



# The Liverpool Joint Catholic and CofE Academies Trust

Audit findings report year ended 31 August 2020

3 December 2020

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# Executive Summary

This report summarises our key findings in connection with the audit of the financial statements of The Liverpool Joint Catholic and CofE Academies Trust and the regularity reporting\* in respect of the year ended 31 August 2020.

The scope of our work was communicated to you via our Audit Plan document. We believe that the audit approach adopted will provide the Audit Committee with the required confidence that a thorough and robust audit has been carried out.

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing an unmodified audit opinion on the group's financial statements and an unmodified regularity conclusion in line with the agreed timetable.

*\* Where 'audit' is used in the remainder of the document it should be read as including regularity reporting*

## Outstanding items to be resolved:

- No outstanding issues.

## Risks and approach

We have carried out testing as planned on the risks identified during planning and draw your attention to the following key points for discussion:

- Management override
- Pension scheme liability
- Income recognition
- Fund accounting
- Going concern
- Regularity
- Covid-19 (Impact of coronavirus)

## Additional matters

In addition, the following matters came to light as a result of our work, which are covered later in this report:

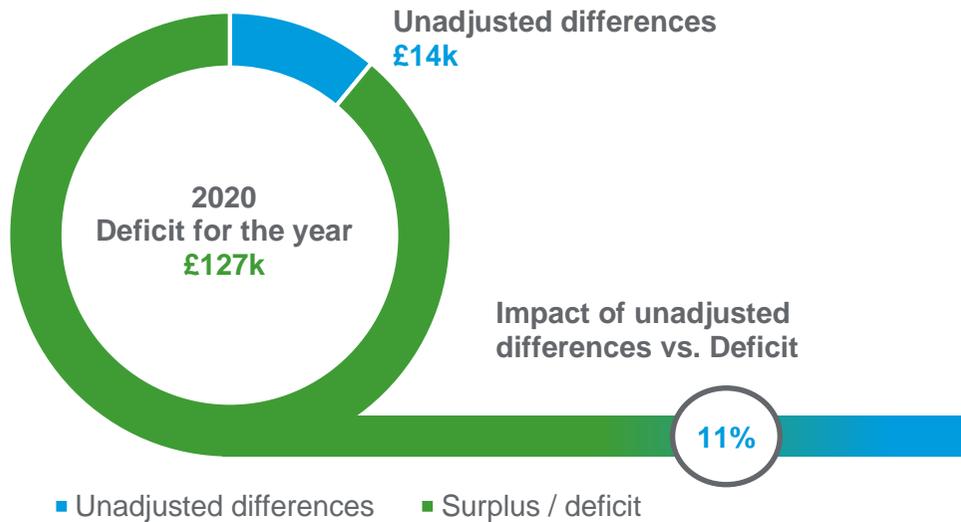
- Correction of depreciation charge
- Heating works
- CIF grant

## Final materiality

Materiality was determined based on 3% of expenditure for the year.

## Unadjusted audit differences

We have identified unadjusted audit adjustments of £19k which would have a 11% impact on the deficit for the year for the year as highlighted below. A list of the unadjusted differences is included in the Appendix.



## Finance process

Our observations on the finance process are detailed further along in this report. These are summarised below:

Control deficiencies	
Significant control deficiencies	0
Other control deficiencies	5
Other observations	0

## Breakdown of the deficit

Item	Amount £'000
Depreciation	(836)
Capital grant income	621
Actuarial loss on defined benefit pension scheme	(81)
Underlying surplus/(deficit)	169
<b>Deficit for the year</b>	<b>(127)</b>

## Risks identified at the planning stage

Risk	Description	Response	Findings
Management override of controls	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 the risk.	<p>We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, tracing selected entries back to source documentation.</p> <p>We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement.</p> <p>We will discuss the basis and business rationale for any significant non-routine or contentious transactions which came to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.</p>	<p>Journals posted throughout the year were reviewed with no issues noted.</p> <p>We have reviewed the accounting policies, and estimates, adopted by the Academy, which include depreciation, and the defined benefit pension scheme. The depreciation rates have been reviewed and are deemed reasonable when benchmarked with similar categories. The charges in the year have been recalculated and no significant differences have been identified. The defined benefit pension scheme has been documented in detail further along within this report.</p> <p>No significant non routine transactions have been identified as part of audit work.</p>
Pension scheme liability	<p>The liability that is required to be recognised under FRS 102 in respect of the Academy's share of the Local Government Pension Scheme deficit is expected to be significant. It is derived from calculations undertaken by an actuary based on the Academy's data and a number of key actuarial assumptions.</p> <p>There is a risk that the amount may be materially misstated where the data and/or assumptions used are not appropriate.</p>	<p>We will review the key data and underlying assumptions used by the actuary to calculate the balance, to ensure that these appear reasonable.</p> <p>We will also review the related disclosure in the financial statements to ensure that this is appropriate.</p>	<p>We have reviewed the underlying assumptions used by the actuary to calculate the defined benefit liability at the year end and benchmarked these assumptions to ensure they are appropriate, this has led to an increase in the liability from £7,802k to £8,335k.</p> <p>We have reviewed the disclosure within the financial statements and are satisfied that this is appropriate.</p>
Income recognition	The Academy 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.	<p>The accounting policies adopted by the Academy 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>	<p>A review of the funding income from the ESFA in the year has been performed.</p> <p>During the year the academy has received a grant of £88k for Coronavirus support, however on review of the terms and conditions of this grant it would appear that the claim for lost rental income of £41k should not have been made, this could lead to the grant being clawed back. An adjustment has been raised to reduce the claim by £31k as the claim had been restricted to £50k for St Nicholas Academy.</p>

Risk	Description	Response	Findings
Fund accounting	The majority of the Academy'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.	We will consider whether suitable procedures are in place for identifying sources of restricted income and monitoring their subsequent use. 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.	We are satisfied that adequate procedures are in place to identify restricted income. We have reviewed a sample of income and expenditure included in restricted funds and we are satisfied that these have been utilised appropriately.
Going Concern	The Trustees are responsible for assessing whether adopting the going concern basis of accounting for the financial statements remains appropriate for the foreseeable future. Consideration in this regard must be given to a period of at least one year from the expected date of approval of the financial statements.	We will review the financial plans, budgets, forecasts and sensitivity analysis prepared on behalf of the Trustees to support the going concern assumption. We will consider whether the forecast position, including the key underlying assumptions appear reasonable and whether any material uncertainties exist. We will also consider whether the related disclosure in the financial statements is clear and appropriate.	Please see Covid-19 risk included below.
Regularity	There is a risk that the governance within the Trust in the year has not met the conditions of the Academies Financial Handbook and as such causes issues for regularity.	We will review the Governance in the year and compliance with the Academies Financial Handbook. With focus on the internal controls and management information being presented to the Chair.	From the testing we have performed, we have identified that the expenses are approved electronically therefore it is not possible to see who has identified the expense, we have included a recommendation below that the expenses should be authorised in line with the financial handbook. The Trust has been issued with a Financial Notice to Improve which is in part due to the appointment of the Principal and Accounting Officer which was considered by the ESFA to have been without due process and a remuneration package agreed without the appropriate procedures being followed. As such the trust is in breach the Academies Financial Handbook and our regularity opinion has been modified accordingly.

<p>Going concern and Covid-19 (Impact of coronavirus)</p>	<p>The impact of Covid-19 (Coronavirus) is having an adverse effect on the performance of the Academy as well as the wider economy. This is expected to impact accounting estimates and judgements in the financial statements, in particular receivables and unrecorded liabilities. It is also expected to affect the associated disclosures in the financial statements and accompanying documents. Given the unpredictable nature and impact of the outbreak and how rapidly responses are changing, particular attention will need to be given with regards to the going concern basis of accounting and its related disclosures.</p> <p>The nature, timing and extent of our audit procedures is expected to be impacted in the following ways:</p> <ul style="list-style-type: none"> <li>• Increased risk associated with the valuation of particular assets and unrecorded liabilities as set out above;</li> <li>• Increased focus on management's going concern assessment and associated disclosures;</li> <li>• The need to regularly revisit our risk assessment and responses to those risks as more information comes to light regarding the impact of the virus and government-imposed restrictions;</li> <li>• Access to premises, people and transport and our ability to conduct alternative audit procedures.</li> </ul> <p>It is essential that we have sufficient time to build the effects of this outbreak into the performance of our audit engagement. It may be necessary for you to defer your reporting deadlines to ensure our quality audit is not compromised and to allow management time to reassess any judgements and estimates as necessary.</p> <p>To enable us to obtain sufficient appropriate audit evidence with regards to the highlighted audit risks, we expect management to provide us with their analysis of the potential effects of the Coronavirus outbreak that</p>	<p>We have discussed the implications of the Coronavirus outbreak for the audit timetable with management and this has been accommodated in the Timing of the audit section of the Audit Plan. As part of our audit we will consider:</p> <ul style="list-style-type: none"> <li>• Management's analysis of the potential impact of the Coronavirus outbreak on the Academy's business model and strategies e.g. income, expenditure, etc.</li> <li>• The forward-looking assumptions used by management in their assessment relating to asset impairment reviews, going concern, valuation of pension deficits etc.</li> <li>• Management's sensitivity analysis to reasonably possible changes in their assumptions, including downsides.</li> <li>• Management's scenario analysis and contingency plans.</li> <li>• Supporting evidence provided by management for their assumptions, and related disclosures, and challenge where necessary.</li> <li>• Sufficiency of related disclosures in the financial statements, depending on the degree of sensitivity to changes in assumptions and whether there is a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.</li> <li>• Management's assessment of developments in relation to the Coronavirus outbreak occurring after the reporting date and whether they are adjusting or non-adjusting events, and adequacy of related disclosures</li> <li>• Implications, if any, for our audit report.</li> </ul> <p>We may seek written representations from management about their plans for mitigating potentially adverse effects of the Coronavirus outbreak.</p>	<p>We have reviewed the cash flow forecasts for the next two years and are satisfied that the trust have sufficient funds in place to continue as a going concern for the foreseeable future.</p> <p>We are satisfied that relevant disclosures have been made within the financial statements.</p>
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Risk	Description	Response	Findings
	<p>they have identified, together with sensitivity and scenario analysis, contingency plans and supporting evidence in relation to key assumptions and related disclosures.</p> <p>In relation to management's going concern assessment we will require a detailed and robust review of up to date forecasts, cash flows, sensitivity analyses and reviews of contingency plans and impact assessments conducted by management. These may need to be revisited in light of changing information.</p> <p>Limitations on our ability to conduct adequate procedures over management prepared information or alternative audit procedures in light of imposed restrictions, will have an impact on our ability to express an unmodified audit opinion.</p> <p>In addition, given the level of uncertainty associated with the valuation of certain assets and liabilities we may be required to draw attention to these in our audit report.</p> <p>Where management conclude that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern, we will need to draw attention to this in our audit report. Should we disagree with management's assessment we will be required to modify our opinion.</p>		

## Risks identified during the audit

Risk	Description	Response	Findings
Depreciation on land & buildings	Depreciation is incorrectly shown within the financial statements.	We performed a reasonableness check for the depreciation charged during the year to ensure that the charge is materially correct.	There appears to be a formula error within the fixed asset register which has led to the depreciation on land & buildings being overstated by £64k. This has now been adjusted within the financial statements.
Heating works	There are Heater works which have been included within additions in the current year.	We have identified several costs within the additions for the year which are titled 'Heating works', we would like to understand further whether these are repairs to the current heating or improvements/new installations.	The total of these costs in the year are c£35k. These have been reviewed and do relate to repairs; therefore an adjustment has been raised to reclassify these to expenditure.
CIF grant	Income could be understated within the financial statements.	We have performed a review of the government's website relating to capital grants which have been granted during the year, from this it has been identified that a CIF bid was approved on the 23/07/2020 totalling £586k.	An adjustment has been included within the financial statements to include this additional income.

# Recommendations on controls

We have set out below recommendations on internal controls which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all internal control matters 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 audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Assessment	Issue and risk
	<ul style="list-style-type: none"> <li> <b>Payroll review</b>            During September, there was no fully completed payroll to budget check document available to ensure that the control had been completed.         </li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Management should ensure that were controls are in place over the payroll these are performed at each month end and copies of evidence of these checks are maintained.</li> </ul> <p><b>Management Response</b></p> <ul style="list-style-type: none"> <li>Month end checklist to be created and signed off each month to ensure assurance is given. Payroll is currently checked and verified by 2 personnel check to budget was an additional check.</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Passwords for domain logins</b>            There are currently no passwords for the main log ins.         </li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>There should be passwords used for the individual domain logins to ensure that access is only granted to authorised individuals.</li> </ul> <p><b>Management Response</b></p> <ul style="list-style-type: none"> <li>All domain logins have a password, but we don't enforce lifespan, complexity, lockout etc. This is currently under review.</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Financial regulations</b>            The financial regulations were due to be reviewed in February 2020 however these have not yet been completed.         </li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>The financial regulations should be reviewed on a timely basis in line with expected reviews.</li> </ul> <p><b>Management Response</b></p> <ul style="list-style-type: none"> <li>The financial regulations are currently under review and will be presented to the trust board in December. They were reviewed by previous CFO but not updated.</li> </ul>

Assessment	Issue and risk	
	<ul style="list-style-type: none"> <li> <b>Funding letter</b>            The annual funding letter could not be made available during the audit.         </li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Management should ensure that the funding letter is retained to ensure that the correct funding is received.</li> </ul> <p><b>Management Response</b></p> <ul style="list-style-type: none"> <li>Funding letter was only received for one school in the trust and a payment schedule for the other school which we reconcile receipts to. Have requested a copy of the funding letter through the portal but this has not been received yet.</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Declaration of interests</b>            There does not appear to be a standard agenda item for the disclosure of interests to the board.         </li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>The Trust should consider adding this as a standard agenda item to ensure that all interests are disclosed on a timely basis.</li> </ul> <p><b>Management Response</b></p> <ul style="list-style-type: none"> <li>Declaration of interests is currently a standard item in trust board meetings and a form is completed each year by trustees.</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Approval of expenses</b>            During our regularity testing it was identified that the expenses are approved electronically and therefore it has not been possible to verify who authorised these.         </li> </ul>	<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>The Trust should ensure that the expenses are authorised in line with the Academy financial handbook</li> </ul> <p><b>Management Response</b></p>

#### Assessment

- Significant control recommendation
- Other control recommendations

## Significant qualitative aspects of the entity's accounting policies

Other than the items mentioned within this report, there are no further matters to be discussed with the audit committee.

## Management judgements and accounting estimates

The following areas are considered to be the principal areas of management judgement or accounting estimates. The graphic below visually represents the impact (lower or higher) on the financial statements of a change in management's estimate. In overview, a reasonably possible change in estimate that has a low impact means that such a change will have limited impact on the financial statements. Conversely a reasonably possible change that has a higher impact, means that such a change can have a significant impact.

Judgments and estimates	Low impact	High impact
Defined benefit pension scheme		
Useful economic lives of fixed assets		

# Representations requested

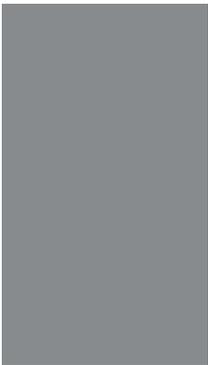
In addition to those representation which we request on all audit assignments (<http://www.rsmuk.com/standard-representations>) we will be seeking specific representations from the Board on the following matters:

- Confirmation that forecasts have been reviewed in detail by the board and in their opinion are a fair representation of the expected performance of the Academy in the forecast period.

# Update on matters communicated at the planning stage

Matter communicated	Update
<b>Fees</b>	We confirm that the fees charged during the year in respect of services performed are consistent with those contained within our Audit Plan submitted to you.
<b>Independence</b>	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 The Liverpool Joint Catholic and CofE Academies Trust and its related entities and the Board that may reasonably be thought to bear on RSM UK Audit LLP’s independence and the objectivity of the audit principal, Karen Musgrave and the audit staff and the related safeguards from those disclosed in the Audit Plan

*This report has been prepared for the sole use of The Liverpool Joint Catholic and CofE Academies 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.*



## Unadjusted statements and disclosures

### Accounting 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 £14,000.

We advised management of all these misstatements on 13 November 2020 and requested management to correct them.

Adjusted Misstatement	Deficit £ DR/(CR)	Net Assets £ DR/CR	Description
Accumulated depreciation – Land & buildings Depreciation charge	(64,052)	64,052	Correction of the depreciation charge for land & buildings
Capital grants Accrued income	(586,390)	586,390	CIF grant agreed pre year end
Land & buildings additions Maintenance	34,860	(34,860)	Heating works capitalised relating to repairs
Accrued income Coronavirus income	30,705	(30,705)	To reduce the coronavirus support grant claim
<b>Total</b>	<b>(584,877)</b>	<b>584,877</b>	

Unadjusted Misstatement	Deficit £ DR/(CR)	Net Assets £ DR/CR	Description
Prepayments Trade creditors Cleaning costs	14,488	5,678 (20,166)	Inclusion of Bulloughs invoice dated 31 <sup>st</sup> August for cleaning costs
<b>Total</b>	<b>14,488</b>	<b>(14,488)</b>	

## Communication of audit matters to those charged with governance

### Our communication plan

	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing, materiality and expected general content of communications including significant risks and key audit matters	●	
Confirmation of independence and objectivity	●	●
Significant matters in relation to going concern (if any)		●
Views about the qualitative aspects of the accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issues arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit (if any)		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or regularity conclusion or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribes matters which we are required to communicate with those charged with governance, and which we set out in the table here.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while the Audit Findings presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Financial statement disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the Statement of Recommended Practice: Accounting and Reporting by Charities 2015, and the requirements of the Companies Act 2006, the Charities Act 2011 (“the Acts”) and the Academies: Accounts Direction 2018/19 issued by the Education and Skills Funding Agency (ESFA) and the Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102).

The following disclosure matters were brought to your attention and subsequently adjusted/not adjusted in the revised financial statements.

Unadjusted disclosures		Adjusted disclosures	Related Parties note – transactions with Hope Academy to be included

## Financial reporting updates

### Important updates

There have been no financial reporting updates issued since we presented our audit plan.

## RSM UK Audit LLP

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Our Report is prepared solely for the confidential use of The Liverpool Joint Catholic and CofE Academies Trust and solely for the purpose of explaining the scope of the audit, our proposed audit approach, and to highlight the key risks that we will be focusing our audit work upon, forming part of the ongoing communications we are required to make under International Standard on Auditing (UK and Ireland) 260 – Communication of audit matters with those charged with governance. Therefore, the report may not, without our express written permission, be relied upon by The Liverpool Joint Catholic and CofE Academies Trust for any other purpose whatsoever, be referred to in whole or in part in any other external document or made available (in whole or in part) or communicated to any other party. RSM UK Audit LLP neither owes nor accepts any duty to any other party who may receive our Report and specifically disclaims any liability for any loss, damage or expense of whatsoever nature, which is caused by their reliance on our Report.

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