

Swanland Education Trust



Audit Report Encompassing the Management Letter, Systems Findings and Other Audit Matters

Prepared by: _____

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Of Forrester Boyd
15th November 2019**

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1. Audit introduction and general comments

The audit was completed successfully and without any problems.

We found your team helpful and not evasive in any way, which allowed us to obtain information freely and easily.

It is also worth noting that our audit work is only conducted on a sample basis, so is unable to guarantee that all errors are found. As it is completed on a test basis, you may feel that certain areas, such as review of specific controls, especially in connection with wages, tax and VAT obtain a further review.

The finance team need to be aware that the Accounts Return needs to be completed and then checked by Forrester Boyd by the deadline of **20 January 2020**.

We would like to take this opportunity of expressing our thanks to your staff for their assistance during the course of our audit.

2. Key audit areas

Key Audit Areas	Our Approach
Income recognition	<p>We will reconcile any GAG funding to the funding document provided by ESFA. All other material grant funding will be agreed to funding documentation.</p> <p>Other material income streams will have controls testing completed.</p>
Completeness and accuracy of payroll	<p>As payroll is the main cost in the accounts a proof in total will be completed, agreeing the wages per the payroll provider back to the accounts. We will also test controls surrounding authorisation of payroll and ensure deductions surrounding PAYE and NI are made correctly.</p>
Compliance with the ESFA requirements to ensure there are no regularity issues.	<p>We will ensure the academy is complying with the 'musts' in the Academies Financial Handbook and that purchases made are deemed to be appropriate academy expenditure.</p>
Statement of Financial Activities and fund allocations	<p>We will review the major classification of income and expenditure to confirm they are consistent with expectations and to consider whether explanations are reasonable.</p> <p>We will review the allocation of funds in the statement of financial activities and ensure that this appears appropriate and in line with our expectations.</p>
Going concern, due to the growth of the Trust	<p>We will review the budget forecast for at least the next 12 months. We will also review the actual vs budget figures to date, to ensure that the budget is on track and the forecast is realistic.</p>

3. Overview of the year

We can make the following summary comments in connection with the year end accounts:

Income

The income is made up of the following:

	2019	% of	2018	% of
	£	income	£	income
Funding for the Trust's educational operations (Note 3)	3,708,685	92.14%	2,637,521	36.60%
Transfer on conversion	-		4,367,703	60.61%
Other income	316,220	7.86%	201,684	2.79%
Total	4,024,905		7,206,908	

89% (2018: 89%) of the total income (excluding transfer on conversion) is made up of Government Funding. This % can vary dependent on the types of income received by an Academy. This is lower than we see at other academies we act for as the Trust has quite high amounts of other income, including school trips, catering and the Renewable Heat Incentive.

Also included in funding for educational operations this year is insurance claim income of £608 (2018: £15,310) and catering income from pupils of £116,264 (2018: £83,891).

These Government funding income streams have been proved in total, by reviewing agreements from funding providers.

Other income can be broken down as follows:

	2019	2018
	£	£
Donations and capital grants (Note 2)		
Educational trips and visits	85,282	73,513
Capital grants	64,412	13,850
Other donations	32,998	37,032
	182,692	124,395
Other trading activities (note 4)		
Hire of facilities	6,090	2,685
Catering income (adults)	1,606	1,165
School shop sales	2,364	3,024
Other sales	106,573	53,085
Renewable heat incentive	15,246	17,109
	131,879	77,068
Investment income (note 5)		
Bank interest	1,649	221
Total	<u>316,220</u>	<u>201,684</u>

Educational trips and visits, which also includes in-school events, have increased due to income from Hook and Airmyn for the full year, Trip income for Swanland and Dunswell has remained in line.

Capital grants have increased due to Hook and Airmyns capital grant being included as well as all schools receiving two capital grants this year from the government.

Included in other donations is donations made to the academy as well as PTA fundraising.

Other sales have increased mainly due to the inclusion of the new schools for the full year. This is especially due to Airmyn, who receive reimbursement from other schools for a member of sports staff.

Our audit work has not highlighted any systems issues or cut off concerns in respect to other income.

Expenditure

The main costs relating to the Academy are salaries at £3,136,686 (2018: £2,124,279), excluding pension service costs. This is 80% (2018: 74%) of your total non-fixed asset costs and 80% (2018: 75%) income, excluding capital.

These percentage are at the top of the guidance from ESFA of 80%. The ESFA suggest that if the percentage exceeds these guidelines then the Trust is not financially viable.

These costs have been reconciled to your payroll provider's reports with no material errors.

The average salary per teacher is £39,014.

Other sizeable costs or costs worthy of note, relating to Academy's educational operations are as follows:

	2019	2018
Educational Supplies	£56,391	£39,120
Other direct costs	£27,848	£27,621
Depreciation	£173,834	£107,284
Maintenance	£93,906	£61,491
Technology costs	£69,157	£29,931
Rent, rates and utilities	£95,817	£66,029
Insurance	£16,820	£27,443

Overall costs have increased due to being the first full year of Hook and Airmyn.

Educational supplies have increased due to additional expenditure on books and publications. This area can fluctuate depending on changes in the curriculum and initiatives throughout the school.

Other direct costs remained in line due to increases of Educational contracts and subscriptions, being offset against the reduction of 'other employee costs' at Swanland, which included several training sessions and DBS checks.

Depreciation relates to the cost of fixed assets being allocated to the income and expenditure account over your agreed period, as noted in the accounting policies. The increase is reflective of the first full year of the new schools joining the Trust.

Maintenance costs are higher this year due to having a full year of Airmyn and Hook. With the additional capital grant this has led to an increase in repairs to each school.

Rent rates and utilities have increased due to the inclusion of the new schools, this should now be consistent going forward.

Technology costs have increased due to IT support and contracts have doubled due to Airmyn and Hook having more expensive contracts through the ERYC as they're tied into these and so it cannot be avoided until the end of the contract term. Computer additions non capital have also increased due to the additional capital grant allowing the trust to repair IT issues across the schools.

Insurance costs have reduced due to the Academy now not having staff absence insurance.

The remaining expenditure relates to the general running of the school and do appear reasonable and our audit work has not found any material errors or cut off issues.

If you feel that any of these costs could be reduced, please do not hesitate to contact us as we may be able to help with alternative suppliers.

Overall

This year has seen an increase in funds, but only because of the new schools joining.

The total amount free reserves available for the Academy to spend in the future have actually increased to £436,136 (2018: £417,623) and is made up of:

- Unrestricted funds total carry forward of £146,900, which have decreased by £69,075.
- Restricted funds, which exclude the fixed asset fund and pension reserve, have increased by £87,588; giving a total carry forward of £289,236.

The movement in free reserves at each school can be seen as follows:

	2019	2018
Swanland	207,079	232,468
Dunswell	50,221	11,519
Hook	139,052	110,367
Airmyn	34,603	35,570
Central Services	5,181	27,699
	<u>436,136</u>	<u>417,623</u>

These reserves equate to 5 weeks expenditure, excluding depreciation. This is in line with your policy of one month's costs. However, given the expected growth of the Trust we would suggest this policy is relatively low.

4. Independence and ethical matters

As discussed in the pre-year end meeting and confirmed in our letter. There is a potential ethical issue, i.e. a self-review threat arising from our firm being involved in completing the accounts and assisting the Academy in relation to its internal review procedures, and not just the audit.

In order to mitigate these risks we have ensured that any individual used to complete the internal review work has not been part of the audit team. We will also mitigate the self-review threat in relation to the production of the Financial Statements by having another member of our Academy team, not involved in the audit, reviewing the accounts and completing the required accounts production checklist.

We believe the Academy has individuals and groups within its management that can make decisions and understand the finances of the Academy, including the Financial Statements. We note this group of people as being 'informed management' and can actively approve any adjustments that we make to the accounts.

By informed management we mean that "a member of the management of the Academy who is capable of making independent decisions or judgements on the basis of information provided".

We agreed in our pre year end meeting and the subsequent letter sent to you, prior to the commencement of the audit, that the following individuals were considered to be informed:

C Huscroft

S Crawford

The Board of Trustees as a whole is also deemed to be informed.

If you do not believe that the above group of people are informed, please inform us immediately as it will potentially mean that we have to ensure further safeguards are put in place and a second partner completes a review of the file.

5. Formal matters to be reported

In accordance with our normal practice we are writing to draw your attention to various matters which arose during the course of our audit of the academy accounts for the period ended 31st August 2019.

a) *Expected modifications to the auditors' report and regularity report*

There are no expected modifications to the auditors' report or the regularity report

b) *Unadjusted misstatements*

A schedule is included at section 8 of all the unadjusted misstatements determined during the course of our audit, except for those considered to be clearly trifling. As confirmed in your letter of representation to us, you believe that these adjustments are not material and therefore no amendments to the financial statements are required.

You have confirmed in the Letter of Representation that any amounts below £1,500 are trivial and do not need reporting to you.

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 6 of this report includes specific audit points and also contains details of actual and potential weaknesses identified during the course of our audit and our recommendations for improvements. It is not meant to be a full and accurate reflection of all weaknesses that may be present in your system.

In making our recommendations, we have considered the size of the academy and the number of staff you employ. We shall be glad if you will let us know what steps have been taken in connection with the above.

d) *Qualitative aspects of the entity's accounting practices and financial reporting*

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

e) Identification of Fraud

We are pleased to report that our audit has not found any instances of fraud.

f) Compliance with key laws and regulations

Our audit is required to consider and assess the academy's compliance with central laws and regulations, and consider the existence of breaches that could lead to a fundamental event, such as excessive fines that have a material impact on the financial statements, that threaten the going concern status of the entity, or legislation that could lead to the forced closure of operations.

Our work has not identified any instances of material breach, and the academy appears to have devoted sufficient resources, experience, skills and training to all key regulatory aspects of its affairs.

We are happy to offer any assistance necessary to ensure that this is the case.

g) Other information connected with the financial statements

Auditors are required to review any other information issued with audited financial statements, such as an annual review, web site announcement or trustees' report, and determine if such reports are consistent with the financial statements.

You have chosen to make public comment on the financial statements.

We are pleased to report that the trustees' report content is consistent with the financial statements.

h) Other matters required by Auditing Standards to be communicated

There are no other formal matters to be reported to you and the other details included within the report are above and beyond our requirements to report.

i) Other relevant matters relating to the audit

There are no other matters which we wish to draw to your attention.

6. Specific audit and control points

Following our recent audit visit, we have set out below the key observations of a systems and internal control nature that have arisen from the audit work undertaken.

The points are raised to assist the management team in strengthening and formalising the internal control environment, something which is essential and often overlooked in a small company environment.

These issues raised are not intended as, nor should they be construed as, criticism of management or individual persons. They are intended to be of assistance in establishing an appropriate system of internal control, essential to the academy if it is to grow.

Our audit focuses only on those aspects of internal control that are material to the production of accurate financial statements and safeguarding assets of the academy, and therefore is not exhaustive.

We only give consideration to peripheral areas if they directly support other systems of internal control or provide compensating controls to an area with potential weaknesses.

Where matters of efficiency come to our attention, we shall of course report these to you. However, the audit should not be relied upon to identify all matters of duplication or inefficiency in the allocation of responsibilities or the processing of transactions.

Key

-  Key concern - Action required immediately.
-  Moderate concern - Action believed to be required.
-  Minor concern - Action believed to be required, but not considered a significant issue.
-  No concern - Action not required but the suggested improvement should be considered.

There are no points to consider from our audit of the systems and controls.

Our audit focuses only on those aspects of internal control that are material to the production of accurate financial statements and safeguarding assets of the academy, and therefore is not exhaustive.

We only give consideration to peripheral areas if they directly support other systems of internal control or provide compensating controls to an area with potential weaknesses.

Where matters of efficiency come to our attention, we shall of course report these to you. However, the audit should not be relied upon to identify all matters of duplication or inefficiency in the allocation of responsibilities or the processing of transactions.

Summary and conclusion

It is pleasing to report that our audit work has not identified any fundamental weaknesses in internal control systems, nor have we found any evidence of fraud.

We shall be pleased to discuss or advise on any of the above matters as required.

7. Surplus reconciliation and adjustments made

Please find detailed below the adjustments made during our audit work, which form part of the journals you approve within your letter of representation to us.

Deficit per client	(80,367)
Pension Adjustment	(264,000)
Deficit per accounts	(344,367)

If you require any clarification on the above adjustments please do not hesitate to contact us.

8. Unadjusted misstatements

Detailed below are the non-trivial misstatements found during the audit.

	Impact on Surplus £	Impact on Balance sheet £
Potential audit adjustments for 2018	-	-
Potential audit adjustments for 2019	-	-
	<hr/>	<hr/>
Net unadjusted misstatements	-	-
	<hr/>	<hr/>

You have confirmed in your letter of representation to us that:

- a) £1,500 is deemed to be trivial and any adjustment under this amount does not need to be reported on
- b) The above items do not require adjustment, as they are individually and in total not material.