



## **Evolution Academy Trust**

### **Audit management letter**

**Year ended 31 August 2014**

**November 2014**

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This report has been prepared for the sole use of the Governing Body of Evolution Academy Trust (“Governing Body” or “you”). The report is confidential between the Governing Body and MA Partners LLP (“M+A Partners”) and must not be disclosed to any third party without our prior written consent. Any disclosure of this report will prejudice this firm’s commercial interests and request for our consent to any such wider disclosure may result in our agreement to the disclosure restrictions being lifted in part. If the Governing Body receive a request for disclosure of this report under the Freedom of Information Act 2000, having regard to these actionable disclosure restrictions you must let us know and you must not make a disclosure in response to any such request without our prior written consent.

# 1. Introduction

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## Background

The purpose of this report is to set out certain matters which came to our attention during the course of the audit of the financial statements of Evolution Academy Trust (“Evolution” or “the Trust” or “the company”) for the year ended 31 August 2014.

## The purpose of our audit

Our audit is carried out in accordance with International Standards on Auditing (“ISAs”) issued by the Auditing Practices Board. The main purpose is to report to the Governors whether, in our opinion, the financial statements:

- + give a true and fair view of the state of affairs of the company as at 31 August 2014 and of the company’s income and expenditure;
- + have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Financial Reporting and Annual Accounts requirements issued by the Education Funding Agency; and
- + grants made by the Education Funding Agency have been applied for the purposes intended.

## Management letter

During the course of our audit of the financial statements for the year ended 31 August 2014, we examined the principal internal controls which the Governors have established to enable them to ensure, as far as possible, the accuracy and reliability of the Trust’s accounting records and to safeguard the Trust’s assets.

We have discussed these matters and we are writing formally in order to draw your attention to weaknesses in control which came to our notice during this examination and to suggest ways in which the system could be improved.

You will appreciate that our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Therefore our audit does not necessarily disclose every weakness and for this reason the matters referred to below may not be the only shortcomings which exist.

In addition to reporting any significant matters arising from the statutory “true and fair” audit of the financial statements, we are also required to include in our management letter any issues in relation to our limited assurance work covering the regularity of both expenditure and income.

## Acknowledgements

We take this opportunity of thanking Tony, Maria, Lisa and all other staff we met during our audit for the assistance offered to us during the course of our work.

## 2. Audit progress and status

### Audit adjustments

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are trivial, to Governors. There were no such uncorrected misstatements.

We are also required to report all material misstatements that management has corrected but that we believe should be communicated to Governors. A reconciliation of the surplus for the year per the SAGE records to the surplus per the Statement of Financial Activities is detailed opposite.

### Significant difficulties identified during the audit and regularity assurance engagement

There were no significant difficulties encountered during the course of our audit.

### Other reporting returns

Return name	Due date	Date submitted
Teachers' Pensions EOYC	30 September 2013	26 September 2013
Value for money statement	31 December 2013	<i>To be done</i>
Additional Accounts Return	31 January 2014	<i>To be done</i>

### Surplus reconciliation for the year ended 31 August

	2014	2013
	£	£
<b>Surplus per Evolution's records</b>	<b>414,287</b>	<b>4,755,758</b>
Amend land and buildings valuation	-	(2,074,035)
Fixed assets on conversion	1,626,000	-
Pension liability on conversion	(69,000)	-
FRS 17 adjustments	(119,000)	(131,000)
Depreciation charge	(94,514)	-
Prepayments and accruals	48,530	(4,544)
Other amendments to fixed assets	1,735	24,896
Infant School funds to creditors	-	(23,500)
Bank reconciliation adjustments	-	(4,315)
<b>Net movement in funds</b>	<b>1,808,038</b>	<b>2,543,260</b>

### 3. Audit approach and key areas covered

The table below documents the key risk areas identified in our planning letter to the Governors dated 15 October 2014 and how they were addressed.

Key audit risks	Our approach	Results
<p><b>Fund accounting</b></p> <p>There is a risk that restricted funds received have not been identified or accounted for properly or invalid expenditure has been charged to restricted funds.</p>	<p>We will obtain details of the funds received and receivable and will gain assurance that income and expenditure has been attributed to appropriate funds through substantive testing of a sample of transactions.</p>	<p>We are satisfied that income and expenditure has been allocated to the appropriate funds. And that restricted funds have been applied for the purposes intended.</p>
<p><b>Related party transactions</b></p> <p>There is a risk that the company has not identified all related parties (as defined in FRS 8) and that transactions with these related parties have therefore not been identified and correctly recorded in the financial statements.</p>	<p>We will ask you to provide a list of all related parties and will review declarations of interest from the directors. We will consider whether any transactions with these related parties have come to light during our audit work and ensure that any transactions that have arisen are correctly disclosed.</p>	<p>Confirmation was obtained from management that no transactions had arisen in the year with the related parties disclosed on the signed pecuniary interest schedules. Confirmation of this will be included in the letter of representation to be signed off on behalf of the Governing body at the same time as the approval of the financial statements. Our audit testing did not identify any transactions with related parties other than as disclosed in the notes to the financial statements.</p>
<p><b>Staff costs</b></p> <p>Staff costs are the major costs of the Trust.</p>	<p>We will undertake substantive testing on a sample of payroll payments to confirm occurrence, classification and accuracy.</p>	<p>The substantive testing undertaken confirmed that the payroll costs related to bona fide employees, had been computed correctly and were appropriately disclosed in the financial statements.</p>

### 3. Audit approach and key areas covered

Key audit risks	Our approach	Results
<p><b>Amounts transferred on conversion</b></p> <p>The assets and liabilities transferred to the Trust from the Local Authority on conversion have to be recognised as a gift at “fair value”. There is a risk that the valuation of the assets and liabilities is materially misstated.</p>	<p>We will consider the reasonableness of amounts included by reference to supporting documentation on which the valuations have been based.</p>	<p>We have confirmed the valuation of the land and buildings, pension liability and cash transferred on conversion to supporting documentation. We are satisfied that the value attributed to the other tangible fixed is not materially misstated.</p>
<p><b>Local Government Pension Scheme</b></p> <p>The FRS 17 pension liability is a significant balance sheet item and represents the Trust’s share of the Local Government Pension Scheme. The amount recognised is based on a valuation undertaken by an actuary. There is a risk that the amount may be materially misstated where the data and assumptions used are not appropriate</p>	<p>We will obtain and review a copy of the FRS 17 actuarial valuation prepared by the actuary and undertake procedures to determine our ability to rely on their work.</p> <p>We will undertake a review to ensure that the data and assumptions used by the actuary in preparing the FRS 17 valuation are reasonable.</p>	<p>We have reviewed the FRS 17 report issued by the actuary and the disclosures in the financial statements with no issues noted. We are satisfied that the actuary, Hymans Robertson LLP, is competent and independent.</p>
<p><b>Regularity</b></p> <p>The Accounting Officer is required to sign-off a statement within the financial statements confirming that any instances of material irregularity, impropriety or funding non-compliance discovered have been notified to the board of trustees and the EFA.</p>	<p>We are required to obtain information and explanations in order to provide us with sufficient appropriate evidence to report to you whether anything has come to our attention which suggests that in all material respects, expenditure disbursed and income received during the year have not been applied to purposes intended or that the financial transactions do not confirm to the authorities which govern them.</p>	<p>No matters have come to our attention which suggest that expenditure disbursed and income received during the year have not been applied to purposes intended or that the financial transactions do not confirm to the authorities which govern them.</p> <p>No matters of material irregularity, impropriety or funding non-compliance have been identified.</p>

### 3. Audit approach and key areas covered

Key audit risks	Our approach	Results
<p><b>Fraud</b>            Management has the primary responsibility to prevent and detect fraud. We approach each audit engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur.</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> <li>• identifying fraud risks during the planning stage and the controls in place to address those risks;</li> <li>• assessing the effectiveness of the controls designed to address the risk of fraud;</li> <li>• ensuring income has been appropriately recognised; and</li> <li>• examining material journal entries / adjustments.</li> </ul>	<p>Our audit procedures have not uncovered matters which indicate fraud. Our review of the material journal entries / adjustments did not identify any evidence of management override of controls.</p>

## 4. Accounting policies and estimates

We have reviewed the Trust's key accounting policies against those applied to other schools in the sector.

Accounting area	Evolution's policy	Assessment
<b>Incoming resources – voluntary income</b> (e.g. donations and sponsorship)	<p>Voluntary income is recognised on a receivable basis where there is certainty of receipt.</p> <p>Assets and liabilities transferred on conversion have been valued at their fair value on conversion and the net amount recognised as voluntary income.</p>	The policies adopted are consistent with other Academies and the Academies Accounts Direction 2013 to 2014 and are considered appropriate.
<b>Incoming resources – Funding for the Trust's educational operations</b>	Grants are recognised on a receivable basis. The balance of income received for specific purposes but not expended during the period is shown in the relevant funds on the balance sheet.	This policy is consistent with other Academies and is considered appropriate.
<b>Land and buildings valuation and depreciation</b>	The land and buildings have been included in the balance sheet at the value computed by third party valuers on behalf of the EFA. In accordance with the stated policy, buildings are being depreciated over 50 years. Land is not depreciated.	<p>In the absence of an independently commissioned valuation, the valuations performed for the EFA are judged to provide a reasonable and reliable estimate of the current value of land and buildings on conversion as is required by the Accounts Direction.</p> <p>The Trust's depreciation policy of writing the buildings off over 50 years is consistent with many other academies.</p>
<b>Depreciation other than buildings</b>	Plant and machinery is depreciated at 15% and computer equipment at 25%, both on the straight line basis.	The depreciation rates adopted are considered to be appropriate.
<b>Capitalisation of tangible fixed assets</b>	All fixed asset additions are capitalised where the cost of such an asset exceeds £1,000.	This policy is consistent with other Academies and is considered appropriate.
<b>Local Government Pension Scheme</b>	An actuarial valuation is obtained for the Trust's share of the Norfolk Pension Fund. Current service costs are included as part of staff costs. The expected return on assets and the interest cost are shown as a net finance amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in other gains and losses.	The policy adopted is consistent with other Academies and the Academies Accounts Direction 2013 to 2014 and is considered appropriate.

## 5. Observations arising from our audit - current year

Observation	Implication	Recommendation	Response	Timescale for action
<p>“Fund Accounting” has not been used. Whilst you are allocating income and expenditure between restricted and unrestricted, you are not allocating it between the different types of restricted fund i.e. General Annual Grant, Pupil Premium, Special Educational Needs etc</p>	<p>We had to undertake additional procedures during the audit to split the restricted funds between individual funds</p> <p>It is more difficult for you to ensure that each individual type of funding is spent in full and in accordance with the restrictions applied to it</p>	<p>We recommend that either “departments” are used on Star for Academies to split the separate funds, or a separate record of all income and expenditure is kept on a spreadsheet to monitor each individual fund balance</p>	<p>As last year, STAR for Academies does not facilitate this. Discussions continue with STAR provider. This applies to both schools.</p>	<p>Discussions are on-going</p>
<p>The “Financial Procedures” and “Risk Register” documents were not up to date</p>	<p>These documents are required per the Academies Financial Handbook</p>	<p>We recommend these documents are updated</p>	<p>All updates to be completed by 31<sup>st</sup> January 2015. This applies to both schools.</p>	<p>By 31 January 2015</p>
<p>The nominal code for “miscellaneous income” (approximately £40k across the 2 schools) had not been further analysed</p>	<p>During the audit we had to undertake an additional process to review the contents of this nominal code and split between donations, payments from other schools, grants and refunds of expenditure</p>	<p>We recommend that a miscellaneous income code is not used unless in exceptional circumstances. In the vast majority of cases, it will be possible to allocate income to specific nominal codes</p> <p>Expenditure refunds should be allocated to the same nominal code the original expenditure was posted to</p>	<p>Increase rigour with entry on income codes. This applies to both schools.</p>	<p>With immediate effect</p>
<p>No paperwork was available setting out the terms and conditions of restricted capital funding and “growth funding” from Norfolk County Council</p>	<p>It was difficult to undertake audit procedures to ensure these funds had been spent in accordance with the provider’s terms and conditions</p>	<p>We recommend that where funding is received, you contact the provider to ascertain how the funding should be spent, or whether no restrictions apply</p>	<p>School to be advised by Auditors.</p>	<p>By 31 December 2014</p>

## 5. Observations arising from our audit - current year

Observation	Implication	Recommendation	Response	Timescale for action
There is a lack of evidence in the payroll files that any reviews have taken place	Internal controls are not being evidenced	We recommend a "summary sheet" is produced and filed with each month's payroll, signed off by the respective reviewers as evidence that they have performed their checks	Both schools to print file from NCC each month and sign.	With immediate effect
Governor appointments, and resignations, had not been notified to Companies House	The company register is not up to date	Governors of the trust are also directors, and new appointments and resignations should be notified to the Registrar of Companies	Mr McCormack to keep this up to date for both schools.	By 31 December 2014
No inspections were undertaken during the year by the Responsible Officer	The Trust has not complied with the requirements of the Academies Financial Handbook	We recommend you ensure inspections are undertaken during the year by the Responsible Officer	These have not been undertaken due to the RO's personal circumstances. Inspections will occur as soon as can be arranged.	With immediate effect