



# SACRED HEART PARTNERSHIP OF SCHOOLS

## Final Audit Findings Report

Year ended 31 August 2019

Presented to the Finance Committee  
By RSM UK Audit LLP

on 14 November 2019 and updated 17 December 2019

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This report has been prepared for the sole use of Sacred Heart Partnership of Schools 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 Sacred Heart Partnership of Schools in respect of the year ended 31 August 2019.

The scope of our work has already been communicated to you via our Audit Plan document dated 25 June 2019.

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.

Subject to the satisfactory clearance of the matters noted below 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 AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

### Management override of internal controls

<b>Area of audit focus</b>	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.
<b>Our approach</b>	<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 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 come to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.</p>
<b>Response</b>	A sample of journals processed both during the year and after the year end have been reviewed. Management judgements and estimates have been reviewed and concluded as reasonable. Our walkthroughs of controls and processes did not highlight any issues in relation to potential override of controls.

### Academy transfer in the Trust

<b>Area of audit focus</b>	<p>The Academy Trust acquired net assets from Sacred Heart Primary which transferred in during the period.</p> <p>This transaction should be recognised in the statement of financial activities as a gift in donations in accordance with the Charities SORP at fair value. A valuation will therefore need to be made for certain of these elements.</p> <p>The transaction is expected to be a material item and will need to be separately disclosed on the face of the Statement of Financial Activities and other disclosure is also required to ensure that the accounts are not misleading.</p>
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## Academy transfer in the Trust

### Our approach

We will review the accounting treatment being the recognition, valuation, presentation and disclosure of these items with reference to the Charities SORP, and the Academies: Accounts Direction 2018 to 19 published by the ESFA.

We will consider the completeness and reasonableness of amounts included with reference to the building and pension actuarial valuations and consider our ability to rely on the work of these experts and underlying records, and legal documentation and minutes.

We will consider the appropriateness of the presentation and disclosure in the financial statements.

### Response

The financial statements incorporate the following amounts received on transfer of Sacred Heart Primary School in the period:

- Fixed Assets - £4,367k
- Pension Deficit – £124k
- Surplus - £92k

## Retirement benefits

### 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.

## Retirement benefits

### Response

The assumptions applied by the actuary in the preparation of the FRS102 valuation have been considered and are reasonable and consistent with those used in the preparation of reports in similar schemes.

A copy of the actuarial report has been obtained confirming the balances and disclosures included within the financial statements in relation to the pension liability are correct.

The pension deficit has increased from £585k at 31 August 2018 to £1,636k at 31 August 2019.

No provision has been made for the impact of the recent McCloud judgement.

## Income recognition

### 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

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.

A review of grant funding agreements will be performed to determine whether the associated income has been recognised when appropriate.

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.

### Response

The accounting policies adopted are in line with SORP guidance. Income recognition within the financial statements is in line with SORP criteria with appropriate adjustments to accrue and defer income reflected.

We have reviewed grant funding agreements to support the income recognised in the financial statements and consider the allocation of income appropriate.

One off sources of income and any unexpected income have been specifically discussed with management and confirmed as reasonable.

Minor adjustments with regarding to income recognition have been processed as discussed in Section 4.

## Going concern

### Area of audit focus

It is the responsibility of Governors' 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 Governors' assessment of the LGPS deficit and the ability of Sacred Heart Partnership of Schools to meet the current and future funding obligations in respect of the scheme 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 Governors' as required.

### Response

We have considered management's review of going concern. Adequate support for the going concern assumption has been obtained and forecasts appear reasonable and attainable.

## Land and buildings

### Area of audit focus

The academy has a licence (in the form of a supplemental agreement) to occupy the premises of the land and buildings.

The substance of the arrangement is such that the schools in the Trust are able to obtain future economic benefits from unrestricted use of the asset. As such, the buildings are recognised as a fixed asset recorded at their fair value at the time of conversion.

### Our approach

We will review the accounting treatment within the financial statements under the Charity SORP and FRS 102 and consider any further documentation received in the year.

### Response

The properties used by all schools in the Trust are all used on the on the basis noted above, and as such included in the financial statements at valuation.

## Capital activity

### Area of audit focus

We are aware that St Michael's has been successful in an ESFA Condition Improvement Fund bid and as a result capital works are expected during the period.

### Our approach

We will review the recognition of the capital funding to ensure it is disclosed in accordance with the recognition criteria set out in the Charities SORP 2015 and per the DfE.

Expenditure in the period will be reviewed to confirm it is recognised in accordance with FRS102. We will also consider whether any depreciation charge should be applied to fixed asset additions in the period and whether disclosure of any committed expenditure at the period end is required.

We will also review the approach to contractor procurement and funding compliance from a regularity perspective.

### Response

We have reviewed the grant documentation along with the amounts recognised in the financial statements. We note that of the £32k grant awarded, £22k was spent in the year and recognised as income. The unspent element of £10k has been shown in creditors at the year end as an amount repayable to the ESFA.

The approach to procurement and funding compliance has been reviewed and no issues have been noted.

### 3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT

#### Fixed assets

**Issue**

We noted that included within the computer equipment fixed asset balance are nil net book value assets with a cost of £468k. Whilst there is no impact on the fixed asset value in the financial statements, there is a risk that items no longer held are still recorded on the fixed asset register and that the cost per the financial statements is overstated.

**Resolution**

We have discussed the volume of nil net book value items with management who have confirmed that all of the assets are still in use by the Trust.

#### Frequency of board meetings

**Issue**

We note that the main Governing board has met 4 times in the year, which is less than the 6 times recommended in the Academies Financial Handbook.

**Resolution**

This has been discussed with management, and narrative has been added to the financial statements to address how effective oversight is maintained by the board despite the reduced number of meetings in the year.

## 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 £1,000 individually and £5,000 in aggregate.

We advised management of all these misstatements on 4 November 2019 and requested management to correct them.

	Profit (£)	Net assets (£)	
Adjusted misstatements	Dr/(Cr)	Dr/(Cr)	
Dr Other DfE income	109,800		Being update for actual SCITT bursary received
Cr Other direct costs	(109,800)		
Dr Direct costs	37,931		Being grossing up of LA funds transfer for Sacred Heart Primary
Cr Donations	(37,931)		
Dr DFE income	22,180		Being reallocation of CIF income
Cr Capital grants	(22,180)		
Dr Donations income	11,750		Being reduction in donation income to match the value donated by a third party towards the minibus
Cr Donations paid	(11,750)		
Dr Other DfE income	15,000		Being rates relief income received in the year that was accrued for in the prior year
Cr Accrued income		(15,000)	
Dr Other support costs	14,216		Being recognition of Wilson MI invoice dated pre year end
Cr Trade creditors		(14,216)	
<b>Total</b>	<b>29,216</b>	<b>(29,216)</b>	
Unadjusted misstatements Factual	Dr/(Cr)	Dr/(Cr)	
Dr Motor vehicles		8,275	Being reclassification of utility vehicle purchased in the year.
Cr Fixtures and fittings		(8,275)	
Dr Trade debtors		1,082	Being reallocation of credit balances on the debtors ledger
Cr Trade creditors		(1,082)	
Dr Trade debtors		3,683	Being reallocation of debit balances on the creditors ledger
Cr Trade creditors		(3,683)	

	<b>Profit (£)</b>	<b>Net assets (£)</b>	
Dr Pension costs	244,000		Being impact of McCloud judgement on the local government pension scheme
Cr Defined benefit pension liability		(244,000)	
Underlying total	244,000	(244,000)	

## 5 POTENTIAL IMPROPRIETY ISSUES IDENTIFIED DURING THE AUDIT AND REGULARITY WORK

No potential impropriety issues were identified during the audit.

## 6 SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

We have set out below significant deficiencies in internal control which came to our attention during the course of our audit 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 audit does not ordinarily identify all such matters.

### Journals approval

<b>Fact and potential consequence</b>	We note that approval of journals over £50k has been introduced in the year.
<b>Possible action</b>	Whilst we note that this matter has been raised and approved in the prior year, we wanted to again flag this for Director's attention to ensure the current policy is still considered to be appropriate.
<b>Management response</b>	The current policy has been reviewed and it is still considered to be appropriate. All £50K journals are signed off, in addition to this smaller journals are reviewed and a small random sample are also signed off.
<b>Timing of implementation and responsibility</b>	On going from 2018-19, to be continued 2019-20

### Finance Regulations

<b>Fact and potential consequence</b>	We note that the finance regulations were updated for the 2018 Academies Financial Handbook, however the review and approval of these changes was not formally documented.
<b>Possible action</b>	It is recommended any updates to the finance regulations are reviewed and approved by the Finance Committee.
<b>Management response</b>	The draft financial regulations were approved by the Audit, finance, site and staffing committee on 14th November 2019. This is included in the minutes for the meeting.
<b>Timing of implementation and responsibility</b>	14 November 2019

The following matters were identified in the 2018 Audit Findings Report:

- **Aged creditors listing** – unallocated payments

Follow up in 2019: No such issues have been noted this year.

- **Fixed asset register** – fully written down assets

Follow up in 2019: We have noted in Section 3 that there continues to be a number of nil net book value items, however, management have confirmed they are all still in use by the Trust.

- **Late publication of accounts on the website**

Follow up in 2019: No such issue has been noted this year

- **Risk register** – had not been updated in the year

Follow up in 2019: We note that the risk register has been updated in the year and will be reviewed by the board at the next meeting

## 7 SIGNIFICANT FINDINGS FROM THE AUDIT

### 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, including the applicable Statement of Recommended Practice 'Accounting and Reporting by Charities' ('Charities SORP'), and the requirements of the Companies Act 2006 and the Academies Accounts Direction 2018/19. The following disclosure matters were brought to your attention and subsequently reflected in the revised financial statements:

- Inclusion of consideration of oversight of board given they met less than 6 times over the year.

## 8 FEES

We confirm that the fees charged during the year in respect of services performed for Sacred Heart Partnership of Schools are consistent with those contained within our Audit Plan submitted to you and dated 25 June 2019.

## 9 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 Sacred Heart Partnership of Schools and its related entities and directors that may reasonably be thought to bear on RSM UK Audit LLP's independence and the objectivity of the audit principal, Claire Leece and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 25 June 2019.

## APPENDIX A - DRAFT LETTER OF REPRESENTATION

RSM UK Audit LLP  
1 St James Gate  
Newcastle Upon Tyne  
NE1 4AD

Dear Sirs

### **Audit of Financial Statement – Year ended 31 August 2019**

This representation letter is provided in connection with your audit of the financial statements of Sacred Heart Partnership of Schools for the year ended 31 August 2019 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. The financial reporting framework that has been applied in the preparation of the Academy Trust financial statements is applicable law, Academies Accounts Direction 2018 to 19 issued by the Education and Skills Funding Agency ('ESFA'), and United Kingdom Generally Accepted Accounting Practice.

We confirm that to the best of our knowledge and belief, and having made appropriate enquiries of other Director 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 dated 20 June 2017, 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 Directors and guarantees of any kind entered into on behalf of the Governor:
  - 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 Trustcharity and group;
  - 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

1. 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.
2. We confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements.
  3. 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.
  4. 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.
  5. 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.
  6. 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 2018, 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.
  7. 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.
  8. 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.
  9. 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.
  10. We confirm that we have disclosed to you details of all banking and financing arrangements including related contracts and hedging products.

11. We confirm that we have informed you of all tax avoidance schemes used by the Academy Trust.

**Charitable Status**

1. We have not conducted or permitted to be conducted any activities which call into question the charitable nature of the Academy Trust.
2. 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 Director 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 [insert date of board approval of financial statements].

Yours faithfully

Signed on behalf of the board of Sacred Heart Partnership of Schools

.....  
Governor

Date

**Attachment:** List of uncorrected misstatements including those in relation to disclosures

## Regularity

RSM UK Audit LLP  
1 St James Gate  
Newcastle Upon Tyne  
NE1 4AD

Dear Sirs

### Regularity Assurance Engagement – Year ended 31 August 2019

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 2019.

#### 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 2018;
  - 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 [insert date of board approval of financial statements].

Yours faithfully

Signed on behalf of the board of Sacred Heart Partnership of Schools

Chair .....

Accounting Officer .....

Date