



Report to the trustees and summary of audit findings

Altrincham College of Arts

Green Lane

Timperley

Altrincham

Cheshire WA15 8QW

Year ended 31 August 2015



Altrincham College of Arts

Summary of audit findings for the year ended 31 August 2015

1. Introduction

We are pleased to set out in this document our report to the trustees of Altrincham College of Arts for the year ended 31 August 2015.

Our responsibilities as auditors are set out in the International Standards on Auditing (UK and Ireland) ("ISAs"). We are responsible for 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.

We have carried out our audit in accordance with the terms of our engagement letter dated 7 August 2014 in order to express an audit opinion for UK statutory purposes on the financial statements of Altrincham College of Arts for the year ended 31 August 2015.

In this report, we present the key findings from our audit, together with a commentary on the significant matters arising.

This report has been discussed comprehensively and agreed with Danielle Taylor, Finance Manager.

This report has been provided to the Finance and audit committee to consider and ratify on behalf of the trustees of Altrincham College of Arts.

We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

2. Statutory audit communication

2.1 Objectivity and independence

We conducted our audit in accordance with the Code of Ethics of the Institute of Chartered Accountants in England & Wales and the Ethical Standards published by the United Kingdom Auditing Practices Board.

We have considered our independence and objectivity in respect of the audit for the year ended 31 August 2015.

In addition to auditing the financial statements we also provided, through Steve Parker, the following services to Altrincham College of Arts for the year ended 31 August 2015.

- Preparation of the statutory financial statements.
 - Preparation of the EOYC return.
 - Preparation of the Annual Accounts Return.
 - Assistance with VAT returns.
 - Service level agreement and telephone support.
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Altrincham College of Arts

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We have outlined below the safeguards that we have put in place to ensure that these services do not cause any breaches in our independence and objectivity in relation to the audit.

Non audit service provided	Safeguards put in place to reduce the threat to our integrity, independence and objectivity
Preparation of the statutory financial statements	Internally the accounts are reviewed by a separate individual from those who have prepared the financial statements.
Preparation of the EOYC return	The accounts are reviewed in full by those charged with governance of the academy to ensure they comply with EFA guidance.
Preparation of the Annual Accounts Return	Any accounting judgements required are made by the audit client.
Assistance with VAT return	This service is provided by a separate individual from those who have audited the financial statements.
Service Level Agreement	The return is prepared from data in the statutory financial statements and as such is covered by those safeguards above.
	VAT assistance is provided by a separate individual from those who have audited the Financial Statements
	Provided by a separate individual from those who have audited the Financial Statements

Haines Watts charged £950 for the completion of the Annual Accounts Return and £2,245 for other services.

Haines Watts charged £6,100 for the Teachers' Pension Audit and for the audit of the academy.

To maintain our independence as auditors we can also confirm that:

- Haines Watts, its partners and the audit team have no family, financial, employment, investment or business relationship with the company; and
- audit and non-audit fees paid by the company do not represent a significant proportion of total fee income for either the firm or office.

We confirm that, in our professional judgement, the firm is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

Legal and regulatory requirements

In undertaking our audit work we considered compliance with the following legal and regulatory requirements, where relevant:

- Companies Act 2006.
 - Charities Act 2011.
 - The Charities (Accounts and reports) regulations 2008.
 - Academies Accounts Direction 2014 to 2015.
 - Academies Financial Handbook 2014.
 - Statement of Recommended Practice, Accounting and Reporting by Charities (2005).
 - Applicable accounting standards.
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2.2 Audit approach and materiality

Our audit planning has taken account of the issues highlighted through a planning meeting with Danielle Taylor, together with our knowledge and understanding of the academy from previous years.

We confirm that there were no restrictions on the scope of our audit procedures and we have been able to undertake our work as set out in our planning meeting.

In our planning we have taken account of the results of our risk assessments made in accordance with the guidance set by the ISAs. Our consideration of high risk areas is documented in full within section 3 of this report.

Based on this rigorous process we have used our professional judgement and formed a materiality level. A matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements and the value at which if errors, on their own or in aggregate, were uncorrected would result in a potential qualified audit opinion. The audit materiality of the financial statements as a whole has been set at approximately 1% of total incoming resources. We have considered this level of materiality based on the draft accounts for the year ended 31 August 2015 and are satisfied that it continues to be appropriate.

Underpinning materiality is a level of triviality, £1,000, at which any error or omission in excess of this value is recorded and reported to management.

- In planning and carrying out our work, we applied a materiality level of £58,800.

There are no uncorrected material errors or omissions in isolation or aggregate.

2.3 Accounting policies

In preparing the financial statements of the academy, directors/trustees are required under FRS 18 to review the academy's accounting policies on an annual basis to ensure they remain appropriate to the academy's circumstances and are properly applied.

We have reviewed the accounting policies selected and operated by the academy, and are satisfied that they are acceptable.

Under the revised requirements of the Accounts Direction the academy now capitalises non-trivial 'group purchases' that would have previously fallen below the capitalisation threshold when considered item by item.

2.4 Significant findings

There are no matters that we feel need bringing to the attention of the finance committee in this section.

2.5 Accounting estimates and judgements

The property is recorded in the accounts at valuation. The basis of the valuation is existing use value calculated on a depreciated replacement cost basis.

Depreciation is provided on a straight line basis on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. The principal annual rates used are:

Freehold land	nil
Freehold buildings	50 years
Furniture and equipment	7 years
Computer equipment and software	3 years

Local Government Pension Scheme - The academy's share of the LGPS assets is measured at fair value at each balance sheet date. Liabilities are measured on an actuarial basis using the projected unit method. The net of these two figures is recognised as an asset or liability on the balance sheet. Any movement in the asset or liability between balance sheet dates is reflected in the statement of financial activities. Details of the major assumptions used by the actuary in its calculation are shown in note 16 to the financial statements.

2.6 Funding position at 31 August 2015

Restricted general funds are those resources that have been designated restricted by the grant provider in meeting the objects of the academy and are restricted to both the day to day running of the academy and capital expenditure. The balance carried forward on this fund is a deficit of £608,000.

Restricted fixed asset funds are those funds relating to the long term assets of the academy used in delivering the objectives of the academy. The balance carried forward on this fund is £10,487,000. Additional analysis of this fund by nature has been provided to comply with the Accounts Direction.

Unrestricted fund are funds to which the governing body may use in the pursuance of the academy's objectives and are expendable at the discretion of the trustees. The balance carried forward on this fund is £739,000.

2.7 Significant difficulties encountered during the audit

We did not encounter any significant difficulties during the audit.

2.8 Accounting and financial control systems

During our audit we examined the design and implementation of the internal controls relevant to the accounting systems and procedures.

The review of internal controls was carried out with a view to expressing an opinion on the financial statements for the year and was not directed primarily towards discovering weaknesses or towards the detection of fraud. Therefore our comments on these systems include only those matters that have come to our attention as a result of our normal audit procedures, and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

Please refer to section 4 of this report.

2.9 Management representations

We include a copy of the draft management representation letter.

There are certain specific representations which we are required by auditing standards to obtain from management as part of our audit procedures.

In addition, we are required to obtain other representations on matters material to the financial statements where other sufficient appropriate audit evidence cannot be reasonably expected to exist.

2.10 Audit opinion

Based upon the findings and conclusions of our work, we expect to issue an unqualified audit opinion on the financial statements.

Summary of audit findings for the year ended 31 August 2015

3. High risk audit areas

Issue	Audit risk	Audit procedures undertaken	Conclusion
<p>Fund Accounting.</p> <p>Treatment of restricted and unrestricted funds.</p> <p>Funding providers will impose restrictions on the use of funds given to the academy. Such funds should be allocated to the statement of financial activities in accordance with guidance by individual funders</p>	<p>Incorrect disclosure of restricted and unrestricted reserves in the financial statements.</p>	<p>We reviewed the treatment of income and associated expenditure to ensure that funds relate to their specified category.</p> <p>Income and expenditure tested on a sample basis to confirm treatment correct. Review of income and expenditure headings on a line by line basis to ensure compliance with Accounts Directive.</p>	<p>There are no uncorrected material mis-statements in respect of the allocation between restricted and unrestricted reserves in the financial statements</p>
<p>Eligibility of payroll costs</p>	<p>The payroll function is outsourced. Our knowledge of the academies market has shown some error risk posed over outsourced payrolls.</p>	<p>We performed analytical procedures to ascertain whether the salary costs for the year were in line with our expectations. In addition, tests of control to ensure key controls are being adhered to.</p>	<p>Payroll costs in the financial statements do not appear to be materially mis-stated.</p>
<p>FRS 17 Accounting for Pensions</p> <p>Treatment of the academy's share of pension scheme deficits</p>	<p>Incorrect treatment of the pension valuation.</p> <p>Financial statements are not prepared in accordance with sector accounting guidance.</p>	<p>We obtained the FRS 17 pension valuation as at 31 August 2015 and assessed the disclosures and accounting entries made by the academy.</p> <p>We confirmed that the basis of valuation was appropriate and that the disclosures made in the financial statements were prepared in accordance with FRS 17 and the sector standard as set out in Financial Handbook.</p>	<p>Pension deficits are not materially mis-stated and are adequately disclosed in the financial statements.</p>

Summary of audit findings for the year ended 31 August 2015

Issue	Audit risk	Audit procedures undertaken	Conclusion
Income recognition	Grant/other income not being recognised in accordance with the SORP 2005 recognition criteria and per the underlying funding agreement.	<p>The accounting policies adopted by the academy were reviewed, considering the guidance available in SORP 2005 and the recognition criteria of entitlement, certainty and measurement.</p> <p>A review of grant funding agreements was performed to determine whether the grant income had been recognised in the appropriate period.</p> <p>Discussions were held with management and meeting minutes reviewed to identify any unexpected one-off sources of income and to ensure that the accounting treatment is appropriate.</p>	Grant and other income is recognised in accordance with the SORP 2005 recognition criteria and per the underlying funding agreement and has been recognised in the appropriate period.
Going concern	It is the responsibility of the Trustees to assess the ability of the academy to continue as a going concern for a period of not less than 12 months following the anticipated date of sign off. This is a key risk given the current economic climate and pressures on government spending.	<p>We have reviewed the considerations of management including cash flow forecasts and budget reports in relation to the going concern assumptions made.</p>	The Trustees' assertions with regard to the ability of the academy to continue as a going concern for a period of not less than 12 months following the anticipated date of sign off are deemed to be appropriate

Summary of audit findings for the year ended 31 August 2015

Issue	Audit risk	Audit procedures undertaken	Conclusion
Management override of internal controls	All control systems present the risk that they can be by-passed by senior members of the management team, leading to accounting entries and transactions being made without the need to follow the established systems and procedures	A suitable level of professional scepticism was applied throughout all areas of audit testing. We examined the significant accounting estimates and judgements applied to the accounts for evidence management bias that may represent a risk of material misstatement due to fraud.	Our examination of the significant accounting estimates and judgements applied to the accounts showed no indication of management bias that may represent a risk of material misstatement due to fraud.
Payments made to connected parties	That payments made to related parties are not in line with current guidance and the latest Academies Financial Handbook by being made at cost.	All related party transactions that have been identified have been reviewed to ensure that the most recent guidance has been followed correctly and that relevant documentation has been seen to prove this.	Payments made to related parties are in line with current guidance and properly disclosed

4. Report of significant weaknesses in systems and internal controls

4.1 Introduction

We set out below the significant matters we became aware of during our audit, which relate to the effectiveness of the company's accounting and financial control systems. We have used the following grading system to indicate the significance of the issues we have raised and the priority that we believe should be given to our recommendations.

Rating	Description
High	Should be urgently attended to by the directors and management. These are significant issues that may result in a qualification in the audit report in future periods if not satisfactorily addressed.
Moderate	Issues requiring the attention of the directors and management. Issues ranked as moderate require close monitoring by the board and senior management to ensure timely resolution.
Low	Issues requiring management attention and correction. Issues ranked as low are generally routine in nature and should be resolved by general management. The board and senior management should be aware of these issues to enable monitoring of progress with their resolution. These issues may be reported to management in less detail than more highly rated issues.

Audit finding and recommendation	Priority
None	N/a

5. Status of audit recommendations from previous year

During the course of the audit we revisited the audit recommendations from the previous year's audit management letter and set out below the status of these recommendations.

Systems and controls – observations in 2014	Update in 2015
It was noted during the audit that one of the trustees' spouse runs a taxi firm, which is used for transporting pupils. Transactions are at an arms length, but not on a not for profit basis. (L).	The trustee resigned on 22 October 2014. The services of the taxi firm are still used.

6. Regularity

We set out below any regularity, propriety and compliance matters that we became aware of during our audit, which relate to the responsibility to ensure that public money is spent for the purpose intended by Parliament (regularity) and a responsibility to ensure that appropriate standards of conduct, behaviour and corporate governance are maintained when applying the funds under the academy's control (propriety).

There are no matters which we wish to bring to your attention.

Altrincham College of Arts

Summary of audit findings for the year ended 31 August 2015

7. Future developments including reporting under FRS102 and the new charity SORP

We have summarised below the changes in the charity and academy sector over the recent period and other developments which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not action based on any of the comments below.

From 1 September 2015 Altrincham College of Arts has been required to report under FRS 102. This change will impact on Altrincham College of Arts's year ending 31 August 2016. FRS 102 sets out how an entity prepares its first financial statements under the new standard. The academy will be required to restate its opening balance sheet at the date of transition (ie for Altrincham College of Arts at 1 September 2015) and also restate its pre-comparative balance sheet (ie at 31 August 2014) in line with the provisions of FRS102.

In anticipation of the changes in the financial reporting framework a new Charities SORP was published in July 2014 – SORP 2015. From 1 September 2015 all academies will prepare their accounts under SORP 2015.

The Academies Financial Handbook 2015 is already in operation and must be read by the members, trustees, accounting officer and chief financial officer as it is part of the funding agreement with the EFA. It emphasises the importance of good governance and clarity of that governance and stresses the importance of the academy commanding broad public support.

There are a number of specific areas which will be affected by the new SORP and may lead to changes in the balance sheet position at the date of transition, in subsequent periods and also affect certain disclosures made in the financial statements.

We recommend that you consider these now in order to plan for the necessary adjustments and ensure that any relevant data is collated and necessary valuations obtained on a timely basis.

The main areas to consider are detailed below.

Changes to the content of the trustees' report

SORP 2015 requires a greater level of transparency within the financial review and in explaining the reserves policy. The updated SORP also requires disclosure of details of the arrangements for setting pay and remuneration for key management personnel.

The risk management disclosure requires more detailed documentation of the risks identified by the academy and the methods utilised in managing those risks.

Statement of financial activities

SORP 2015 simplifies the presentation of the SoFA. There will now be five incoming resource headings – donations and legacies, charitable activities, other trading income, investment income and other income.

There is a similar simplification of the expenditure headings – with now only three headings – fundraising costs, expenditure on charitable activities and other expenditure.

There will no longer be a requirement to disclose governance costs on the face of the SoFA. These costs will instead be disclosed in the notes as a component of support costs within charitable activities.

Cashflow statement

The format of the cashflow statement has been simplified with cashflows being identified as resulting from only three activities – operating, financing and investment activities.

Software costs

Additional guidance has been added to note that software licences that extend beyond one year should be treated as an intangible fixed asset, where material.

Income recognition

FRS 102 sets out the basis for the recognition of assets and liabilities and related income and expenditure to take account of the probability that future economic benefit associated with the item will flow to or from the entity – ie is it more likely than not? The previous criteria under SoRP 2005 was 'virtually certain'. This may have implications for certain sources of income – fundraising or legacy income, for example.

Employee benefits and payments to employees and other related parties

Any employee benefits which staff are contractually entitled to such as holiday, time off in lieu etc. at the year-end and not taken will need to be recognised as a liability on the balance sheet, if material in value. Depending on the relationship between the holiday year end and the financial year end, contract type, holiday taken and amounts paid there may be amounts to be recognised.

Under FRS 102 academies must disclose the amount of employee benefits received by its key personnel for their services to the academy.

All transactions involving trustees or other related parties must always be regarded as material. In addition the terms and conditions of any related party transaction must also be disclosed.

Ex-gratia payments – there is also a requirement now to disclose individual amounts and the reason and nature of such payments.

Finance and operating leases

There is a requirement to obtain prior approval from the EFA for any lease that is deemed to meet the criteria of a finance lease. FRS 102 does not significantly change the accounting treatment of leases. Leases are still capitalised as finance leases if substantially all the risks and rewards of ownership are transferred. The assets and liabilities are recorded at the lower of the fair value of the leased item and the present value of the minimum lease payments using the interest rate implicit in the lease. Leases that do not meet the definition of a finance lease will be classified as an operating lease and the rental expensed through the SoFA.

Previously, the value of lease incentives were recognised against the value of lease payments on a straight line basis up to the point when the lease resets to market rates – usually when a break occurred. FRS 102 recognises lease incentives over the full term of the lease.

Changes to pension accounting

Local Government Pension Scheme

Whilst many aspects of accounting for the LGPS as a defined benefit pension scheme in the accounts of the academy trust are consistent, there is one difference that will have a significant effect on the amount of finance charge recognised within net income/expenditure in the year. This arises because a separate assumption for the expected return on assets is no longer used to calculate the credit against the interest charge on liabilities. Instead, the assumed discount rate is used to calculate a net interest charge on the net deficit. As the historic expected return will likely have been higher than the discount rate, the finance charge recognised under FRS 102 will be higher.

Teachers' Pension Scheme

Changes to the exemptions within FRS 102 relating to multi-employer defined benefit pension schemes have no impact on the initial accounting treatment of the Teachers' Pension Scheme as a defined contribution scheme as it is still not possible to identify separately each institution's share of the underlying liabilities in the scheme on a consistent and reasonable basis and the liabilities are not offset by any identifiable assets. Accounting policies in the Accounts Direction follow guidance for the HE/FE sectors in that they do not envisage that there will be recognition of a liability to represent an obligation to fund past deficits because unfunded multi-employer schemes such as Teachers' Pension Scheme do not give rise to such contractual obligations and any notional past deficit is funded on a 'pay as you go' basis. It should be noted however, that there are some commentators suggesting that the HE/FE guidance is non-compliant with the requirements of FRS 102.

“To Know
To Care
To Live”



Altrincham
College of Arts
(An 11-18 Academy)

2 December 2015

Mr J Whittick
Partner
HW Chartered Accountants
Bridge House
Ashley Road
Hale
WA14 2UT

Dear Mr Whittick

We acknowledge receipt of Haines Watts Report to the Trustees and Summary of Audit Findings in relation to Altrincham College of Arts and are pleased to note that no points were raised.

If you need any further information, please do not hesitate to contact me.

Yours sincerely

Peter Brooks
Accounting Officer



Headteacher: Mr P. Brooks, M.Sc Deputy Head: Mr A Brennan, Grad.Dip.

Altrincham College of Arts, Green Lane, Timperley, Altrincham, Cheshire, WA15 8QW
Telephone: 0161 980 7173 Fax: 0161 980 1783 Email: headteacher@mail.altrinchamcollege.com
www.altrinchamcollege.com

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