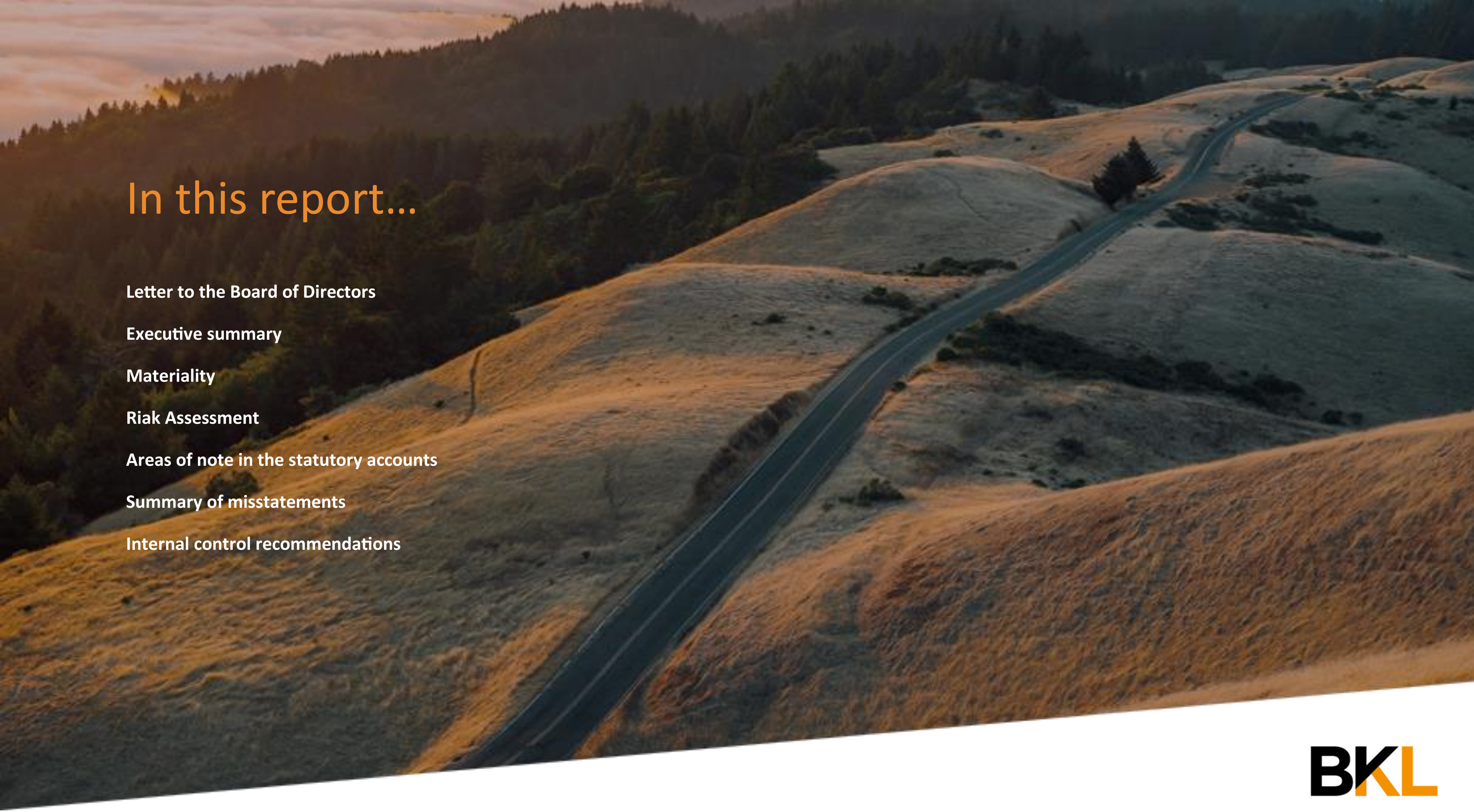
BKL

Engage Enrich Excel

Audit Findings Memorandum

Audit assignment for the year ended 31 August 2024



In this report...

Private and confidential

Engage Enrich Excel Academies
181 Frimley Road
Camberley
Surrey
GU15 2QB

3 December 2024

Dear Sirs,

We are delighted to share our Audit Summary Memorandum for Engage Enrich Excel Academies for the year ended 31 August 2024. The primary purpose of this report is to concisely summarise our audit findings and conclusions. In our audit planning report we outlined the scope of our work, including identified significant audit risk and other key judgment areas.

After reviewing our Audit Planning Report, we have determined that the significant audit risks and other key judgement areas outlined in that report continue to be relevant.

This report is exclusively intended for your oversight of the financial reporting process. We emphasize that it should not be disclosed, reproduced, or shared with third parties, nor used or quoted for any other purposes.

We extend our sincere appreciation for the courtesy and cooperation extended by the UK Group throughout our audit. Should you wish to delve into the contents of this report or discuss any other audit-related matters in greater detail, we remain at your disposal.

Sincerely,

Ed Passmore

Audit Director

Executive summary

Principal conclusions and significant findings	As outlined in our Audit Planning Report, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus in audit risks that we have assessed as resulting in a higher risk of material misstatements.
Risk assessment and audit strategy update	The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Planning Report. We have reviewed our Audit Planning Report and concluded that the significant audit risks and other areas of management judgement remain appropriate.
Financial statements	The Financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles and the Academies Accounts Direction.
Materiality	We revisited our statutory materiality to align with the final result and concluded that the planning materiality remains appropriate.
Misstatements	Any unadjusted audit misstatements identified by the audit team are set out below. This includes the cumulative effect of uncorrected misstatements for each entities.
Independence	As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors. We can confirm that no new threats to independence have been identified since issuing the Audit Planning Report and therefore we remain independent.
Other matters of significance	We are pleased to report that there were no significant difficulties encountered during the audit or any significant disagreement with management. We noted effective cooperation and communication between the Companies' and BKL during the course of our audit. All requested information and explanations were provided to us. All matters deemed significant are included in this report and have been discussed with management.
Status and audit opinion	We anticipate that we will issue an unmodified audit report for the year, subject to the satisfactory clearance of any outstanding/unresolved the matters outlined in this report.

Materiality

Benchmark

Benchmarks are financial statement metrics used to calculate materiality and the choice of an appropriate benchmark is a matter of professional judgment, considering the organization's financial situation and industry standards.

Our provisional materiality is established using revenue as it reflects the size of the trust.

Overall Materiality

This is the maximum amount by which the financial statements can be misstated without affecting the judgment of an informed user. Set at the planning stage, it guides the scope and nature of audit procedures. The anticipated threshold for financial statement materiality was between one and two percent of revenue. Materiality was set at finalisation at 1.5% of income (excluding non recurrent capital funding).

Performance Materiality

A lower amount set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality, it is the proportion of overall materiality, typically set at 50-75% and used to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality.

Provides a safety margin against the likelihood of misstatements in segments of the financial statements.

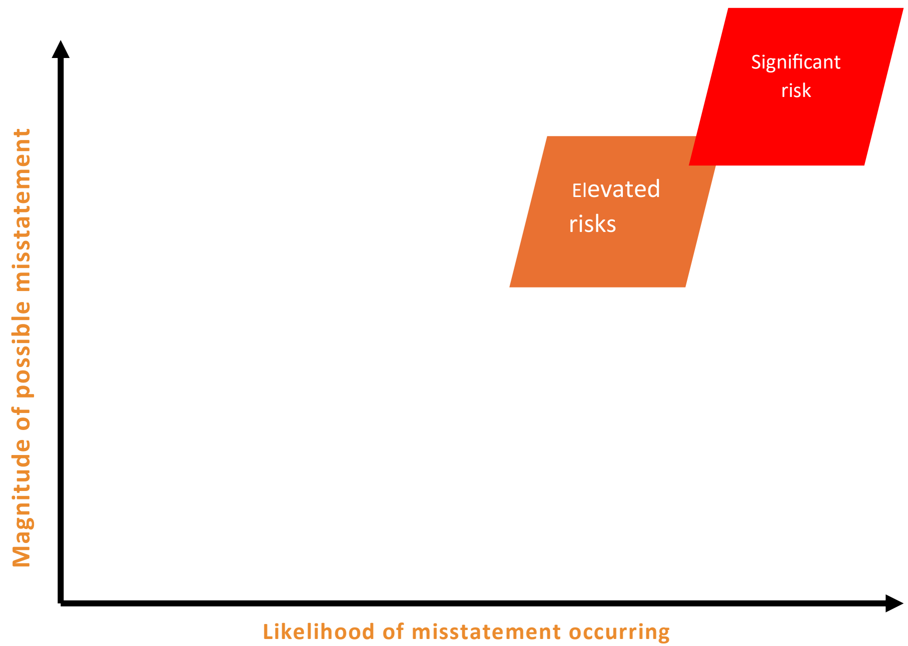
Trivial Threshold

Errors above a certain threshold will be systematically reported to the Board of Directors, typically set at 5% of the Overall Materiality. This threshold ensures that governance bodies are informed of errors that could be material in the context of the financial statements.

After setting initial materiality, it is continuously monitored throughout the audit to ensure that it is set at an appropriate level.

Risk assessment

Significant risk areas identified at the planning stage of the audit and our proposed approach to each of these areas are outlined in the succeeding slides.



A **significant risk** is an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree or to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, and that is to be treated as a significant risk in accordance with the requirements of other ISAs.

Elevated risks - if the risks that are more significant, requiring heightened attention due to their potential impact on financial statements, or where key areas of audit judgement is noted by the engagement team.

Risks of material misstatement

Significant risks

- Revenue Recognition
- Management override of controls

Elevated risks

- Related Party Transactions
- Regulatory compliance

Significant risk

Risk Detail	How we addressed this risk
As per ISA 240, there is an inherent risk of fraud in revenue recognition.	We reviewed grant documentation and perform substantive testing to verify the accuracy of income recognition. We also assessed the adequacy of internal controls.
ISA 240 presumes an inherent risk of management override of controls.	We tested of the appropriateness of journal and other adjustments made, reviewed the accounting estimates for biases, and evaluated the business rationale for significant transactions that are not part of the entity's usual operations, or that seem unusual considering our understanding of the Trust.

Audit conclusion

As a result of the above, we have not found any contradictory evidence indicating that the financial statements may have been materially misstated.

Elevated risk

Risk Detail

Compliance with regulation - the academy trust is subject to regulatory oversight by the Education and Skills Funding Agency (ESFA), with compliance obligations outlined in the Academy Trust Handbook. Non-compliance can lead to the loss of funding and reputational damage, impacting the trust's ability to fulfill its educational purpose.

Related party transactions - the ESFA funding agreements impose strict requirements are in place around related party transactions

How we addressed this risk

We completed a programme of work designed to review and test the trusts compliance with the ESFA's requirements and evaluate the governance structure and level of oversight provided.

We reviewed the Trust's process to identify and capture related party transactions, checking that regulation is followed where they do take place.

We also scrutinised the ledger for unidentified related party transactions.

Audit conclusion

We have not found any contradictory evidence indicating that the financial statements may have been materially misstated due to management override of controls or misstatement of related party transactions.

Areas of note in the statutory accounts

To be discussed during closing meeting.

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Overview of misstatements - adjusted

We set out below the misstatements identified during the course of the audit, above the level of trivial, which were adjusted.

Details of adjusted misstatements	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Equity Dr / (Cr) £'000	P&L / OCI Dr / (Cr) £'000
Accrue condition improvement funding in accordance with ESFA requirements	2,005	997	-	(3,002)
Show payroll creditors	341	(341)	-	-
Total corrected misstatements	**2,345**	656	-	-

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Internal control recommendations (current year)

Our audit aimed to form an opinion on the financial statements. We considered the internal controls relevant to the financial statements' preparation, which informed our audit procedures. However, this was not intended to express an opinion on the effectiveness of internal control or identify significant deficiencies.

The reported matters are limited to deficiencies and control recommendations identified during our audit, deemed significant enough to report. More extensive procedures might have led to more or fewer reported deficiencies. Our comments should not be seen as a comprehensive record of all potential deficiencies or improvements.

Our findings and recommendations, each assigned a priority ranking reflecting its importance to your organization, are detailed below. The matters arising can be categorised as follows:

Priority	Description	Number of issues
High	In our assessment this matter has implications for the realisation of strategic objectives, and it is imperative that management promptly takes into consideration the provided recommendation as soon as possible	-
Medium	In our assessment there is a need to strengthen the controls in place for efficiency and complete documentation. This matter is important and needs to be addressed	-
Low	This recommendation reflects a matter with little perceived risk to the trust.	-

Internal control recommendations (current year)

No significant internal control issues were noted in this or the preceding year.

Any questions?

Thank you

Ed Passmore

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Who are BKL?

We're a firm of chartered accountants and tax advisers with more than 250 people. We've been working and growing in London for over 40 years.

Our clients tend to have an ambitious, entrepreneurial spirit in common and the entrepreneurial mindset requires intelligent support. We work with entrepreneurial, owner-managed businesses and HNWIs. Entrepreneurs seek us out to help them structure and run their businesses to facilitate growth and support their lifestyle. Private clients work with us to help create and preserve wealth between generations.

B Corp Certified

We were proud to become a Certified B Corporation in 2022. This puts us in a worldwide community of businesses that meet high standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose.

We're looking forward to learning from our fellow B Corps and growing as a business under the guidance of high B Corp standards.

Academy Trust Handbook: summary of changes

Despite the new UK Government's headline policy affecting private school fees, the state school & academy sector is not expecting considerable changes in the short term. But the Academy Trust Handbook (ATH) continues to be reissued annually, so here's our summary of the changes in the 2024 edition.

These changes come into effect on 1 September 2024 i.e. the start of the next financial year for academy trusts.

Roles and responsibilities

Trusts are reminded of the importance of meeting the Department for Education's (DfE's) IT service and digital equipment standards. The Government have summarised these standards here.

Main financial requirements

The ATH emphasises that a trust's reserves policy must include a clear plan for managing reserves, specifically stating that the trustees must:

- ensure that financial plans are prepared and monitored, satisfying themselves that the trust remains both a going concern and is financially sustainable
- take a longer-term view of the trust's financial plans, consistent with the obligation to submit three-year budget forecasts to the Education and Skills Funding Agency (ESFA)
- implement a suitable policy for holding reserves and explain this policy in the trust's annual report, including a clear plan for managing reserves

Academy trusts **must** seek prior ESFA approval in the planning stage of the proposed implementation of any electric vehicle (EV) salary sacrifice scheme **and** accepting any new employees onto an existing EV scheme.

Internal scrutiny

There are various options available to trusts to enable them to deliver a programme of internal scrutiny. As per previous years, these include any combination of:

- an in-house internal auditor
- a bought-in internal audit service
- the appointment of a non-employed trustee
- an independent peer review by the chief financial officer from another academy trust

From 1 September 2025, trusts with annual income over £50m must use either an in-house internal auditor or a bought-in internal audit service.

Academy Trust Handbook: summary of changes

For smaller trusts, the scope for using less formal options will remain for now, but the trustees must ensure that:

- auditors are members of a relevant professional body
- trustees and peer reviewers performing the work have appropriate qualifications and/or experience relevant to the area being reviewed

Delegated authorities

There have been changes to the accounting treatment regarding the recognition of leases which were implemented in the private sector over the past couple of years. As these impacted DfE rules on the usage of finance leases, this has been delayed in the sector.

The ATH clarifies that trusts can enter into pre DfE-approved finance leases. Government guidance on these leasing agreements is available here.

The Regulator and intervention

Clarifying that trusts must take appropriate action to meet the DfE's cybersecurity standards.

The reach of a Notice to Improve letter has been extended to encompass the trustees' responsibilities for management of the school's estate.

Key tools to keep you compliant

Use this ESFA webpage to access the full Academy Trust Handbook 2024 and a spreadsheet listing all the requirements ('musts') from the ATH

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Governance guide

The role of a governor within an academy trust is an essential one, as the governing body shapes the ethos and ensures the running of the trust. Yet, the role of a governor is unpaid, often voluntary and those who undertake it need to be aware of their fiduciary duties to the trust.

To aid with this, the Department for Education published an academy trust governance guide in March 2024. This non-statutory document, replacing the 2019 governance handbook, is meant as a reference document for those involved in trust governance, providing essential information from a range of source on the trust's board roles and legal responsibilities. It does not replace the funding agreement and Academy Trust Handbook, which detail the contractual requirements of the trust.

The guidance, available here on GOV.UK, should be used as a reference by all governors and senior leadership team of an academy trust.

What the guide covers

- Legal requirements, the five pillars of academy trust quality, resources from third parties and definitions of terms
- How boards create a culture that motivates and is ambitious for all
- Trust governance, board expertise and building an effective team
- Setting and implementing a clear strategy for the trust
- Non-executive leadership structures, roles and support
- How the board works with the executive leadership
- How accountability and assurance help to deliver a trust's strategy
- Ensuring compliance with your legal and regulatory responsibilities
- Statutory policies and documents you must have

Demystifying pensions

Two significant costs to academy trusts are the payments made to the respective pension schemes: the Teachers' Pension Scheme for qualified teaching staff, and the Local Government Pension Scheme for other (support) staff.

As with many aspects of finance, and pensions in particular, there is a lot of industry jargon which makes understanding these costs difficult. This guide will make things clearer.

Teachers' Pension Scheme (TPS)

This pension scheme is known as an "unfunded, multi-employer, defined contribution pension scheme". The keywords here are "unfunded" and "multi-employer", which denotes that there will be no specific valuation placed on this scheme which can be attributed back to the academy trust.

Both the employer and the employee make contributions to this scheme, which are credited to the Exchequer, with the retirement and other benefits being paid out from public funds provided by Parliament.

The TPS is formally valued as a whole by actuaries approximately once every four years, with changes to the level of employer contributions being affected by the outcome of these valuations.

The only cost within the trust's accounts are the employer contributions made. These are calculated as being 28.68% of the employees' pensionable salary, and will be shown within direct costs within the notes to the financial statements.

The contribution percentage has increased from 1 April 2024, due to the implementation of the most recent valuation, which showed a deficit which required an increase in contributions to fund. In order to assist with this increased cost, every trust has paradoxically received an additional government grant to cover the additional costs. It is anticipated that this will continue in future years, but no confirmation to this effect has yet been received.

Local Government Pension Scheme (LGPS)

Where this pension scheme differs from the TPS is that for each employer, there is a separately administered fund i.e. within the pension pot there are both assets and liabilities which can be specifically attributed to the academy trust. This is what causes the inclusion of the pension scheme liability within the financial statements.

The LGPS is valued annually by a firm of actuaries, who produce a report valuing the obligations that each trust may have in the future concerning their current employees' retirements. Whilst this is a significant number, it is merely included within the financial statements due to an accounting

Demystifying pensions

technicality, and shouldn't unduly concern trustees and the senior leadership team, for the following reasons:

- **It is an estimate based upon the cessation of everything as at the year end date; this will never happen in practice.**
- **Each scheme will hold a certain amount of assets (equities, properties, cash, etc) – more often that not, these will exceed calculation of the notional liability as at the year-end date recorded within the financial statements.**
- **There is a government guarantee in place dated 18 July 2013 which guarantees the funding of any LGPS liabilities which occur following an academy closure.**
- **As an LA maintained school, this 'liability' was still attributed to the school, but due to differing reporting requirements was not included within the school's balance sheet.**

Contributions to the LGPS depend on the individual fund to which the academy is linked. This is based on location, and unfortunately is mandated i.e. one cannot change this. As with the TPS, the level of contributions is based upon the performance of the fund. The changes to any future contributions will be communicated directly by the fund to the academy.

LGPS valuation is based upon various factors which include:

- **Discount rate (based on the Government bonds)**
- **Assumed annual increase in salaries**
- **Inflation**
- **Estimated mortality rates**

A formal valuation of the LGPS occurs every three years, with the latest one taking place in 2022. Annual valuations subsequent to this are based on estimates. The year ended 2024 is the second implementation of the latest triennial valuation, as shown in the diagram below.

Where are we now?

As per the table below, we are in Year 1:

Demystifying pensions

Funding valuation	Accounting valuation (Year 1)	Accounting valuation (Year 2)	Accounting valuation (Year 3)
The most recent formal funding valuation was at 31 March 2022	Impact of 2022 valuation will be first shown in August 2023 disclosures	Membership experience will flow through OCI – may be significant for academies	Other assumptions reset as part of valuation e.g. new demographics

Source: Hyman Robertson

The annual actuarial report contains figures which need to be included within the financial statements. This is broken down in the pension note towards the end of the accounts, and separately disclosed within the support costs note under the heading 'non-cash pension costs'.

The current pension outlook

Whilst historically, the LGPS actuarial valuation has calculated a significant and increasing liability, the macro-economic conditions over recent years have seen this liability reduce significantly, and in many cases completely so that it is in 'surplus' (i.e. an asset) as at 31 August 2023 and this has continued through to year ended 31 August 2024.

The main reason for this is the increased level of inflation, primarily creating a significant increase in the Discount Rate augmented by the volatility in the corporate bond market. The continued knock-on effect of Covid-19 has also seen a slight reduction in life-expectancy.

How does this impact the year end accounts?

With regards to how a pension asset is reported in the financial statements: to fully recognise the whole value of this figure, it needs to be probable that the asset will lead to future economic benefits to the trust. This would be in the form of a reduction in the contribution rates and / or a cash payout from the pension scheme. Whilst a reduction in the contribution rates is a possibility, it is by no means is a probable outcome – indeed, with falling inflation, it is anticipated that the knock-on effect will lead to a fall in the Discount Rate, which in turn will impact future actuarial calculations thus re-creating an LGPS pension liability.

Contingent asset

If the actuarial valuation of the trust has been calculated as being an asset, our technical assessment – confirmed by the ICAEW – is that the

Demystifying pensions

asset should not be recognised within the financial statements of the trust – i.e. as part of the balance sheet. Instead, a disclosure should be made within the notes to the accounts only, stating that there is a possibility of this asset being realised either in part or in full, only if it becomes probable that future economic benefit(s) will flow to the academy trust from this asset.

For more information, please get in touch with your usual Landau Baker / BKL contact or use our enquiry form.