



Sparkle Multi-Academy Trust
Letter of comment for the year ended 31 August
2020

Now, for tomorrow

The Board of Directors
The Trustess
Sparkle Multi-Academy Trust»
Orchards Junior School
Nelson Road
Worthing
West Sussex
BN12 6EN

Our Ref: S527/RE/

9 December 2020

Dear all,

In accordance with our normal practise this letter of comment highlights the various matters, which arose during the course of our audit of the financial statements for the year ended 31 August 2020. The content of this letter follows the requirements of International Standard on Auditing (UK & Ireland) 260, Communication With Those Charged With Governance.

As auditors we are responsible for performing our work in accordance with the International Standards on Auditing (UK & Ireland) ("ISAs"), for the purpose of forming an opinion and reporting on the financial statements. An audit of the financial statements does not relieve management, or those charged with governance, of their responsibilities in ensuring that each set of financial statements presents a true and fair view of the profit or loss for the year and of the financial position at the reporting date.

Please note that this report has been prepared for the sole use of Sparkle Multi-Academy Trust. It must not be disclosed to third parties, quoted or referred to, without our prior written consent. No responsibility is assumed by us to any other person.

We would like to take this opportunity to express our thanks to you and your staff for your assistance over the course of the audit.

Yours faithfully

MHA Carpenter Box

MHA Carpenter Box

Summary of audit and accounting issues

Issues identified at the audit planning stage

At the planning stage of the audit we identified several key areas of focus and the findings from our audit work are set out below. For a number of areas, including management override of controls and revenue recognition, there is a presumption within the ISAs for all audits to take account of these areas.

Identified risk	Conclusion
<p data-bbox="112 408 1115 440">Risk of fraud in revenue recognition</p> <p data-bbox="112 443 1115 504">Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p data-bbox="112 536 1115 568">We:</p> <ul data-bbox="156 574 1115 756" style="list-style-type: none"><li data-bbox="156 574 1115 606">⇒ Reviewed and tested the revenue recognition policies;<li data-bbox="156 612 1115 673">⇒ Reviewed and discussed with management any accounting estimates on revenue recognition for evidence of bias;<li data-bbox="156 679 1115 711">⇒ Developed a strategy and tested material revenue streams; and<li data-bbox="156 718 1115 750">⇒ Undertook a test of revenue cut-off at the year-end date.	<p data-bbox="1120 443 2112 533">From our review of revenue and cut-off testing, revenue appears to be complete, in line with the relevant accounting standards and no material adjustment to revenue is required.</p>
<p data-bbox="112 794 1115 826">Risk of management override</p> <p data-bbox="112 829 1115 979">As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p data-bbox="112 1011 1115 1043">We:</p> <ul data-bbox="156 1050 1115 1222" style="list-style-type: none"><li data-bbox="156 1050 1115 1139">⇒ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;<li data-bbox="156 1145 1115 1177">⇒ Reviewing accounting estimates for evidence of management bias; and<li data-bbox="156 1184 1115 1216">⇒ Evaluating the business rationale for significant unusual transactions.	<p data-bbox="1120 829 2112 919">From our work completed covering the testing of journals, assessment of accounting estimates and generally throughout our audit process, we have not identified any instances of inappropriate override of controls by management.</p>

Transactions with related parties

Under ISA (UK) 550, transactions with related parties carry an inherent risk with the potential that not all related parties may have been identified by the entity and communicated to the auditors, that related parties may exercise dominant influence over the entity or that transactions with related parties may be conducted on terms or activities outside the company's normal course of business.

We:

- ⇒ Obtained management's records of related parties (including those connected with directors and key management personnel);
- ⇒ Reviewed for the existence of any additional related parties of whom we have not been advised;
- ⇒ Obtained details of transactions undertaken with related parties;
- ⇒ Reviewed the details of contracts and agreements with related parties and the transactions undertaken for their business rationale; and
- ⇒ Ensured that such transactions were appropriately authorised, approved and disclosed.

From our review of related parties and relevant audit testing, no undisclosed related party transactions have been noted and disclosure within the accounts appears to be complete.

Allocation of funds

Under the Academies Financial Handbook, funds must be allocated between restricted and unrestricted funds, depending on their purpose. There is an inherent risk that income/expenditure may be allocated incorrectly.

We:

- ⇒ Prepared a reconciliation of funds
- ⇒ Analysed the movement of funds in the year
- ⇒ Inspected the control environment around funds
- ⇒ Ensured that the allocation of funds is in line with the scheme of delegation.

Based on the results of our audit work, we consider that management's allocation of income and expenditure between restricted and unrestricted funds is appropriate and we consider the financial statements to be materially correct in this regard.

Going concern and reputational risk

Under ISA (UK) 570 we are required to review the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern

We:

- ⇒ Reviewed the budgets and forecasts for a period not less than 12 months from the expected date of approval for the financial statements;
- ⇒ Reviewed the performance of the Trust since the year end;

Based on the results of our testing, the trust's performance since the year-end and the resources available to it, we consider that management's use of the going concern basis is appropriate and that there are no material uncertainties in this regard requiring disclosure within the financial statements.

Other matters to be communicated with those charged with Governance

Qualitative aspects of accounting practices

During the course of our audit, we consider the qualitative aspects of the financial reporting framework, including judgements on key accounting policies, areas of significant accounting estimate and financial statement disclosures to the extent that these may have a significant impact on the relevance, reliability, comparability and clarity of the information presented in the financial statements.

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

Significant difficulties encountered during the audit

We did not encounter any significant difficulties during the audit and there are no significant findings from the audit to draw to your attention.

Letter of representation

A draft of our proposed letter of representation is included within the email sent to you.

If the contents can be agreed, this should be printed on the entity's letterhead and returned to us signed, at the same time as approving the accounts, by two members of the Board.

Adjusted misstatements

A list of adjusted misstatements identified during the audit is included in Appendix A.

Proposed audit report

We do not propose any modifications to our audit opinion and hence anticipate issuing a clean audit report.

Regularity assurance engagement

We conducted our regularity assurance engagement in accordance with the Academies Accounts Direction 2019 to 2020 issued by ESFA. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement included examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure. The work undertaken to draw our conclusions included:

- Consideration of the evidence supporting the accounting officer's statements on regularity, propriety, and compliance;
- Review of procedures and controls ensuring their adequacy, compliance and appropriateness;
- Analytical procedures on the general activities of the academy trust;
- Planning of assurance procedures including identifying key risk areas;
- Further testing and review of the areas identified through the risk assessment including the testing and identification of control processes and examination of supporting evidence as well as additional verification and substantive testing on individual transactions.
- A review of minutes of committees and board meetings which may be relevant to regularity;
- Consideration of discussions with key personnel including the accounting officer and governing body.

We anticipate that we will issue an unmodified regularity assurance report for the year.

Systems and controls

Our audit work has included consideration of internal controls relevant to the preparation of the financial statements so that we might design audit procedures that are appropriate to the circumstances, not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported in this document are limited to those deficiencies identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

We list below details of actual and potential weaknesses identified during the course of our audit and our recommendations for improvements. This is not meant to be a full and accurate reflection of all weaknesses that may be present in your system. For each actual or potential weakness identified we have assigned a grading of high, medium or low priority depending on the importance or risk of the issued identified as follows:

- ⇒ **High** – our observation refers to an actual or potential weakness where there is a risk of significant financial impact on the trust that must be addressed immediately
- ⇒ **Medium** – our observation refers to an actual or potential weakness where there is a risk of moderate financial impact on the trust, such as a control failure or the absence of a control in an area of moderate risk that should be addressed soon.
- ⇒ **Low** – our observation refers to an actual or potential weakness that relate is minor control deficiencies or enhancements in control efficiency that should be addressed within an agreed timescale.

Area	Priority level	Observation	Recommendation	Management response
Management Accounts	High	On review of the monthly management accounts, it was noted that these were not being prepared on an accruals basis.	We recommend that schedules of prepayments, accruals and deferred / accrued income are prepared and adjusted for on a monthly basis. This action will provide more accurate monthly management accounts.	<i>Following discussions on this point, it has been agreed that the SBM will work with Carpenter Box to receive training and guidance on these issues</i>
Internal scrutineer report	Medium	On review of the annual internal scrutiny report it was noted that the process and the prepared report had not covered all areas suggested by the ESFA guidance.	We would recommend that the annual internal scrutiny report is prepared in line with the guidance issued by the ESFA so to include detail of the approach and direction of the work. you may also wish to consider broadening the scope of the review, based on your assessment of the trust's risk areas.	<i>Future internal scrutiny reporting framework will be carried out in accordance with the ESFA guidance and will be linked to the academy's risk areas.</i>
Allocating payments	Low	On review of the aged creditors listing, it was noted that balances were showing as outstanding even where they had been paid.	We recommend that regular reviews are performed to allocate payments to the appropriate supplier / invoice.	<i>Monthly reviews of aged creditors will take place to ensure that payments are allocated to the appropriate suppliers and invoices.</i>

Prior year matters – 31 August 2019

Area	Priority level	Observation	Recommendation	Management response
Management accounts	High	On review of the monthly management accounts process it was noted that several areas were not being correctly dealt with. The fixed asset register was not being rolled forward monthly, and prepayments, accruals, deferred / accrued income were not be accounted for correctly each month. We also note that the opening balances had not been posted.	<p>We recommend that schedules of prepayments, accruals and deferred / accrued income are prepared and adjusted for on a monthly basis.</p> <p>We recommend that a fixed asset register is updated at the end of each month.</p> <p>This action will provide more accurate monthly management accounts.</p>	<p><i>See response above</i></p> <p><i>Resolved – fixed asset register now updated monthly</i></p>
Allocating payments	Low	On review of the creditors listing and VAT accounts it was noted that balances were showing as outstanding even where they had been paid.	We recommend that regular reviews are performed to allocate payments to the appropriate supplier/invoice.	<p><i>VAT – action has been taken.</i></p> <p><i>See above for updated response</i></p>
Fund allocation	Medium	On review of the initial trial balance provided it was noted that some income and expenditure had been allocated to the incorrect funds.	We recommend that regular reviews are performed to ensure income and expenditure has been allocated to the correct fund.	<i>N/A – action has been taken and funds are being allocated appropriately.</i>

Independence

As explained within our audit planning letter we have procedures in place to ensure that MHA Carpenter Box, its partners and staff comply with both the Financial Reporting Council's Ethical Standard and the code of ethics of the Institute of Chartered Accountants in England & Wales ("ICAEW").

We have revisited our assessment of independence following the completion of the audit and confirm that, in our professional judgement, the firm and the audit engagement team remain independent within the boundaries of regulatory and professional requirements and have therefore complied with relevant ethical requirements concerning independence.

Appendix A – schedule of adjusted misstatements

	Statement of Financial Activities		Balance sheet	
	Debit (£)	Credit (£)	Debit (£)	Credit (£)
Increase in pension liability to account for the McCloud judgement	15,000	-	-	15,000
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	15,000	-	-	15,000
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Decrease to surplus and total funds	15,000			
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