



SHIRELAND COLLEGIATE ACADEMY TRUST

# AUDIT COMPLETION REPORT

Year ended 31 August 2019

IDEAS | PEOPLE | TRUST



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# WELCOME

In accordance with International Standards on Auditing (UK) we submit our report to the Resources Committee setting out certain matters relating to the audit for the year ended 31 August 2019 that we are required to bring to your attention.

It summarises the results of completing the planned audit approach, specific audit findings and areas requiring further discussion and/or the attention of the Resources Committee. At the completion stage of the audit it is essential that we engage with the Resources Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Resources Committee meeting on 10 December 2019 and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

In communicating with those charged with governance of the group we consider those charged with governance of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

We would also like to take this opportunity to thank the management and staff of the Trust for the co-operation and assistance provided during the audit.

Nick Simkins

December 2019



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The contents of this report relate only to those matters which 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. This report has been prepared solely for the use of those charged with governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# EXECUTIVE SUMMARY

This summary provides an overview of the audit matters that we believe are important to the Resources Committee in reviewing the results of the audit of the financial statements for the Group for the year ended 31 August 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

## Audit status

Our audit work is substantially complete and subject to the successful resolution of outstanding matters (listed in Appendix 1) we anticipate issuing an unmodified audit opinion on the Group's financial statements for the year ended 31 August 2019 in line with the agreed timetable.

There were no significant changes to the planned audit approach and no additional significant audit risks or key audit matters have been identified.

No restrictions were placed on our work.

## Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). We audit all significant components and this objective has been achieved.

The entities that are included within the scope of our audit are in Appendix 2.

## Financial reporting

- ▶ We have not identified any non-compliance with group accounting policies or applicable accounting framework
- ▶ No significant accounting policy changes have been identified impacting the current year
- ▶ We have nothing to report on the Strategic Report and Internal Control Statement.

## Other matters that require discussion or confirmation

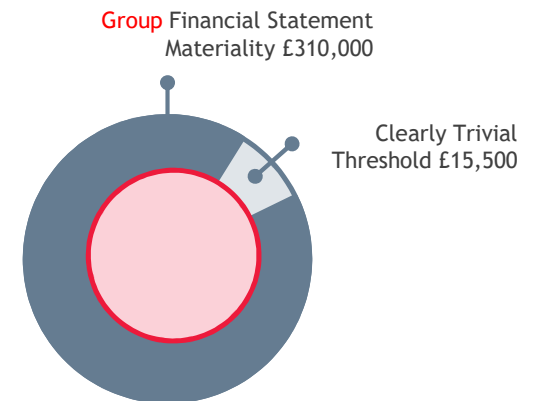
- ▶ We have not identified any regularity breaches during our limited assurance work undertaken as discussed in the Other Matters section of our report.
- ▶ Control deficiencies that have been identified are set out in the Audit Management Letter section of our report
- ▶ We confirm our independence in the Other Matters section of our report
- ▶ Confirmations re: fraud, contingent liabilities and subsequent events
- ▶ Letter of representation: specific representation are set out in the Financial Reporting Matters section of this report and the full letters are set out in Appendix 4 and 5.

## Final Materiality

Group Financial Statement Materiality was determined based on income at the planning stage.

Details of the basis of calculation of materiality and how we use it during our audit were provided in our planning report.

The final materiality levels that were used for each entity are in Appendix 3. There have been no changes to the materiality levels communicated in our planning report.





## OUTCOME OF WORK ON AUDIT RISKS

# AUDIT RISKS

## Overview

As identified in our Audit Planning Report dated October 2019 we assessed the matters on the right as being the most significant risks of material misstatement in the financial statements.

### Fraud in revenue recognition

Under International Standard on Auditing 240 “The auditor’s responsibility to consider fraud in an audit of financial statements” there is an assumption that revenue recognition is a fraud risk. The risk of fraud in revenue recognition has not been rebutted by the audit team.

No additional risks were identified during the audit process.

SIGNIFICANT AUDIT RISK	SIGNIFICANT MANAGEMENT JUDGEMENT INVOLVED	MATERIAL ERROR IDENTIFIED	SPECIFIC REPRESENTATION LETTER POINT	DISCUSSION POINTS FOR RESOURCES COMMITTEE
Recognition of ESFA grants	No	No	Yes	No
Recognition of other grants	No	No	Yes	No
Recognition of other income	No	No	No	No
Management override	Yes	No	Yes	No
Valuation of Local Government Pension Scheme (LGPS)	Yes	No	Yes	No
Going concern	Yes	No	Yes	No
Related parties	No	No	Yes	No
Transfers of Academies into the Trust	Yes	No	Yes	No

# AUDIT RISKS

## Recognition of ESFA grants

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	<p>The General Annual Grant (GAG) funding allocation is advised to Academy Trusts in the February before the academic year and is either based on the pupil census undertaken in the previous Autumn or an agreed estimate of pupil numbers for 2018/19 depending on the funding agreement in place, i.e. an estimated number of students for the Academy Trust for the year being audited. The grant is paid in equal instalments over the year.</p> <p>For other ESFA Grants, such as Pupil Premium, there is a risk that income is not recognised in the correct financial period. For example, Pupil Premium Income is remitted on an April-March basis, quarterly in arrears, and two months should be accrued as income at the 31 August. It would be incorrect to record the income on a cash basis.</p>	<p>We reconciled the ESFA income to the funding allocation letters, and agreed income through to remittances and bank receipts.</p> <p>We reviewed ESFA grants (including capital grants) received in the period and considered whether grants are recorded in line with the terms and conditions set. This included an assessment of the treatment of any accrued or deferred income.</p>	<p>Testing was completed satisfactorily with no material issues were identified.</p> <p>The Salix loan element of the capital grant has been treated as income in the statutory accounts. The correct treatment would be to include this balance as a creditor in the balance sheet in accordance with the repayment schedule. The total is immaterial and has not been adjusted however the misstatement has been included on the schedule of unadjusted items.</p>
Academies	✓			
SLL	x			

# AUDIT RISKS

## Recognition of other grants

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	There is a risk that other non-ESFA grants received in the year have not been properly accounted for by the Academy Trust, for example, restricted funds have been recorded as unrestricted.	We reviewed other grants (including capital grants) received in the period and considered whether these grants are recorded in line with the terms and conditions set. This included an assessment of the treatment of any accrued or deferred income.	Testing was completed satisfactorily with no issues identified.
Academies	✓			
SLL	x	There is a risk that the grants are not recognised in the correct financial period and have not been accrued or deferred as applicable.		

# AUDIT RISKS

## Recognition of other income

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	<p>The academy trust receives other income during the year and there is a risk that this income has not been accounted for correctly and could be materially misstated in the financial statements.</p> <ul style="list-style-type: none"> <li>• Hire of facilities</li> <li>• Catering income</li> <li>• Shireland Learning income</li> </ul>	<p>We reviewed other income to ensure that it is recorded in the correct period and to the extent that the Trust has provided the goods or service.</p> <p>We tested all material sources of income by carrying out substantive testing to determine whether there is a risk of a material misstatement.</p> <p>The Trust's accounting policies for income recognition were also reviewed to ensure that they follow the criteria as set out in FRS 102 and the Charities SORP.</p>	<p>Testing was completed satisfactorily with no issues identified.</p>
Academies	✓			
SLL	✓			



# AUDIT RISKS

## Management override

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	Under International Standards on Auditing (UK) 240, there is a presumed significant risk of management override of the system of internal controls.	We obtained a complete list of journals and, using information gathered during the audit and our understanding of the entity we target tested those journals and adjustments that we considered may be inappropriate or unusual.	Testing was completed satisfactorily, with no issues noted.
Academies	✓			
SLL	✓			
		This is considered to be a significant audit risk given the size of the Trust's operations and the senior management team having oversight over all key operational decisions.	We also reviewed material journals and transactions outside what is considered the normal course of business.	
		The primary responsibility for the detection of fraud rests with Management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.	We reviewed significant accounting estimates and judgements to ensure they were appropriate.	
		Our understanding is that the most likely areas where management override could take place are the posting of journals and in the judgements involved in accounting estimates within the financial statements.		

# AUDIT RISKS

## Valuation of Local Government Pension Scheme (LGPS)

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	The Academy Trust contributes to two principal pension schemes for the trust's staff being the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). Both are defined benefit pension schemes.	We obtained the actuarial valuation for the LGPS and used our actuarial team to review the assumptions for 2019 therein to determine whether we consider the year end liability to be materially correct.	Testing was completed satisfactorily with no issues identified.
Academy	✓			
Sub	x			
		The Trust is unable to identify its share of underlying assets and liabilities of the TPS and so this is accounted for as a defined contribution scheme. However, the LGPS is accounted for as a defined benefit scheme.	We assessed the accuracy and completeness of the key source data, including the contributions paid into the scheme, that is provided to the actuary upon which the valuation is prepared.	The key underlying assumptions were found to be within acceptable benchmarks and were deemed appropriate for the scheme calculations.
		Accounting for defined benefit pension schemes can be 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.	We ensured that accounting entries have been correctly accounted for and presented in the accounts.	
		There is a risk that the underlying assumptions used in the valuation are incorrect, leading to a material error in the movement in valuation in the year and the closing pension liability within the balance sheet.		

# AUDIT RISKS

## Going concern

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	This is considered to be a significant audit risk given the continued financial pressures that are prevalent in the education sector.	We reviewed your statement along with the forecasts and budgets that the Academy Trust has prepared and where necessary interrogated the assumptions used.	Testing was completed satisfactorily with no issues identified.
Academies	✓			
SLL	✓			
		The Academies Accounts Direction requires academy trustees to produce a statement on the academy trust's ability to continue to operate as a going concern, including disclosure of any financial uncertainties facing it.	We reviewed your management accounts and grant documentation received post year end against the budget forecasts to ensure that they are consistent with our expectations.	
		If the academy trust is not considered to be able to continue to operate as a going concern then this would have a significant impact on the required disclosures and the form of the financial statements.		

# AUDIT RISKS

## Related parties

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	<p>This is considered to be an audit risk given the focus on related parties and related party transactions by the ESFA along with the increased requirements introduced in April 2019.</p> <p>Academy trusts must ensure that, where contracts for goods or services exceeding £2,500 cumulatively in the year, the element above £2,500 has been provided at no more than cost. This must be supported by a statement of assurance from the related party to the academy trust confirming this.</p> <p>The ESFA brought in new requirements for all transactions made on or after 1 April 2019. Academy trusts must report all transactions with related parties to the ESFA in advance of the transaction taking place. Academy trusts must also obtain ESFA approval for contracts for the supply of goods or services to the trust by a related party that exceed £20,000 cumulatively in the year.</p>	<p>We reviewed the related parties and related party transactions that were disclosed to us by the trust and checked to see that the requirements of the academy financial handbook have been met.</p> <p>We obtained the register of interests maintained by the trust and reviewed for completeness of interests by performing searches on Companies House and the Charity Commission.</p>	<p>Testing was completed satisfactorily with no issues identified.</p> <p>A number of related party transactions were identified and have been disclosed accordingly in the financial statements.</p>
Academies	✓			
SLL	✓			

# AUDIT RISKS

## Transfer of Academy into the Trust

ENTITIES AFFECTED		RISK DETAIL	TESTING	DISCUSSION POINTS
Group	✓	With all new schools joining a MAT, whether an existing Academy or a local authority convertor, there is always a risk in regard to both agreeing the value of the assets and liabilities at the transfer date and incorporating the new school's system into the MAT's existing systems.	We reviewed the value of significant assets and liabilities transferred into the MAT against appropriate evidence to ensure the correct valuation has been accounted for in the Trust accounts.	Testing was completed satisfactorily with no issues identified.
Academy	✓			
Sub	x			
		New school entering the Trust during 18/19:		
		<ul style="list-style-type: none"> <li>Tameside Primary School</li> </ul>		

## FINANCIAL REPORTING MATTERS INCLUDING UNADJUSTED AUDIT DIFFERENCES



# FINANCIAL REPORTING MATTERS

## Accounting policies and key judgements and estimates

Our views on significant qualitative aspects of your chosen accounting policies, key judgements and estimates are set out below. Where applicable, this includes why we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be the most appropriate under the circumstances of the Trust.

	ACCOUNTING POLICIES	KEY JUDGEMENTS	ESTIMATES
<b>OVERVIEW</b>	<p>Financial statements are prepared in accordance with UK Generally Accepted Accounting Practice including UK Accounting Standards (UK Generally Accepted Accounting Practice); Charities SORP 2015 (FRS102), Companies Act 2006 (Company Limited by Guarantee), Charities Act 2011 (Exempt Charity), Academies Accounts Direction 2019 issued by the Education and Skills Funding Agency (“ESFA”) and the Academies Financial Handbook 2018 issued by the ESFA.</p> <p>We have not identified any non-compliance with trust accounting policies or applicable accounting framework.</p>	<p>Key judgements include:</p> <ol style="list-style-type: none"><li>1. Actuarial assumptions used in the LGPS.</li></ol>	<p>Key estimates relate to:</p> <ol style="list-style-type: none"><li>1. Fixed asset depreciation - we re-performed the depreciation calculations on a proof in total basis to ensure that the depreciation charges were being calculated correctly.</li><li>2. Level of bad debt provision - this was a new policy put into place in the year for Shireland Learning Limited. We have reviewed the policy and this has been included as a discussion point later in this document.</li></ol>
<b>ERROR IDENTIFIED</b>	No	No	No
<b>DISCUSSION POINTS FOR RESOURCES COMMITTEE</b>	No specific points for discussion.	Key judgements are discussed in more detail on the following page.	Estimates are considered in more detail on the following page.

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# FINANCIAL REPORTING MATTERS

## Key judgements

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### Actuarial assumptions used in the LGPS

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#### OVERVIEW

We obtained the actuarial report for the LGPS pension provision, as prepared by the Trust's actuaries, and used our actuarial team to review the assumptions for 2019 therein to determine whether we consider the year end liability to be materially correct.

#### CHANGES IN THE YEAR

The defined benefit scheme liability increased from £5.7m to £11.1m primarily due to actuarial losses in the year. The key change in the assumptions was a movement in the discount rate from 2.65% to 1.9% this year. This decrease in discount rate is consistent with decreases we are seeing in other pension schemes and is within our accepted benchmarked expectations for the discount rate.

#### LOOKING FORWARD

Changes in assumptions and actuarial movements will continue to have a significant impact on future valuations. The valuation will continue to be made by the actuary in future years.

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# FINANCIAL REPORTING MATTERS

## Key estimates

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	Fixed asset depreciation	Bad debt provision (SLL)
<b>OVERVIEW</b>	Fixed asset depreciation - we re-performed the depreciation calculations on a proof in total basis to ensure that the depreciation charges were being calculated correctly	Level of bad debt provision - we compared the provision policy to the prior year noting that there was a change in the methodology applied. We have recalculated the provision based on a specific provision rather than the current general policy to ensure that the amounts are not materially different.
<b>CHANGES IN THE YEAR</b>	The treatment is consistent with that applied in the previous financial year.	The treatment is new in the year.
<b>LOOKING FORWARD</b>	The treatment is expected to remain consistent with previous year.	Looking forward, a specific provision policy may be more beneficial than a general provision for tax purposes.

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# FINANCIAL REPORTING MATTERS

## Representation letter

The draft letter of representation to be sought from the Board is attached as Appendix 4. Appendix 4 is the group representation letter.

In addition to a number of management representations that we are required to obtain by Auditing Standards our letter of representation includes several other specific management representations; these are set out in the table on the right.

Please note that the letter of representation is in draft form and subject to change if work performed on the outstanding areas highlighted in Appendix 1 results in the need for further specific management representations or further unadjusted errors.

AREA	REPRESENTATION
<b>BAD DEBT PROVISION</b>	We confirm that the bad debt provision is appropriate based on receipts during the current year.
<b>GOING CONCERN ASSESSMENT</b>	We confirm that forecasts used in our assessment of going concern are based on our best estimate of committed costs and overheads adjusted for inflation.
<b>PENSIONS</b>	We confirm that the valuation of the pension liability is calculated with reference to market levels and the most relevant demographic and financial assumptions at 31 August 2019
<b>UNCORRECTED MISSTATEMENTS</b>	The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements, other than those that are clearly trivial, is as shown on page 20 of this report.

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# AUDIT DIFFERENCES

## Summary for the current year



### ADJUSTED AUDIT DIFFERENCES

There were no group or academy audit differences identified by our audit work that were adjusted by management. There was therefore no change to the total comprehensive income for the year and no change to the net assets at 31 August 2019.

The following disclosure matters were identified by our audit work and were adjusted by management:

- Related party disclosures

### UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted differences and we request that you consider whether you should correct them.

These differences are shown on the following pages.

Management consider these remaining differences to be immaterial in the context of the financial statements as a whole. We seek your confirmation of this position.

**We are required to bring to your attention other financial reporting matters that the Finance Committee and board of Governors is required to consider.**

There were no disclosure matters to note.

There were no apparent misstatements found through our work on other information.

### ENTITY LEVEL ADJUSTMENTS

Information relating to individual group entities is provided in the appendices where applicable.

# AUDIT DIFFERENCES

## Unadjusted differences

	£'000	SOFA		BALANCE SHEET	
		DR £'000	CR £'000	DR £'000	CR £'000
Net movement in funds after adjusted differences	(942,655)				
Adjustment 1: Treatment of Salix loan funding					
DR Grant income	-	94,609	-	-	-
CR Loans	-	-	-	-	(94,609)
Total unadjusted audit differences	-	94,609	-	-	(94,609)
Adjusted net movement in funds	(1,037,264)				



## AUDIT MANAGEMENT LETTER

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# AUDIT MANAGEMENT LETTER

## Points arising in the current year

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you and we have not repeated any points raised by the internal auditors or other assurance providers.

We have reported a number of other deficiencies (i.e. those not deemed significant) to management and we are satisfied that appropriate action is being taken to address them.

As the purpose of the audit is for us to express an opinion on the Group financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

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### Authorisation of expenses

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#### Observation

During the audit it was noted that not all purchase invoices show evidence of being authorised with a signature. This is in breach of the trust's financial policies.

#### Recommendation

All purchase invoices should be authorised by the relevant approver prior to payment, in line with the trust's financial policies. Staff should be reminded of this and invoices should not be paid without prior authorisation documented.

#### Management Response

We will ensure that all invoices are evidenced as being authorised going forward. We will also introduce periodic checks of invoices to ensure that no invoices have been inadvertently missed.

Person Responsible: Mrs J Kellas

Implementation date: Immediately

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# AUDIT MANAGEMENT LETTER

## Points arising in the current year

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### Employment contracts not on file

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Observation                      On inspection of employment files it was found that there were a number of employees without signed employment contracts on file.

Recommendation                All employees should have a signed contract of employment in their employee file. For historical employees pre-conversion, consider reissuing contracts with up to date terms and conditions. Having a signed contract of employment on file reduces the risk of any employment disputes that may arise.

Management Response         A programme of reissuing employment contracts has been undertaken. At TCA an audit of the files for TPA will be carried out in the new year to establish which staff need a contract to be reissued.

Person Responsible: Mrs M Adams

Implementation date: Ongoing

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### Historical employment trail not on file

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Observation                      On inspection of employment files it was found that there is limited employment history and it is difficult to identify when employment roles and pay grades have changed. There were occurrences where up to date pay letters were not on file.

Recommendation                Any changes to an employee's role or pay should be notified by letter and evidenced in the employee file. This will ensure there is a historical trail of employment with the trust and reduce the risk of any employment disputes that may arise.

Management Response         Files for employees who came to the Trust via TUPE are sometimes limited. Changes to roles and grades are always notified in writing with a copy provided for the school to place on file, we will ensure schools are aware of the need to ensure filing is kept up to date.

Person Responsible: Mrs M Adams

Implementation date: Ongoing

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# AUDIT MANAGEMENT LETTER

## Follow up of significant deficiencies identified in previous years

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### Pecuniary interest

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.
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.
Original 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.
Update	The undisclosed common directorships in the prior year have now been disclosed, although there were additional common directorships in the year with the trading subsidiary that have not been included in pecuniary interest forms. Procedures will be reviewed to ensure that all common directorships are disclosed going forward.





**OTHER MATTERS**

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## OTHER MATTERS

### Fraud and error, related party transactions and subsequent events

AREA	BACKGROUND	COMMENT
<b>FRAUD AND ERROR</b>	We are required to discuss with the Finance Committee and Board of Governors the possibility of material misstatement, due to fraud or error. We are informed by management that they consider the risk of material fraud occurring in the Group to be low and that there have not been any cases of fraud or error during the year, to their knowledge.	<p>Whilst the board have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.</p> <p>Our audit procedures did not identify any fraud. We seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan.</p>
<b>CONSIDERATION OF RELATED PARTY TRANSACTIONS</b>	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of accounting standards and the Accounts Direction for 2018/19.	We identified a number of related party transactions and requested that these are disclosed in the financial statements.
<b>SUBSEQUENT EVENTS</b>	We need to determine whether there are any subsequent events that require disclosure or will impact carrying values of assets and liabilities in the accounts.	<p>Our audit procedures to date have not identified any subsequent events that require disclosure or adjustment.</p> <p>We seek confirmation from you whether you are aware of any subsequent events.</p>

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## OTHER MATTERS

### Laws and regulations

AREA	BACKGROUND	COMMENT
<b>CONSIDERATION OF LAWS AND REGULATIONS</b>	We need to consider whether there are any instances of non compliance with laws and regulations and if so whether they have a material effect on the financial statements.	<p>We did not identify non-compliance matters that will require disclosure within the financial statements.</p> <p>The board will need to consider whether they will be able to provide the representation (signed at the conclusion of the audit) that the Trust is compliant with relevant laws and regulations as at the date of approval of the accounts.</p> <p>Where we receive a representation that the requirements of law have not been met, we will need to consider whether there is any impact on our audit based on the information available at the completion of our work.</p>
<b>REGULARITY</b>	We conduct a limited assurance engagement on regularity, propriety and compliance in accordance with the Academies Accounts Direction 2018 to 2019 issued by ESFA.	<p>In the course of our work we have not identified any regularity breaches that are required to be brought to the Board's attention.</p> <p>We request that the Board provide written confirmation of the matters in the draft regularity representation letter, enclosed as appendix 5 to this report.</p>

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# AUDIT REPORT OVERVIEW

AREA	SUMMARY
<b>OPINION ON FINANCIAL STATEMENTS</b>	<p>We anticipate issuing an unmodified opinion on the financial statements of Shireland Collegiate Academy Trust and Shireland Learning Limited.</p> <p>There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.</p>
<b>REGULARITY OPINION</b>	<p>We anticipate issuing an unmodified regularity opinion for Shireland Collegiate Academy Trust.</p> <p>No matters have been identified during our limited assurance regularity work 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.</p>
<b>GOING CONCERN</b>	<p>We have nothing to report in respect of the Board’s assessment of the applicability of the going concern basis of accounting or the ability of each entity to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.</p> <p>There are no material uncertainties in relation to going concern disclosed in the financial statements or of which we are aware that we need to draw attention to in our respective audit reports.</p>
<b>OTHER INFORMATION</b>	<p>We have reviewed the other information accompanying the financial statements in the Group’s annual report. We have not identified any material misstatements that would need to be referred to in our reports.</p>

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# INDEPENDENCE AND FEES

## Independence and rotation

### Independence

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence. We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 August 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out on the following page. We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Trust.

### Rotation

The tables on the right indicate the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard. In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members in the table as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

ENGAGEMENT TEAM ROTATION	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE BEFORE YEAR ENDED
Nick Simkins - Audit Partner	7	2022
Glen Bott - Director	3	2026

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# INDEPENDENCE AND FEES

## Summary of fees

	Current year	Prior year	Threats to independence arising	Safeguard
	£	£		
Audit of Shireland Collegiate Academy Trust	14,000	11,200	N/A	N/A
<b>Total audit</b>	<b>14,000</b>	<b>11,200</b>		
Audit related assurance services: Regularity audit opinion, Audit of the Annual Accounts Return (AAR), Assurance reports for the Teacher's Pension End of Year Certificate	4,500	4,100	Self-interest	1
<b>Total assurance services</b>	<b>4,500</b>	<b>4,100</b>		
Non-audit services - Preparation of AAR. TPS certification	2,900	2,825	Self-review, Management	2
<b>Total other non-audit services</b>	<b>2,900</b>	<b>2,825</b>		
<b>Total non-statutory audit services</b>	<b>7,400</b>	<b>6,925</b>		
<b>Total fees</b>	<b>21,400</b>	<b>18,125</b>		

### SAFEGUARDS AND WHY THEY ARE EFFECTIVE

- 1 These services are considered to be related audit services and so are not considered to be thought to bear upon this firm's independence and the objectivity of the audit engagement partner and staff.
- 2 These services are supplied by a separate team within BDO who have no involvement in the external audit service. It is therefore not considered to bear upon this firm's independence and objectivity of the audit engagement partner and staff.



## APPENDICES

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## APPENDIX 1: OUTSTANDING MATTERS

MATTER OUTSTANDING	RELATES TO KEY AUDIT MATTER?	RELATES TO SIGNIFICANT RISK?	ACTION NEEDED
<b>Final evaluation of:</b> <ul style="list-style-type: none"><li>• Going concern</li><li>• Subsequent events</li></ul>	Yes	Yes	Confirmation as to whether there have been any post balance sheet events or matters affecting going concern which may require disclosure in the financial statements
<b>Letters of Representation:</b> <ul style="list-style-type: none"><li>• Financial statements</li><li>• Regularity</li></ul>	Yes	Yes	Letters of representation to be printed on headed paper and signed at the time of the accounts being approved.

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## APPENDIX 2: AUDIT SCOPE AND OBJECTIVES

### Scope and components

Our approach was designed to ensure we obtained the requisite level of assurance across the whole group. The approach to the audit of group components was as shown on the right and summarised as follows:

The subsidiary was subject to audit by BDO.

All entities prepared their accounts in accordance with UK GAAP.

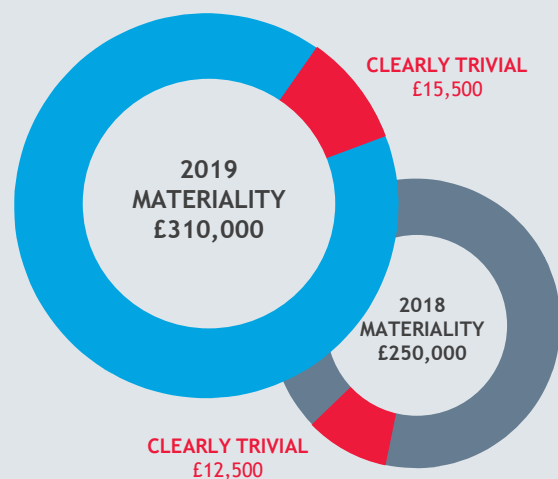
COMPONENT NAME		ACTIVITY	INCORPORATED UNDER	CHARITABLE STATUS	AUDIT REQUIRED	SCAT OWNS/ CONTROLS	PROPOSED SCOPE OF WORK
Shireland Collegiate Academy Trust	SCAT	Provider of Primary/Secondary Education	Academies Act 2010 (as amending by the Education Act 2011) / Limited company (CA 2006)	Charitable	Yes	N/A	Full audit by BDO
Shireland Learning Limited	SLL	Trading activities	Limited company (CA 2006)	Non-charitable	Yes	100%	Full audit by BDO

## APPENDIX 3: MATERIALITY

Materiality for the Group was set as follows:

**Financial statement materiality:** 1.5% of revenue excluding one-off transactions such as large capital grants or the transfer in of schools into a MAT

▶ Clearly trivial: 5% of materiality



COMPONENT NAME	NATURE OF ACTIVITIES	BASIS OF CALCULATION FOR MATERIALITY	MATERIALITY £'000	CLEARLY TRIVIAL THRESHOLD £'000
Shireland Collegiate Academy Trust (Group)	Provider of Primary / Secondary Education	1.5% of Income	£310,000	£15,500
Shireland Collegiate Academy Trust	Provider of Primary / Secondary Education	1.5% of income	£310,000	£15,500
Shireland Learning Limited	Provider of education services	1.5% of income	£11,500	£575

Planning materiality is based on the draft outturn figures for the year.

Although materiality is the judgement of the Responsible Individual, the Finance Committee members are obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

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## APPENDIX 4: REPRESENTATION LETTER

BDO LLP  
Two Snowhill  
Queensway  
Birmingham  
B4 6GA

Dear Sirs

### **Financial Statements of Shireland Collegiate Academy Trust for the period ended 31 August 2019**

We confirm that the following representations given to you in connection with your audit of the consolidated and parent trust's financial statements (together the "financial statements") for the year ended 31 August 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other directors and officials of the trust and other group companies as appropriate.

We have fulfilled our responsibilities as board members for the preparation and presentation of the consolidated and parent financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the group and trust as at 31 August 2019 and of the results of its operations and cash flows for the year then ended in accordance with applicable financial reporting framework and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the group and trust have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all meetings of management and non executives, have been made available to you.

### **Going concern**

We have made an assessment of the group's and the trust's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the group and trust are able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the group's and the trust's ability to continue as a going concern.

### **Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which our business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

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## APPENDIX 4: REPRESENTATION LETTER

### Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

### Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

### Misstatements

We attach a schedule showing uncorrected misstatements that you identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not correcting such identified misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

### Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable accounting framework.

There were no loans, transactions or arrangements between the group, the trust and its directors and their connected persons at any time in the year which were required to be disclosed.

### Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated and parent financial statements.

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## APPENDIX 4: REPRESENTATION LETTER

### Accounting estimates

We confirm that the valuation of the pension liability is calculated with reference to market levels and the most relevant demographic and financial assumptions at 31 August 2019.

We confirm that income has been applied in accordance with the trust's statutes and where appropriate with the Terms and Conditions of Funding. We also confirm that income from the ESFA, grants and income for specific purposes and from other restricted funds administered by the trust have been applied for the purposes for which they were received. We confirm that the trust has complied with the Annual Accounts Direction.

### Litigation and claims

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

### Other

The trust has satisfactory title to all assets and there are no liens or encumbrances on the trust's assets, other than as disclosed in the financial statements.

We confirm that the bad debt provision is appropriate based on receipts during the current year.

We confirm that forecasts used in our assessment of going concern are based on our best estimate of committed costs and overheads adjusted for inflation.

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## APPENDIX 4: REPRESENTATION LETTER

### Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

(Signed on behalf of the Board of Governors)

Date: .....

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## APPENDIX 5: REPRESENTATION LETTER - REGULARITY

BDO LLP  
Two Snowhill  
Queensway  
Birmingham  
B4 6GA

Dear Sirs

### **Financial Statements of Shireland Collegiate Academy Trust for the year ended 31 August 2019**

We confirm that the following representations given to you in connection with your review of the statement on regularity, propriety and compliance for the year ended 31 August 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other board members and officials of the academy as appropriate.

We have fulfilled our responsibilities as governors for the preparation and presentation of the statement on regularity, propriety and compliance as set out in the terms of the regularity engagement letter and for making accurate representations to you. We confirm that we have provided to you complete, accurate and timely information relevant to your engagement.

We confirm that income from the Education & Skills Funding Agency (ESFA), grants and income for specific purposes and from other restricted funds administered by the academy have been applied for the purposes for which they were received.

We confirm that we have considered our responsibility to notify the Education & Skills Funding Agency of material irregularity, impropriety and non-compliance with ESFA terms and conditions of funding, under the funding agreement in place between the academy trust and the Secretary of State. As part of our consideration we have had due regard to the requirements of the Academies Financial Handbook.

We confirm that we are not aware of any instances of irregular or improper use of funds by the academy trust, or non-compliance with the terms and conditions of funding under the academy trust's funding agreement and the Academies Financial Handbook in the year ended 31 August 2019 and to the date of this letter and we have not made any reports to the Education & Skills Funding Agency.

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## APPENDIX 5: REPRESENTATION LETTER - REGULARITY

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

.....  
(Signed on behalf of the Board of Trustees)

Date:





**LOOKING FORWARDS**

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# LOOKING FORWARDS

## FRS 102 Triennial review

### Overview

The FRC has published its “Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial review 2017: Incremental improvements and clarifications”, which provides amendments effective for periods beginning on or after 1 January 2019.

Early adoption of the amendments is permitted although most of the amendments must be adopted together. The exceptions are the gift aid and directors loans changes, which can be adopted individually (whilst the latter has little relevance, noted for completeness).

### Clarification re gift aid from subsidiaries to charitable parent

FRS102 clarifies that gift aid payments should be treated in the same way as a dividend; the payment is shown as a movement in the Statement of Changes in Equity.

As the payment is a distribution there must be a legal rather than constructive obligation at the year end to enable recognition. This is a change from the pragmatic approach that has been previously applied where minutes from a pre year end board meeting of the subsidiary were typically accepted as evidence of commitment to make the donation.

The option to implement a deed of covenant to meet the new requirements is one that requires careful consideration.

The changes also require that where a post year end gift aid payment is considered to be probable, that no tax charge be recognised on the relevant profits.

### Basic financial instruments

The revisions introduce a description of a basic financial instrument to support the detailed conditions for classification as basic. This change will result in a small number of financial instruments currently classified as other now being considered to be basic and measured at amortised cost.

The use of amortised cost rather than fair value removes some volatility from the income statement.

The matter of “negative compensation clauses” in loan agreements is resolved through an amendment to section 11 which highlights that “The inclusion of contractual terms that, as a result of the early termination, require reasonable compensation for the early termination to be paid by either the holder or the issuer does not, in itself,” mean that the instrument fails to meet the definition of a basic instrument.

### Investment property let to group members

Investment property let to group entities can now be carried at cost in the asset holding entity as well as the group accounts, removing the need for external valuations and consolidation adjustments.

On the negative side, there would need to be prior period adjustment to reverse the current treatment.

### Net debt reconciliation

The amendments add the requirement for a net-debt reconciliation, similar to that previously required under FRS1, however there is greater clarity over what should be classified as debt for this note.



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# LGPS - RECENT LEGAL CASES

## Guaranteed Minimum Pensions (GMP) equalisation & McCloud

### Overview - GMP

The High Court recently ruled that benefits arising from Guaranteed Minimum Pensions (GMP) should be equalised. The ruling has come in response to proceedings brought by the trustee of three Lloyds Banking Group Pension Schemes, following a discrimination claim by female members of the schemes to enforce their rights to equal treatment of their pension benefits. The judgment will be relevant to occupational pension schemes that were contracted out on a salary related basis between 17 May 1990 and 5 April 1997.

### Overview - McCloud

The Court of Appeal recently ruled on two cases that age based transitional provisions put into place when new pension arrangements were introduced in 2015 were directly discriminatory on the grounds of age and indirectly discriminatory on the grounds of sex and race. The ruling against the Government, deeming that the transitional provisions were not a proportionate means of achieving a legitimate aim.

### Implications

It is our view that the rulings create a constructive obligation for affected schemes to equalise benefits.

Employers and trustees are therefore obliged to consider what action needs to be taken to resolve any remaining inequalities in the provision of pension benefits. This could result in a material increase in pension obligations for defined benefit pension schemes.

The resulting accounting treatment depends on whether an equalisation estimate has been previously made by actuaries:

#### Pension obligation already includes an estimate for the effects of equalisation

In some cases an estimate of the effects of equalisation may have already been included in the measurement of the pension obligation for some defined benefit pension schemes.

In this case a possible revision to the estimate might be necessary where the ruling provided additional information or where the ruling concluded the estimation method was inappropriate.

Any revision to the estimate would be recognised through Other Comprehensive Income (OCI) as a change in actuarial assumption, impacting the accounts to 31 August 2019.

#### Pension obligation does not already include an estimate for the effects of equalisation

Where an estimate has not previously been made, the inclusion of equalisation in the pension obligation for the first time should be accounted for as a past service cost and recognised in the income statement.

The effects of such plan amendments are accounted for from the date that they become effective.

#### Next Steps

As a first step Management should therefore :

- Clarify whether the pension obligation already includes an estimate for the effects of equalisation
- Make enquiries of scheme trustees and actuaries as to whether they are assessing the impact of the court case
- Confirm with trustees whether an amendment to scheme rules is required in order to comply with the judgement and if so when the trustees expect to action such an amendment.

Management need subsequently to ensure that obligations are adequately recognised and disclosed in the financial statements.

#### Impact on our audit approach

Auditors will need to gain assurance over the calculated estimate, the chosen accounting treatment and the relevant disclosures.

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## RECENT ESFA COMMUNICATIONS

### Related party transaction arrangements

From 1 April 2019, the ESFA introduced a new policy where academy trusts must declare a related party transaction before they agree it with their supplier. They must also seek approval from ESFA before they agree any related party transactions over £20,000.

These new online reporting arrangements aim to give the ESFA, Parliament, the tax payer and other interested parties, assurance about the use of public funds.

The ESFA has published academy trust related party transactions guidance. This has information about what academy trusts need to do before completing the online form.

### Letter to accounting officers - July 2019

The latest letter from the ESFA to academy trust accounting officers draws attention to a number of recent publications.

A new edition of the Academies Financial Handbook was published in June. This remains your definitive reference source for the financial principles and requirements your trust must follow. The 2019 edition is effective from 1 September 2019 and contains additional information in several key areas:

- Introduced more detailed information about how your trust must periodically check the suitability of, and level of compliance with, its internal controls;
- Introduces a new requirement for you to send an annual internal scrutiny report to ESFA by 31 December each year;
- Clarifying in the handbook that you must maintain a risk register;

In September 2018, the Department published a voluntary school resource management self-assessment tool (SRMSAT), comprising a checklist and dashboard, to help trusts maintain a good level of financial health and resource management. From autumn 2019 completion of the SRMSAT will become mandatory for academy trusts on an annual basis. For 2019, trusts with an open academy on 31 August 2019 will need to provide a copy of the completed self-assessment checklist to ESFA by 14 November;

The ESFA are aware of a significant increase in incidents of cybercrime against academy trusts in the past year. Their academy trust guide to reducing fraud is designed to help trusts manage this risk.

They have also recently updated two related documents that provide important additional context:

- Indicators for potential fraud: a generic checklist for education providers
- How ESFA handles allegations of suspected fraud or financial irregularity

Fraud, theft and irregularity are a constant risk to public funds. The government estimates that fraud costs the public sector between £31bn and £49bn per year. We should all therefore take any necessary action to improve our counter fraud arrangements.

### High executive salaries

In May 2019, the ESFA wrote to academy trusts who have an executive salary above £150,000 or multiple salaries between £100,000 and £150,000.

The letters requested further information about the trust's process and the rationale for setting these levels of salaries.

A list of the trust's that have received the letter has been published on the gov.uk website.

The letters remind trusts that they have a responsibility to ensure value for money and that salary and other remuneration payments are transparent, proportionate, reasonable and justifiable.

The letter also draws attention to the requirements in the financial handbook around the setting of executive salaries.

FOR MORE INFORMATION:

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