



Lincoln College Academy Trust

Report to Trustees

Audit for the year ended 31 August 2017

As discussed with the Board of Trustees on 11 December 2017



Lincoln College Academy Trust Report to Trustees

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Lincoln College Academy Trust

Report to Trustees

1 Introduction

Streets is a top 40 firm of Chartered Accountants, looking after clients across the education sector including Academies, Free Schools and University Technical Colleges, throughout the East Midlands, East of England, South and East Yorkshire, London and the South East. Further information on our work with Academies and schools is included on our website, please visit www.accountants4academies.co.uk.

Streets Chartered Accountants has offices in Bedford (Wyboston Lakes), Cambridge, Grantham & Newark (Long Bennington), Hull, Lincoln, London, Manchester, Newmarket, Peterborough, Sheffield and Stevenage.

Streets Audit LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details of our registration can be viewed at www.auditregister.org.uk and www.cro.ie/auditors for Ireland, under reference number C001217999.

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2 Summary

2.1 Communications required by Auditing Standards

We have audited the statutory accounts of the Trust for the year ending 31 August 2017 in accordance with the terms of our engagement letter. We draw your attention to the following points, as required by auditing standards:

- a) Qualitative aspects of the Trust's accounting practices and financial reporting

We have no comments to make concerning the qualitative aspects of the Trust's accounting practices and financial reporting.

- b) Unadjusted misstatements

Section 6 of this report documents potential misstatements identified during the course of the audit. We would welcome your confirmation that you do not wish to adjust the financial statements for these items, together with your reasoning.

We also include in section 5 of this report any adjustments made to the financial statements during the course of the audit. We would welcome your confirmation to these adjustments being made.

- c) Material weaknesses in the accounting and internal control systems

As you are aware from our letter of engagement, our audit procedures were directed towards testing the accounting systems in operation upon which we have based our assessment of the accounts. Section 7 of this report contains details of areas which were identified during the course of the audit and our recommendations. It is not intended to be a full list of all potential weaknesses that may be present in your systems.

- d) Letters of representation

Appendix 1 and 2 to this report contains our proposed letters of representation which we will request from you prior to issuing the final accounts. We would be grateful if you could review these letters and let us know if there are any areas you wish to query.

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We will require the letters of representation to be signed by all of the Trustees (who are directors for the purposes of the Companies Act). Alternatively, we will require a copy of the board minutes which documents the Trustee's consideration and acceptance of their contents.

e) Expected modifications to the auditor's report

Subject to receiving all the remaining confirmations, we do not propose to modify the audit report.

f) Other matters required by Auditing Standards to be communicated

There are no other matters that we are required by auditing standards to communicate to you.

g) Other relevant matters relating to the audit

We have discussed with you the fact that we provide accounting services to the Trust in addition to acting as auditors. We wish to confirm to you that in our opinion the provision of such services does not affect our independence as the additional services are of a compliance nature and management takes any decisions where judgement is required.

2.2 Outstanding matters

We draw your attention to the following information which is outstanding. We will be unable to issue final financial statements until we have received the following items which are discussed further in this report;

1. Resolution of the points raised in this report;
2. Successful completion of Post Balance Sheet Events work;
3. Agreement of the Trustee's report;
4. Confirmation of agreement regarding the completion statement relating to The Newark Academy;
5. Signed letters of representation.

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2.3 Conduct of the audit

We would like to take this opportunity to thank the accounting staff for their help and assistance during the audit, which was gratefully appreciated.

2.4 Purposes of the report

Please note that this report has been prepared for the sole use of the Trust. It must not be disclosed to third parties, quoted or referred to, without our prior written consent. No responsibility is assumed by us to any other person.

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3 Key audit issues

This section details the key issues that arose during our Financial Statement audit and our Regularity Audit. It also includes areas that we consider require further explanation or consideration by the Trustees.

3.1 Financial Statement Audit

Audit approach

Our general audit approach was determined by our assessment of the audit risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the company operates.

To summarise our approach, we:

- updated our understanding of the business and its environment;
- reviewed the design and implementation of key internal financial control systems; and
- planned and performed an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

Significant risks arise on most audits and are often derived from business risks that may result in a material misstatement, relate to unusual transactions that occur infrequently, or judgemental matters where measurement is uncertain. In areas where we identified the potential for significant risk, we extended our audit testing to include more detailed substantive work. Our work in other areas was proportionally less.

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

There were no changes to our audit approach as previously communicated to you.

Summary of significant audit findings for significant risk areas identified at the planning stage

1 Management override of controls

Per auditing standards we are required to include management override of controls as a default risk on all audits. This is regardless of whether any evidence has been observed in the current or preceding years.

No issues were observed during the audit.

This section has been included for the Trustee's information and no response is required.

2 Income Recognition

Per auditing standards we are also required to include Income Recognition as a default risk on all audits. This is regardless of whether any issues have been observed in the current or preceding years.

During the audit there was no evidence to suggest that Income had been manipulated. Adjustments have been made in relation to the timing of income streams.

No issues have been noted in this area.

This section has been included for the Trustee's information and no response is required.

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3 Related Party Transactions

As per auditing standards we are also required to include related party transactions as a default risk on all audits. This also overlaps with the Regularity section as “Connected Party Transactions” which has been highlighted by the ESFA as a key area.

No issues were observed during the audit.

This section has been included for the Trustee’s information and no response is required.

4 The Newark Academy

On 30 September 2016 The Newark Academy has transferred out of LCAT and joined the Nova Education Trust (Formerly known as the Torch Academy Gateway Trust). All assets and liabilities at the date of transfer will be taken from the balance sheet of LCAT and transferred to Nova. The net value, including LGPS pension deficit transferred amounted to (£1,546,910).

5 Local Government Pension Scheme (LGPS) deficit

As the trustees are aware the LGPS deficit was recognised as a liability of the academy at the point of conversion, with a further actuarial valuation being required at each subsequent balance sheet date, to provide a figure to be included in the statutory accounts. This is in accordance with the requirements of FRS102 on the basis that the academy’s share of the scheme deficit can be separately determined. This is shown as a separate (negative) restricted fund reserve.

The overall effect is that the academy’s share of the deficit at 31 August 2017 is £1,510,000, a decrease of £4,076,000 from last year. £2,651,000 of the reduction related to the liability associated with TNA. £1,686,000 has been recognised as an actuarial gain in the year.

This is not an immediately crystallising liability for the academy, but the ongoing employer contributions a continuing cost to the academy.

This section has been included for the trustees’ information and no response is required.

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6 Payroll

We consider payroll to be a significant area on all academy audits. Our audit work has included reviews of the monthly systems as well as new starters and leavers. We can confirm that, based on the samples tested, we found no significant weaknesses in the payroll controls.

7 Going Concern

We obtained a copy of the 2017/18 budget forecast which shows an expected deficit for the next financial year. Based on the financial statements, there appears to be sufficient reserves to cover the budgeted deficit. The trustees are expected to consider a period of at least one year from the balance sheet date and we would expect the academy to be preparing longer term forecasts to help identify potential cash flow / funds issues.

Based on current ESFA guidance, academies should be producing 3-5 year forecasts. In addition, management accounts should be showing actual versus budget, thus allowing trustees to challenge the figures more.

A deficit has been reported during the year, when removing the impact of TNA leaving the Trust and the reduction in the liability of the LGPS deficit. Although the academy is still showing healthy reserves carried forward the Trust would not want to see similar deficits going forwards. Plans to improve the financial position in future years have been discussed in detail with the finance team.

8 Transfer of finance function from Lincoln College

From 01-04-17 the finance (and other central services) were transferred in-house from Lincoln College. This involved a transfer from Symmetry to FMS (Accounting system). This transfer appears to have proceeded smoothly, with balances successfully transferred from Symmetry through to FMS.

9 Transfer of the Gainsborough Academy to Wickersley Partnership Trust

We have been informed that the Gainsborough Academy will be transferring to the Wickersley Partnership Trust by early 2018 at the latest. If this is formally agreed prior to the accounts being approved then different disclosures will be required in the financial statements.

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10 Year end cash balance

As per our confirmation from the bank relating to the year end bank balances, the amounts relating to The Gainsborough Academy are still held in a Lincoln College Academy Trust account until the balance is transferred.

11 Year end stock

During the audit attendance, a year end stock schedule was provided to us showing £1,398 in stock held, mainly within cleaning materials. This amount was not included in the trial balance at the year end, and due to the immaterial balance we have not adjusted for this amount in the draft figures.

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3.2 Regularity Audit

In addition to our audit report on the financial statements the Accounts Direction also requires us to issue an assurance report on Regularity. This requirement was brought in by the ESFA in 2012, together with the additional “Statement on Regularity, Propriety and Compliance” which is signed by the Accounting Officer.

We conducted our regularity assurance engagement in accordance with the Academies Accounts Direction 2014 to 2015 issued by ESFA. We performed a limited assurance engagement as defined in our engagement letter.

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

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

- Review of the Trust’s Systems and Controls and Confirmation of Operation during the Year including Authorisation of Invoices, Payments and Salary Adjustments;
- Review of a Sample of Expenses including Nominal Codes considered to include transactions which may be indicative of those with a greater risk;
- Review of Compromise Agreements to ensure that the Academies Financial Handbook has been complied with; and
- Discussions with the Finance Team.

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

No specific regularity issues were identified.

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4 Taxation

4.1 Current year's tax charge

We are not aware of any activities that would give rise to a breach of HM Revenue and Customs thresholds for charities; accordingly we do not believe that the Trust has a corporation tax liability.

Please advise if you believe there are additional activities that may be taxable, or if you have received any correspondence from HMRC.

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5 Post management accounts adjustments

Adjustments have been made in arriving at the draft financial statements. Please review these adjustments and advise us if there are any in which you are not in agreement. The adjustments are as follows;

	Assets Increase / (Decrease) £	Liabilities Increase / (Decrease) £	Resources Increase / (Decrease) £
Opening client position			875,696
Additional depreciation	(216,775)		(216,775)
Release of GAG clawback provision 15/16		(42,010)	42,010
Additional pension costs recognised		38,320	(38,320)
FRS 102 pension cost adjustment		(1,425,000)	1,425,000
Additional accrual		15,000	(15,000)
Agreed Audit Adjustments	(216,775)	(1,413,690)	1,196,915
Final			2,072,611

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6 Unadjusted items

For the purposes of the audit the trivial level was set at £5,000. All non-trivial potential errors were agreed to be adjusted at the finance committee meeting and are included in the reconciliation in Section 5 above.

7 Systems and controls

As part of our audit we are required by auditing standards to review the main systems and controls operated by the company, and report any material weaknesses to those charged with governance. Our procedures are designed primarily with a view to the expression of an opinion on the accounts. Our comments cannot therefore be expected to include all possible improvements in the internal controls that a more extensive review by Internal Audit or the Responsible Officer might identify.

See below for the issues identified;

Issue	Implication	Recommendation/Response
Although bank reconciliations had been performed they were not performed correctly, showing the bank balance and reconciling items.	The cash position reported to Trustees may be inaccurate, leading to additional spending.	We have communicated the correct report to run on the new client system, to accurately show the bank reconciliation.*
Regular balance sheet reconciliations are not performed.	Full balance sheet reconciliations communicated to the Trustees would provide them with greater information and understanding.	We recommended producing full balance sheet/accruals-based management accounts each month, including calculations of accruals/prepayments.*
Not all purchase orders tested have been authorised.	This could lead to an increased risk of unauthorised expenditure across the trust.	*
It has been noted that a number of different depreciation rates have been used for assets within the same category.	This could increase the chance of errors being made.	We recommend a standard rate for each category of assets.*
Some September dated purchase invoices had been dated on the system as August.	There could be a premature VAT reclaim relating to these purchases.	All invoices should be recorded as dated.*

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Some required website disclosures had not been made, namely for business interests and governance arrangements including meeting attendance.	This is an ESFA requirement and processes should be updated to follow this.	*
There are assets of a material value which are fully depreciated and not reflected in the accounts figures.	Adjustment to include these items would have a nil impact on the accounts, but would mean the accounts are accurately reflecting all equipment held.	We recommend a full review of the fixed asset register is performed, including a review to identify any obsolete items no longer in use.*

*Client response – Points will be reviewed as appropriate given the proposed transfer to a MAT.

In the prior year it was raised that no independent checking of controls had been performed. During the year, a separate independent internal auditor was appointed.

As no checking was performed in the prior year and the finance systems were brought in-house it is perhaps not surprising that the detailed review requested highlighted a high number of items which require attention.

We have not repeated points raised in this report unless they are specific points affecting our audit.

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Appendix 1

Streets Audit LLP
Tower House
Lucy Tower Street
Lincoln
LN1 1XW

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the academy trust's financial statements and, as relevant, your assurance engagement on regularity for the year ended 31 August 2017. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of our knowledge and belief.

General

- 1 We have fulfilled our responsibilities as trustees as set out in the terms of your engagement letter dated 9 September 2017, under the Companies Act 2006 for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
- 2 All the transactions undertaken by the academy trust have been properly reflected and recorded in the accounting records.
- 3 All the accounting records have been made available to you for the purpose of your audit and regularity assurance engagement. We have provided you with unrestricted access to all appropriate persons within the academy trust, and with all other records and related information requested, including minutes of all management and trustee meetings and correspondence with the Education and Skills Funding Agency, Department for Education and the Charity Commission.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 The effects of uncorrected misstatements (as set out in the Report to Trustees) are immaterial both individually and in total.

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- 6 We have reviewed the list of proposed journal adjustments (as set out in the Report to Trustees). We agree that these adjustments are required to ensure that the financial statements present a true and fair view and have been allocated in accordance with our accounting policies.

Internal control and fraud

- 7 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error and which conform to the requirements both of propriety and good financial management. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
- 8 We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 9 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

Assets and liabilities

- 10 The academy trust has satisfactory title to all assets and there are no liens or encumbrances on the academy trust's assets, except for those that are disclosed in the notes to the financial statements.
- 11 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 12 We have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Accounting estimates

- 13 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

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Loans and arrangements

- 14 The academy trust has not granted any advances or credits to, or made guarantees on behalf of trustees other than those disclosed in the financial statements.

Legal claims

- 15 We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for, and disclosed in, the financial statements.

Law and regulations

- 16 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

Related parties

- 17 Related party relationships and transactions, comply with the academy trust's financial regulations, relevant requirements of the Academies Financial Handbook and have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements and guidance set out in the Companies Act 2006, the Charities SORP and the Academies Accounts Direction issued by the Education and Skills Funding Agency.

Subsequent events

- 18 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

Going concern

- 19 We believe that the academy trust's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the academy trust's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the academy's ability to continue as a going concern need to be made in the financial statements.

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Grants and donations

- 20 Grants made by the Department of Education and Education and Skills Funding Agency have been applied for the purposes intended and the Accounting Officer has ensured regular and proper use and value for money of monies received from government.
- 21 All other grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such income.
- 22 We confirm that the value of the land & buildings transferred from the Local Authority is stated on a reasonable basis.

Other

- 23 We confirm that the value of the assets and liabilities transferred out of the trust relating to The Newark Academy at 30 September 2016 is accurately stated.

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.

We confirm that so far as we are aware, there is no relevant other information needed by you in connection with preparing your reporting accountant's assurance report on regularity of which you are unaware.

Each trustee has taken all the steps that he/she ought to have taken as a trustee in order to make themselves aware of any relevant audit/other information and to establish that you are aware of that information.

Yours faithfully

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Signed on behalf of the board of trustees

Date.....

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Appendix 2

Streets Audit LLP
Tower House
Lucy Tower Street
Lincoln
LN1 1XW

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as I consider necessary in connection with your assurance report on regularity to Lincoln College Academy Trust and the Education and Skills Funding Agency (ESFA) for the year ended 31 August 2017. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of my knowledge and belief.

General

- 1 I have fulfilled my responsibilities as accounting officer under the requirements of the funding agreement between Lincoln College Academy Trust and the Secretary of State for Education dated 1 November 2012 and the Academies Financial Handbook 2016.
- 2 I acknowledge my personal responsibility to Parliament for the regularity and propriety of the public finances for which I am answerable; for the keeping of proper accounts; for effective internal controls; for prudent and economical administration; for the avoidance of waste and extravagance; for achieving value for money; and for the efficient and effective use of all the resources in my charge.
- 3 I acknowledge my responsibility to notify the governing body and the ESFA of any instances of material irregularity or impropriety, or non-compliance with the terms of the academy trust's funding agreement and have had due regard to the requirements of the Academies Financial Handbook 2016 in performing this duty.
- 4 Any instances of material irregularity, impropriety, or non-compliance discovered to date have been notified to the governing body and the ESFA.

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- 5 Significant matters of which you should be aware have been brought to your attention including any instances of irregularity, impropriety or non-compliance with laws and regulations specific to the academy trust's authorising framework.
- 6 Full and free access has been granted to the all records, correspondence, information and explanations that you have considered necessary to enable you to perform your work.

Yours faithfully

.....
Accounting Officer

Date.....