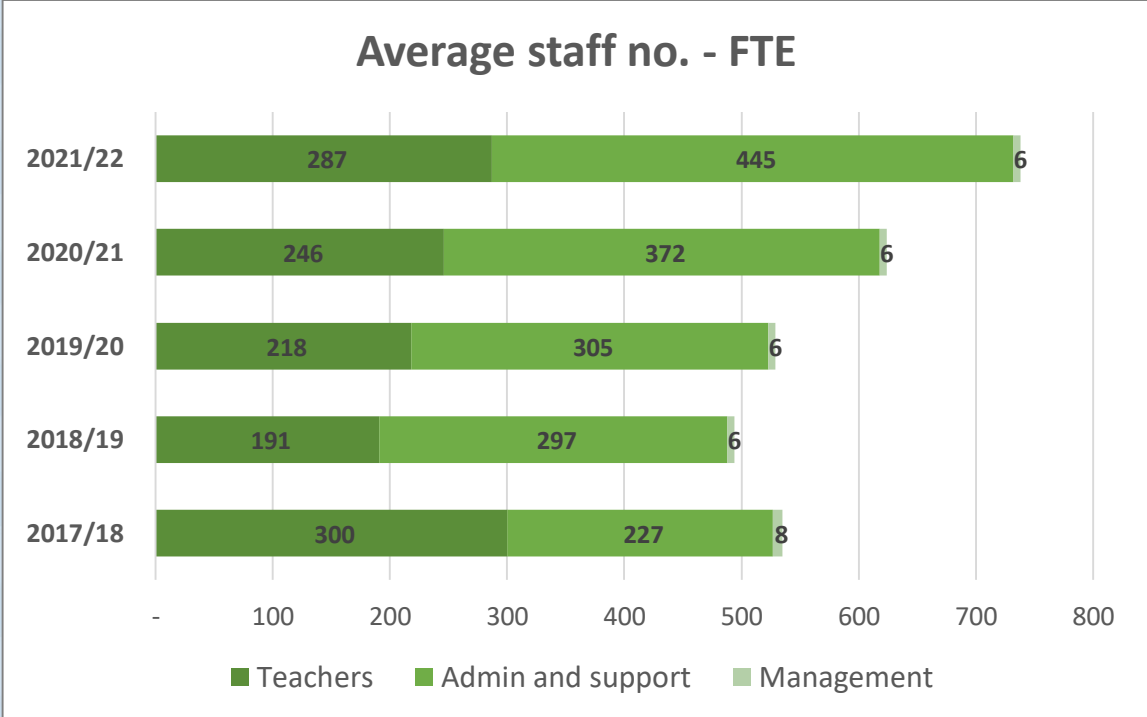
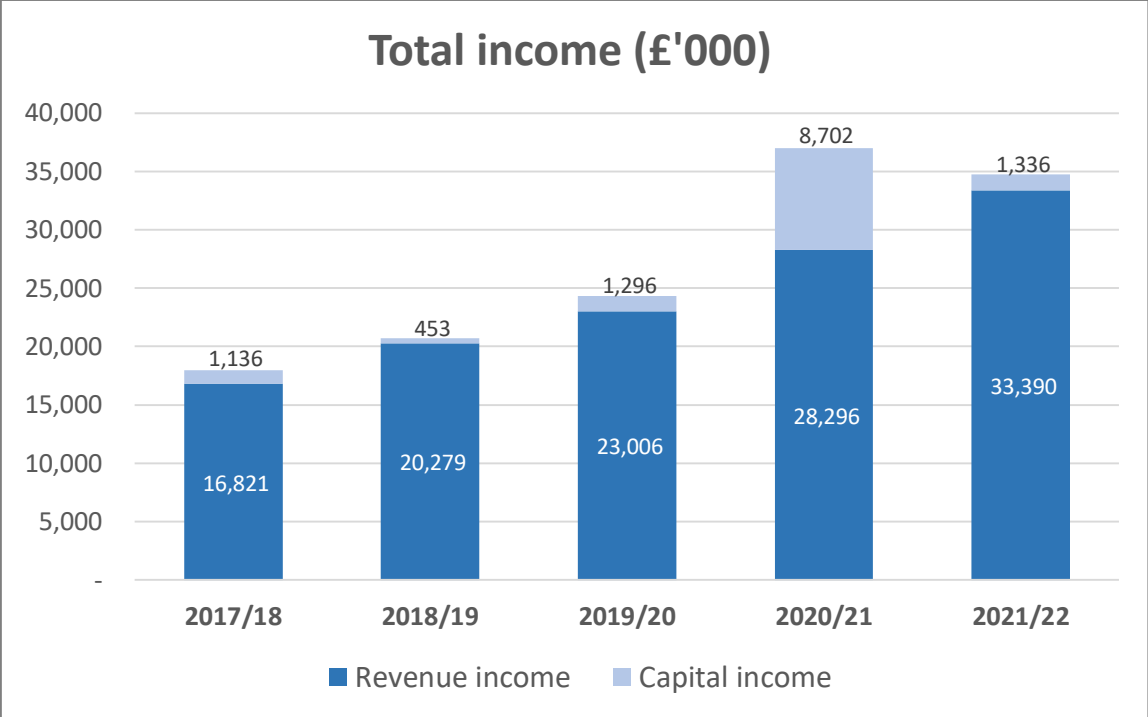
We have attached the draft letters of management representations required in connection with our audit.

Appendix (i) Key to action point priorities

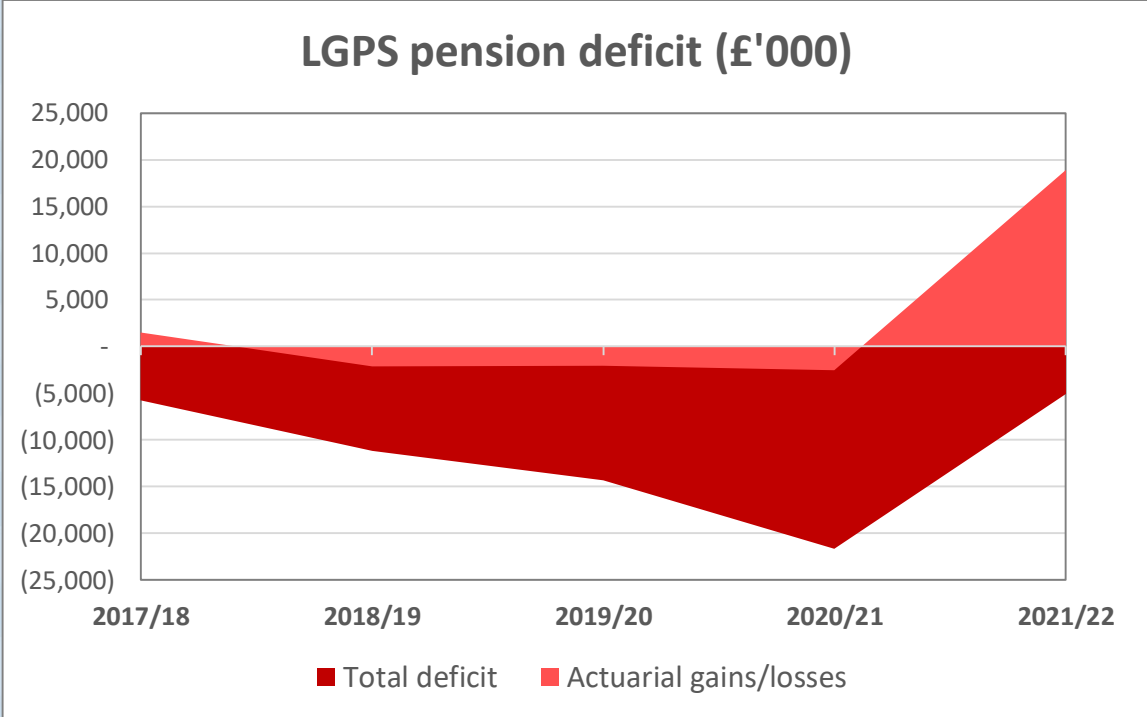
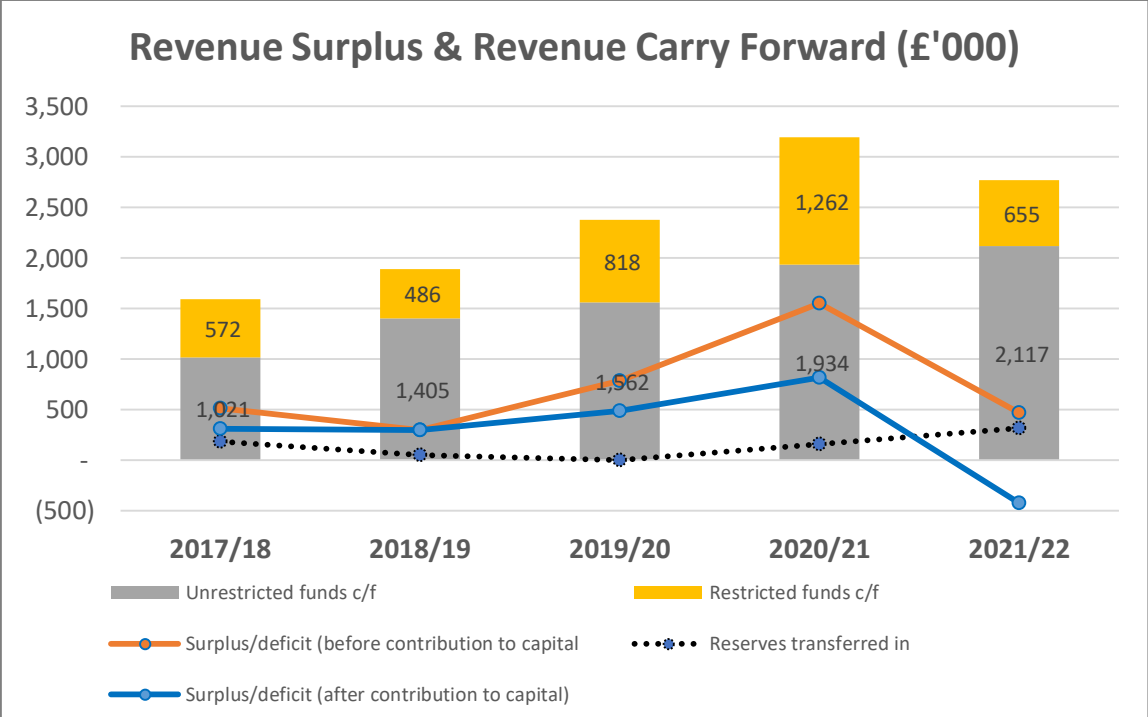
Our findings and recommendations are assigned an action priority status by reference to risk category, as detailed below:

High risk	The Trust is exposed to substantial risk which requires immediate remedial action by management with high priority timescales applied.
Medium risk	The Trust may be exposed to significant risks which therefore requires management attention to find a resolution within an agreed appropriate timescale.
Low risk	The Trust is not exposed to fundamental risks which require immediate action but management should ensure the control framework is further developed with the suggested improvements.
Best Practice	The Trust is not presented with any issues creating significant risks on the control environment. Management are encouraged to consider these issues to ensure they adopt best practice.

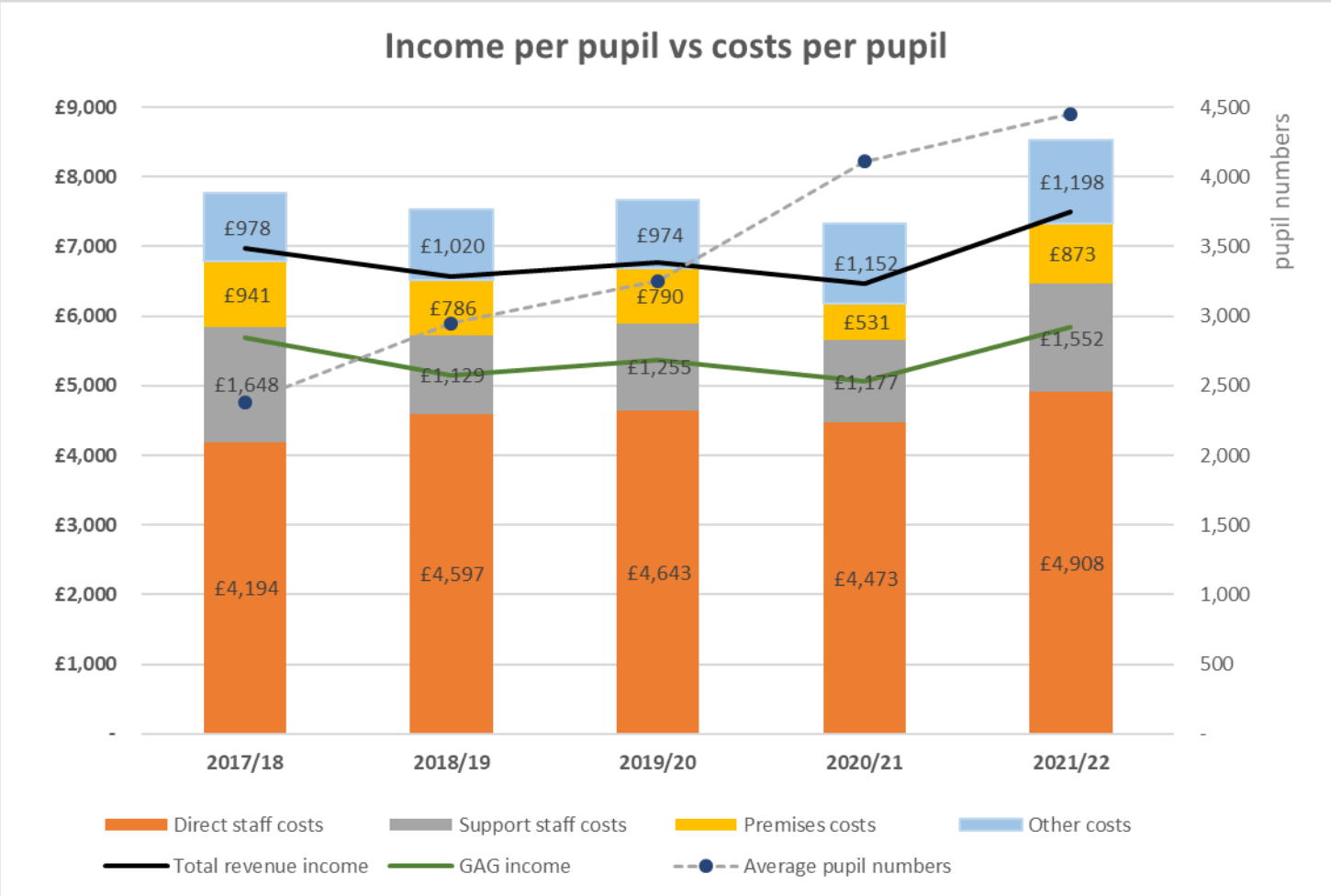
Appendix (ii) 5 year history – key financials



Appendix (ii) 5 year history – key financials



Appendix (ii) 5 year history – key financials - continued



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