



LATCHMERE ACADEMY TRUST

Final Audit Findings Report

Year ended 31 August 2018

Presented to the Finance and Resources Committee
By RSM UK Audit LLP

on 21 November 2018



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This report has been prepared for the sole use of Latchmere Academy Trust and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

1 INTRODUCTION AND COVERAGE

This report summarises our key findings in connection with the audit of the financial statements of Latchmere Academy Trust in respect of the year ended 31 August 2018.

The scope of our work has already been communicated to you via our Audit Plan document dated 3 October 2018.

A summary of adjusted and unadjusted misstatements identified during the audit has been prepared and is included in Section 4.

We consider that the audit approach adopted will provide the Trustees with the required confidence that a thorough and robust audit has been carried out.

We can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

2 AUDIT, REGULARITY AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

Management override of controls

Key area of audit focus Systems of internal control are designed to mitigate inherent risks of error within the core control systems to an acceptable level. By nature, a management override or by-pass of controls cannot be eliminated by the implementation of controls and therefore as part of our audit we will perform additional tests of detail to address this risk.

Our approach We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements, tracing selected entries back to source documentation.

We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement.

We will discuss the basis and business rationale for any significant non-routine or contentious transactions which come to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.

Response We have performed our work as planned and no significant issues were noted as a result of our journals testing.

We have reviewed accounting estimates in relation to the LGPS pension scheme deficit and did not note any indication of management bias which could result in a material misstatement.

We have reviewed transactions in the year and with the exception of the transfer in of Nelson Primary school, dealt with elsewhere in this report, there are no significant non-routine or contentious items to report.

Retirement benefits

Key area of audit focus

The FRS 102 Section 28 pension liability is a significant balance sheet item and represents the Academy Trust's share of the Local Government Pension Scheme. The amount recognised is based on a valuation undertaken by an actuary. The actuary also provides the disclosure for inclusion in the financial statements.

There is a risk that the amount may be materially misstated where the data and assumptions used are not appropriate.

Our approach

We will obtain and review a copy of the FRS 102 Section 28 actuarial valuation prepared by the actuary and undertake procedures to determine our ability to rely on their work.

We will undertake a review to ensure that the Academy Trust's management have checked the data and considered the assumptions used by the actuary in preparing the FRS 102 Section 28 valuation. We will also review the disclosures in the financial statements.

Response

We obtained and reviewed the FRS 102 Section 28 actuarial valuations as planned. We noted a variance between the Nelson pension scheme deficit valuation as calculated at the date of transfer for 1 September 2017 and as recalculated for the brought forward figure in the valuation to 31 August 2018, but we note that this was a result of movements in the assumptions used between the two dates. This has resulted in an increase of £349,000 in the deficit of the Nelson Pension Scheme as at 31 August 2018 but based on our review of the valuation, we are satisfied that the closing balance is correct. We have included further comments in section 6.

Our review of the Latchmere FRS 102 Section 28 actuarial valuation noted differences between the member and employer contributions as per the report and those per the accounting records of the Academy. **We are currently awaiting a revised version of the report to correct these errors.**

The assumptions used by the actuary were considered for reasonableness with regard to the prior year and other academies. We reviewed the relevant disclosures in the financial statements and no issues were noted.

Income recognition

Key area of audit focus	The Academy Trust receives significant levels of grant funding and this should be recognised in accordance with the Charities SORP recognition criteria and per the underlying funding agreement.
Our approach	<p>The accounting policies adopted by the Academy Trust will be reviewed, considering the guidance available in Charities SORP and the recognition criteria of entitlement, certainty and measurement.</p> <p>A review of grant funding agreements will be performed to determine whether the associated income has been recognised when appropriate.</p> <p>Through discussion with management and review of minutes we will identify any unexpected one-off sources of income, and ensure the associated treatment is appropriate.</p>
Response	We performed our work as planned and did not note any significant issues relating to income recognition.

Fund accounting

Key area of audit focus	The majority of the Academy Trust's income streams, including the GAG, have specific terms and conditions attached, governing the use and application of the funding. Accordingly, there is a risk that restricted funds could be incorrectly recognised and disclosed.
Our approach	<p>We will consider whether suitable procedures are in place for identifying sources of restricted income and monitoring their subsequent use.</p> <p>We will review a sample of income and expenditure disbursed from restricted funds to ensure the funds have been utilised in accordance with their restricted charitable purpose.</p>
Response	We carried out our work as planned, including a review of the fund balances brought into the trust on the transfer of Nelson, and did not note any significant issues in relation to fund accounting.

Going concern

Key area of audit focus

It is the responsibility of Trustees' to assess the ability of the Academy Trust to continue as a going concern for a period of not less than twelve months following the anticipated date of sign off. Given the current economic climate and in particular the pressure on government spending this is a key area of focus.

In addition to performing a review of management's operational budgets and forecasts, consideration will also be given to the Trustees' assessment of the LGPS deficit and the ability of Latchmere Academy Trust to meet the current and future funding obligations in respect of the scheme(s) in respect of the expected contributions and cash flows.

Our approach

We will review management's budgets, forecasts and cash flow forecasts covering a period of at least twelve months from the date of sign off and challenge the reasonableness and attainability of key underlying assumptions as appropriate. We will also consider the longer-term outlook.

We will review the appropriateness of accounts disclosures in accordance with the guidance issued by the Financial Reporting Council ("FRC") as regards going concern and seek representations from Trustees as required.

Response

We have reviewed the budgets and forecasts produced by management and used by Trustees to satisfy themselves that the trust will remain a going concern for the 12 months from the anticipated date of sign-off and have noted any issues that would lead us to disagree with the assessment that the Academy Trust is a going concern.

Take on of Nelson Primary School

Key area of audit focus

Nelson Primary School entered the multi academy trust from 01 September 2017.

Our approach

We will review the figures used for the opening balances at take on to ensure their accuracy and completeness.

The financial statements will be reviewed to ensure that appropriate disclosure has been made of the take on with reference to the Academies Accounts Direction 2017/18.

Response

We carried out the work as planned and no significant issues were identified in relation to the opening balances at take on.

We identified some assets under construction brought into the trust which were double counted as fixed asset additions in the year, please see section 3.

3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT AND REGULARITY WORK

Payment for car repairs

Issue	As part of our regularity work we noted that in the year a payment was made by the trust to an unconnected external company for the repair of the Accounting Officer's car, which was damaged whilst parked near school property. This repair was carried out the same day as the car could not be driven following the incident.
Resolution	The payment was approved by the Chair of Trustees to ensure that the expense was properly authorised. The amount has also been included within the Trustees' expenses disclosure in note 12 of the financial statements.

Double counting of CIF Income

Issue	During the course of our work, we noted two instances of Capital Improvement funding and the related additions being double counted as they were included in the transfer of Nelson Primary School and again when the income was received and the work was completed in the year.
Resolution	We have agreed an adjustment with management and this is noted in section 4.

4 UNADJUSTED/ADJUSTED MISSTATEMENTS

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement.

We have not disclosed below those items that we consider to be “clearly trivial” in the context of our audit. For this purpose, we consider “clearly trivial” to be any matter less than £,1000 individually and £5,000 in aggregate.

We advised management of all these misstatements on 7 November 2018.

	Net income/ expenditure (£)	Net assets (£)	
Adjusted misstatements	Dr/(Cr)	Dr/(Cr)	
Capital grants income	101,919		Being the removal of CIF income already included in the balance transferred to the Trust.
Cost of leasehold land and building		(101,919)	
Capital grants income	99,628		Being the removal of capital grants transferred on conversion recognised as additions in the year.
Cost of leasehold land and buildings		(99,628)	
Accumulated depreciation		8,062	Being the reduction in the depreciation charge for the fixed assets removed above.
Support costs – depreciation	(8,062)		
Total	193,485	(193,485)	
Unadjusted misstatements Factual	Dr/(Cr)	Dr/(Cr)	
Other debtors		9,051	Being the reclassification of the LSPA debtor.
Prepayments and accrued income		(9,051)	
Underlying total	0	0	

5 COMMENTS ON INTERNAL CONTROL

We have set out below comments on internal control which came to our attention during the course of our audit and regularity work. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the financial statement audit and regularity assurance do not ordinarily identify all such matters.

Risk register

Fact and potential consequence	We reviewed the risk register and our review indicated that the risks identified are appropriate and provide for effective mitigation which we have seen in our review of controls. We are aware that the trust wishes the document to include standing risks which are only amended when significant changes in circumstance arise. However, we note that the register has not yet been updated to reflect any changes arising from the addition of a second school to the trust.
Possible action	We would recommend that the Trustees review and update the register to reflect any significant new risks, or changes to risk mitigation strategies, that might arise from the transfer of a second school into the trust.
Management response	The risk register will be reviewed and updated to reflect which risks apply to the Trust as a whole and which ones apply to individual schools and in particular the risk associated with falling pupil numbers in any of the Trust schools.
Timing of implementation and responsibility	Within the next year.

Register of interests

Fact and potential consequence	In the prior year we proposed an update to the register of interests form to improve clarity of expectation as to interests Trustees and Governors ought to disclose, but we note from review of the register of interests as submitted to the clerk that in some cases, not all interests are being declared. This could lead to potential related party transactions not being detected and disclosed.
Possible action	We would recommend that Trustees and Governors are reminded that all interests must be declared on the register of interests form to ensure that any potential related party disclosures are detected.
Management response	
Timing of implementation and responsibility	

6 SIGNIFICANT FINDINGS FROM THE AUDIT AND REGULARITY WORK

Accounting policies and estimates

Nelson pension deficit valuation

We noted from our review of the Nelson pension valuation noted that the net deficit brought into the trust increased between the valuation carried out in the prior year for the 1 September 2017 transfer value, and that carried out for the year end 31 August 2018 with a revised calculation of the brought forward deficit.

The same firm carried out both valuations and have informed the trust that the change in the brought forward valuation, resulting in an increase in the deficit of £349,000, was a result of the increase in the accuracy of past data by the date of the second valuation. As a result the assumptions used in calculating the value of the scheme at 1 September 2017 were refined. We have compared these assumptions with other valuations and available data and these appear reasonable.

7 FEES

We confirm that the fees charged during the year in respect of services performed for Latchmere Academy Trust are consistent with those contained within our Audit Plan submitted to you and dated 3 October 2018.

8 INDEPENDENCE

In accordance with International Standard on Auditing (UK) 260 "Communication with those charged with governance", there are no changes to the details of relationships between RSM UK Audit LLP and its related entities and Latchmere Academy Trust and its related entities and Trustees that may reasonably be thought to bear on RSM UK Audit LLP's independence and the objectivity of the audit principal, Kerry Gallagher, and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 3 October 2018.

APPENDIX A - DRAFT LETTER OF REPRESENTATION

[Ref]

[Date]

RSM UK Audit LLP
Davidson House,
Forbury Square
Reading, Berkshire
RG1 3EU

Dear Sirs

Audit of Financial Statements – Year ended 31 August 2018

This representation letter is provided in connection with your audit of the financial statements of Latchmere Academy Trust for the year ended 31 August 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, in accordance with the applicable financial reporting framework.

We confirm that to the best of our knowledge and belief, and having made appropriate enquiries of other Trustees and officials of the Academy Trust:

Financial Statements

1. We acknowledge and have fulfilled our responsibilities, as set out in the terms of the audit engagement, for ensuring that the Academy Trust maintains adequate accounting records and for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework, in particular the financial statements give a true and fair view in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those relating to items measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework. In particular, where required by the applicable financial reporting framework[s] full disclosure is made in the financial statements of:
 - a any advances and credits granted by the Academy Trust to Trustees and guarantees of any kind entered into on behalf of the Trustees;
 - b the identity of the party which controls and (if different) the party which ultimately controls the Academy Trust, if any;
 - c transactions and balances with related parties including:
 - the names of the transacting parties;
 - the nature of the related party relationship;
 - a description of the transactions;

- the amount of the transactions;
 - the amount of outstanding balances and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
 - provisions for uncollectible receivables related to the amount of outstanding balances;
 - the expense recognised during the period in respect of bad or doubtful debts due from related parties; and
 - any other information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements.
- d key management personnel compensation.
4. Full disclosure is made in the financial statements of:
- a outstanding capital commitments contracted for at the balance sheet date;
 - b all contingent liabilities including details of pending litigation and material claims against the Academy Trust;
 - c all guarantees or warranties or other financial commitments
5. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
6. There have been no events (e.g. loss of source (or reduction) of funding (including DfE and other grants, donations or private sponsorship), loss of supplier or member of staff, change in student numbers, change in credit terms offered by suppliers, breaches of bank or other covenants, changes in banking or insurance arrangements or facilities) since the balance sheet date that would impact on the ability of the Academy Trust to continue as a going concern. Should such events occur prior to your signature of the audit report we will advise you immediately. Except as already incorporated into our cash flow and income and expenditure forecasts we have no plans or intentions that would impact on the ability of the Academy Trust to continue as a going concern.
7. All events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. Should such further material events occur prior to your signature of the audit report, we will advise you accordingly.
8. The effects of uncorrected misstatements (whether arising from differences in amount, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework) are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements including those in relation to disclosures is attached to this representation letter.
9. All designated and restricted fund balances are correctly shown in the accounts.

Information Provided

11. As agreed in the terms of engagement, we have provided you with:
- a Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation (including correspondence with the Department for Education ('DfE')), and

other matters including minutes of members the Finance Committee meetings, committees of the Finance Committee, and management held between the beginning of the accounting period and the date of this letter;

- b Additional information that you have requested from us for the purpose of the audit; and
- c Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

12. We confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Academy Trust and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
13. We have disclosed to you all known instances of non-compliance or suspected non-compliance with the terms of the funding agreement with the DfE and the Academies Financial Handbook 2017, and those laws and regulations whose effects should be considered when preparing the financial statements; including but not limited to the Education Act 1996 as amended by the Learning and Skills Act 2000 and the Education Act 2002. We have also notified you of the actual or contingent consequences which may arise from such non-compliance, including any potential effects on the Academy Trust's ability to conduct its activities.
14. We have disclosed to you the identity of the Academy Trust's related parties and all the related party relationships and transactions of which we are aware.
15. We have disclosed to you details of all known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.
16. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms and conditions in the application of such incoming resources.
17. We confirm that we have disclosed to you details of all banking and financing arrangements including related contracts and hedging products.
18. We confirm that we have informed you of all tax avoidance schemes used by the Academy Trust.

Charitable Status

22. We have not conducted or permitted to be conducted any activities which call into question the charitable nature of the Academy Trust.

23. There have been no communications with the Charity Commission or the Secretary of State for Education as Principal Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any administrative duty.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

To assist the auditor in complying with ISA (UK) 720 The Auditor's Responsibilities Relating to Other Information, we confirm that we have informed you of all the documents that will be communicated to the members with the annual report.

We confirm that we have taken all the steps that we ought to have taken as Trustees in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware.

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.

The contents of this letter were considered and approved by the board at its meeting on 4 December 2018.

Yours faithfully

Signed on behalf of the board of Latchmere Academy Trust

.....
Trustees

Date

Regularity

[Ref]

[Date]

RSM UK Audit LLP
Davidson House,
Forbury Square
Reading, Berkshire
RG1 3EU

Dear Sirs

Regularity Assurance Engagement – Year ended 31 August 2018

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other officials of the Academy Trust, the following representations given to you in connection with your regularity assurance engagement for the year ended 31 August 2018.

Regularity, Accounting records and transactions

- a. We acknowledge and have fulfilled our responsibility for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.
- b. Neither the board of trustees nor the academy trust management have knowingly authorised a course of action, the financial impact of which was that transactions infringe the requirements of regularity.
- c. All transactions undertaken by the Academy Trust have been properly reflected and recorded in the accounting records.

Information provided

- d. As agreed in the terms of engagement, we have provided you with full and free access at all times to the financial records correspondence and other records of the academy trust, and such information and explanation as are necessary for the performance of your duties.

Compliance with laws and regulations

- e. We have disclosed all events of which we are aware which involve suspected non-compliance with the framework of authorities including:
 - the funding agreement with the Secretary of State for Education
 - the Academies Financial Handbook 2017;
 - Company law and Charity law;
 - Specific terms and conditions of income received

which provide a legal and contractual framework within which the academy trust conducts its business and which are central to its ability to conduct that business. We have also notified you of the actual or contingent consequences that may arise from such non-compliance.

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.

The contents of this letter were considered and approved by the board at its meeting on 4 December 2018.

Yours faithfully

Signed on behalf of the board of Latchmere Academy Trust

Chair

Accounting Officer

Date

APPENDIX B - UPDATED REGULATORY UPDATE

An update on regulatory matters is provided as a separate document to be circulated with this report.