Kingston Smith

LIFE Education Trust

Post Audit Management Report

Year Ended 31 August 2018

Kingston Smith

Post Audit Management Report – LIFE Education Trust

We have completed the audit of LIFE Education Trust for the year ended 31 August 2018 and we expect to issue an unqualified audit opinion.

This report covers the findings from our audit, the scope of which was communicated to you prior to commencing the work. It includes some recommendations for improving the accounting and internal control systems as well as highlighting some future developments that may be of interest to the board.

We hope that the recommendations are practical and are able to be implemented. We would be grateful if you could discuss the points as a board and will welcome a written response. Please extend our thanks to Denise Broom, Lisa Hickling and Louise Anderson for all their help with the audit.

If you have any concerns or questions arising from this report, please contact James Cross or Claire Netley.

Yours faithfully

Kingston Smith LLP

....

Kingston Smith LLP

14 December 2018

....

Date

Kingston Smith

Contents

Section 1: Audit Approach

As outlined in our pre-audit letter dated 29 June 2018 our audit approach is based on an assessment of the audit risk relevant to the individual financial statement areas. Areas of risk are categorised according to their susceptibility to material misstatement, whether through complexity of transactions or accounting treatment. For each area we calculated a level of testing and review sufficient to give comfort that the financial statements are free from material misstatement.

The following table lists any risks identified at the planning stage and during the course of the audit, our approach to mitigate the risk and our conclusions from completing this work

Income recognition

There is a risk that income has not been recognised in the correct period or correctly accounted for.

Audit Approach

We have designed tests to ensure that the cut off for income is correct and that we review any late adjustments to income. We will also agree income to supporting documentation on a sample basis, as well as carry out an analytical review.

Conclusion

For the sample selected for testing we have not identified any instances of income not being correctly recognised.

Management override

Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Audit Approach

We will review journals posted in the year for unauthorised or unusual adjustments.

Conclusion

From the testing completed, no instances of management override have been noted.

Section 1: Audit Approach

Fund allocation

Income and expenditure allocation should be accurate, and any transfer of funds should have the appropriate authority.

Audit Approach

We will review the allocation of funds to confirm allocations and transfers have been made in accordance with regulation and your internal policies and procedures.

Conclusion

From the testing completed, funds were allocated correctly and were in line with internal policies and procedures.

Section 2: Significant findings from the Audit

We are required under International Standards on Auditing to request you to correct all misstatements identified during our audit, with the exception of those that are clearly trivial.

Corrected material misstatements and reclassifications

Included as Appendix 1 are the corrected, material misstatements identified during the course of our audit work which have been discussed and agreed with you.

Uncorrected immaterial misstatements and reclassifications

Included as Appendix 2 are the uncorrected misstatements or reclassifications that are not trivial and are not material, both in isolation and in aggregate, which we identified during the audit work and which you do not propose to adjust in the financial statements.

Observations concerning the operation of the accounting and control systems

We detail in section 3 other matters concerning the operation of the accounting and control systems that we consider should be brought to your attention. The observations have been ranked in order of `potential risk to the business. Significant internal control issues; which we believe need immediate attention; are denoted using a red flag. We have also included an assessment of the extent to which our previous recommendations have been implemented.

We look forward to receiving your responses on the points raised.

Due to the nature of an audit we may not have identified all weaknesses within the accounting and internal control systems which may exist and the contents of this section of our letter and any items disclosed in this report should not therefore be taken as a comprehensive list of such weaknesses.

Management Representation Letter

A draft of our proposed management representation letter has been sent to you under separate cover. All of the matters included in this letter on which we seek the Directors' formal confirmation are in respect of routine matters except for the following:

- Point 14 in respect of The Local Government Pension Scheme deficit.

Section 3: Operation of the Accounting and Internal Control Systems

Current year: Observations and Potential Consequences	Recommendations	Management Response
Depreciation It was noted during the audit that depreciation had been incorrectly charged on the land at Benhurst in the current and preceding year.	**Recommendation** We recommend that assets are depreciated at the rates in accordance with the Trust's depreciation policy.	**Management response** Journals provided by previous auditors were posted for depreciation. This has now been amended for the current year to adhere to the Trusts depreciation policy.
Fixed asset disposal It was noted that there were disposals of computer equipment in Benhurst which took place in July 2017 that had not been reflected in the accounting records. This led to fixed assets being overstated in the year by £12,788 and depreciation calculations being incorrect, which has been amended in Appendix 1.	**Recommendation** We recommend that the fixed asset register is reviewed regularly and any disposals adjusted accordingly.	**Management response** All disposals of assets will be included in the Fixed Asset register and included in the Responsible Officers schedule for checking.

Section 3: Operation of the Accounting and Internal Control Systems

Companies house records

It was noted that there were a number of members and trustees who have resigned or been appointed recently, however Companies House has not yet been updated to reflect this.

Recommendation

We recommend that all relevant forms be completed and submitted to companies house for appointed and resigned directors.

Management response

The Finance department is to liaise with the Clerk to the Board after each board meeting and is to action all changes required.

Balance sheet control accounts

It was noted that the fixed asset registers, prepayments, accruals and other control accounts had been prepared but not reflected in the accounting records. This has resulted in a large volume of adjustments required during the audit, which are disclosed in Appendix 1.

Recommendation

We recommend that year-end adjustments for depreciation, pre-payments, accruals etc are agreed during the accounts preparation and posted within the accounting system ahead of the audit.

Management response

The schedules for all the control accounts were prepared in accordance with the previous auditors requirements.

Kingston Smith

Section 3: Operation of the Accounting and Internal Control Systems

Prior year: Observations and Potential Consequences	Recommendations from previous auditor's report	Management Implimentation
Private fund bank account It was noted that the private bank fund account has not been changed to a new bank account. It remains the same account as when it was under local authority.	***Recommendation*** *We recommend that the bank account is changed to one under the academies control.*	**Management implementation** Funds were transferred to main bank account. No issues this year.
Private fund bank account It was noted that the payroll creditors in the nominal ledger did not match the payroll creditor's reports as at 31/08/2017.	***Recommendation*** *We recommend balances on payroll control accounts should be reconciled each month and analysed into the carious components payable after the month end*	**Management implementation** Payroll reports were matched each month. No issues this year.

Kingston Smith

Section 3: Operation of the Accounting and Internal Control Systems

Private fund bank account

It was noted that the Capital income received totalling £297,733 was incorrectly posted to expense code 7000. MAT nominal ledger code 5019 included items which were not relevant to the central trust.

Recommendation

We recommend that the Academy checks income received against remittance advice and funding agreement from the ESFA and Local authority, so that period management accounts reflect the true financial position of the Academy and that the academy reconciles the MAT contribution between the academies together with the trust accounts trial balance. Any variances should be investigated and corrected.

Management implementation

Capital income has been separated and a new account opened, new expenses code used in MAT for debit postings to the central trust. No issues this year.

Section 4: Sector Update

MAKING TAX DIGITAL FOR VAT

From 1 April 2019, organisations who are registered for VAT will have to comply with the new Making Tax Digital (MTD) requirements. This will require storing VAT accounting information digitally, and having a clear electronic audit trail from source systems through to the digital submission of VAT returns to HMRC. Compliance for many organisations will require fundamental changes to existing processes and systems. Therefore, with less than twelve months until the mandated start date, preparation should be underway to fully understand your current VAT accounting processes and implement any required changes.

MTD is likely to extend to other taxes from 2020, so whilst the issue today is preparation, the preparations should be regarded as being part of the wider objectives of the tax functions. It is vital to plan properly, and to understand the full impact of the changes and the reach of these in the whole organisation. Charities and not-for-profit organisations have complex VAT affairs, with more involved calculations than a "regular" business. Therefore, the things that you should be considering now include:

- Assessing the current status of HMRC's guidance and the digital processes that HMRC are going to require;
- The current level of manual intervention that is required for you to prepare the returns and calculations, and what level of manual intervention is going to be permitted going forward (i.e., can you make manual adjustments and how to deal with partial exemption calculations);
- How MTD will actually work on a practical basis, and how this differs from the current system;
- How to ensure that nothing will get missed out between now and 1 April next year and who are the people who will be responsible in the organisation for making the transition.

The introduction of MTD offers an opportunity for taxpayers to review their VAT accounting and the treatment of income and expenditure. In order to successfully transition to MTD, it is essential to have full knowledge of what is happening at the moment and an understanding of the basis for this.

A list of software suppliers who are on the way to releasing a product which supports MTD for VAT can be found here: https://www.gov.uk/government/publications/software-suppliers-supporting-making-tax-digital-for-vat?utm_source=a228e799-077f-4b70-9091-1f47c3314443&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

This legislation will not affect entities claiming VAT through VAT126. However, it is anticipated that similar legislation may come into force in future.

Section 4: Sector Update

EMPLOYMENT TAX CHANGES COMMENCING 6 APRIL 2018

From April 2018, the employment tax rules have changes again. It is crucial that all employers are aware of these changes and consider the impact they may have on their internal procedures and controls and any necessary communication with employees.

Salary sacrifice Schemes
Since April 2017, it has no longer been possible to implement a salary sacrifice scheme unless the benefit was being provided under the scheme fell within one of the 'excluded' categories (i.e. those for which regulations remained as before) of:

- Childcare benefits
- Pension contributions
- Employer-provided pension advice
- Cycle to work schemes
- Ultra-low emission cars (<75 g/km)

If employers had certain other schemes in place, such as for employer provided training or the provision of mobile phones which commenced before 6 April 2017 then, under transitional rules, these benefits did not fall under the new rules until 6 April 2018 and were protected until that date.
The transitional rules also allow for protected benefits until April 2021 where the existing benefit being provided is a company car (>75 g/km), the provision of accommodation or subsidised school fees.

If you are contractually obliged to continue to provide benefits under salary sacrifice schemes which are not within the excluded categories or within the transitional rules, the amount of salary foregone by the employee will remain taxable even though they are not being paid this amount.
Employers need to understand their payroll obligations before the April 2018 deadline when the first set of transitional rules expire as otherwise they risk under-deducting tax from their payroll from April 2018 onwards.

Kingston Smith

Appendix 1: Corrected Misstatements and Reclassifications

	SOFA		Balance sheet		Effect on
	Dr	Cr	Dr	Cr	Surplus (Dr)/Cr
Draft surplus/(deficit) per TB's produced					(241,967)
FBA - Accountancy adjustments including reclassifications	514,972	593,019	672,891	594,844	78,047
FBA FS - Accountancy adjustments including reclassifications	58,327	35,406	35,406	58,327	(22,920)
Benhurst - Accountancy adjustments including reclassifications	218,761	31,273	80,454	267,942	(187,489)
Revised surplus/(deficit) following journals client provided					(374,329)
Audit journals - FBA					
Computer equipment depn charge	9,050				(9,050)
Computer equipment depn charge				9,050	
Being depreciation of computer equipment					
Dr Main fund bank account			23,366		
Dr School fund bank account			1,056		
Cr Various expenses		24,422			24,422
Being Bank reconciliation differences					
Dr Pension costs	276,000				(276,000)
Cr Actuarial gains		483,000			483,000
Dr Pension liability			207,000		
Being gain on pension fund					

Kingston Smith

Appendix 1: Corrected Misstatements and Reclassifications

Dr Educational supplies	13,068				(13,068)
Dr intercompany				13,068	
Being intercompany expenditure					
Dr Educational supplies	197,789				(197,789)
Cr Intercompany				197,788	
Being intercompany expenditure					
Audit journals - FBA SF					
Dr Educational supplies	11,639				(11,639)
Cr Intercompany				11,639	
Being intercompany expenditure					
Audit journals - Benhurst					
Dr Leasehold property accum depn			29,568		
Cr Leasehold property depreciation		29,568			29,568
Being reversal of depreciation on land					
Dr F&E accum depn		1,676			1,676
Cr F&E depreciation			1,676		
Being correction of depn for F&E					
Dr Computer equipment accum depn		13,182			13,182
Dr Office equipment accum depn		2,187			2,187
Cr Computer equipment depreciation			13,182		
Cr Office equipment depreciation			2,187		
Being correction depreciation of office and computer equipment					

Kingston Smith

Appendix 1: Corrected Misstatements and Reclassifications

Dr Disposal of computer depn			4,263		
Dr Loss on disposal	12,788				(12,788)
Cr Disposal of computer equipment				17,050	
Being disposal of computer equipment					
Dr Pension costs	41,000				(41,000)
Cr Actuarial gains		103,000			103,000
Dr Pension liability			62,000		
Being costs and gain on pension fund					
Dr Intercompany balance			2,888		
Cr Educational supplies		2,888			2,888
Being income due from intercompany					
Dr Educational supplies	46,188				(46,188)
Cr intercompany				46,188	
Being intercompany expenditure					
Audit journals - Trust					
Dr intercompany			255,616		
Cr Educational supplies		255,616			255,616
Being intercompany recharges					
FINAL SURPLUS/(DEFICIT)					**(66,311)**

Kingston Smith

Appendix 2: Uncorrected Immaterial Misstatements and Reclassifications

	SOFA		Balance sheet		Effect on
	Dr	Cr	Dr	Cr	Surplus
Loss after adjustments					**(66,311)**
Dr Income	39,998				(39,998)
Cr Accrued income				39,998	
Being reversal of income accrued for last year.					
Dr School trip income	138				(138)
Cr prepayments				138	
Being over payment of Snowdonia trip					
Dr Prepayments			53		
Cr Music fees		53			53
Being prepayment of music fees					
Dr Expenses	17,401				(17,401)
Cr Other debtors				17,401	
Being removal of other debtors in TB since 2010					
Dr Land accumulated depreciation			29,568		
Cr Depreciation charge		29,568			29,568
Being restatement of land and playing field depreciation posted last year					
Dr Debtors			760		
Cr Misc income		760			760
Being removal of debtor overpayment					
Total effect on surplus					(93,468)

Appendix 3: Other Matters

Engagement & Independence

Our engagement objective was the audit of LIFE Education Trust.

We have implemented policies and procedures to meet the requirements of the Financial Reporting Council's (FRC) Ethical Standards. To this end we considered our independence and objectivity in respect of the audit for the period under review before commencing planning our audit and communicated with you on these matters in our pre-audit letter dated 29 June 2018.

No other matters have come to our attention during the audit which we are required to communicate to you and the safeguards adopted were as described in our pre-audit letter.

Qualitative aspects of accounting practices, accounting policies and financial reporting

Based on our audit work performed, we believe that the Governors' Report and financial statements for the period under review comply with United Kingdom Accounting Standards and the Companies Act 2006.

During the course of our audit of the financial statements for the period under review we did not identify any inappropriate accounting policies or practices.

Matters specifically required by other Auditing Standards to be communicated to those charged with governance

Other than as already explained in our Engagement Letter, Pre-Audit Letter and this Post-Audit Management Report, there are no other specific matters to communicate as a result of our audit of the financial statements under review.