

Light Hall School

Key Audit Issues Memorandum

Year ended 31 August 2022






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The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for and is not intended for, any other purpose.



Introduction

The purpose of this report is to bring to your attention the salient points which have arisen from our audit of the financial statements of Light Hall School (“the Trust”) for the year ended 31 August 2022.

This report provides an update to the matters raised in our Audit Service Plan, which was provided to the directors, focussing on observations that are significant to the responsibility of those charged with governance to oversee the financial reporting process as required by International Standard on Auditing (UK) 260.

This report provides an update to matters which arose during the course of our audit.

Our Audit Service Plan sets out in detail the key issues and risks identified at the planning stage and the related planned audit responses. It also explained that our audit approach concentrates on areas of material risk of misstatement in the financial statements to allow us to reach our opinion in accordance with auditing standards.

The Audit Service Plan addressed the following matters

The nature and scope of the audit

Assessment of our audit independence

Any limitations in the work we plan to undertake

The impact of any new accounting or auditing standards

Form and timing of communications

Risk areas and our approach to those areas

Assessment and reliance on internal controls

We confirm that there were no substantial changes in our approach to the audit or risk areas following the issue of this plan, which need to be brought to your attention.

Limitations

We have prepared this report for your use within the Trust. It is part of our continuing communication of audit matters with those charged with the governance of the Trust and, accordingly, is addressed to the Board. It is not intended to include every matter that came to our attention. For these reasons, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy, we would not accept any responsibility for any reliance that they might place on it.

Acknowledgement

We have received full co-operation from all Light Hall School staff. We wish to thank in particular Mark Firmstone and the entire Light Hall School team for the helpfulness and co-operation during the course of the audit process.



Audit independence

Under current UK Auditing and Ethical Standards we are required as auditors to confirm our independence to “those charged with governance” i.e. the trustees/directors. Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 August 2022.

We confirm the following:

We have not carried out any other significant advisory or taxation work in the year ended 31 August 2022

We have not identified any potential issues in respect of: i) personal relationships with the trust; ii) gifts or hospitality received from either trust or its senior management or directors; iii) contingent fee arrangements

The lead audit engagement partner has not acted for more than ten years and therefore is not required to be “rotated”

In addition to performing the statutory audit, we also provide the following non-audit services:

Non-audit service provided Safeguards in place to ensure our independence

<p>Preparation of the statutory financial statements</p>	<p>The preparation of the financial statements from your own draft accounts is largely a mechanical function to present the results in the necessary format required by the Annual Accounts Direction. Any adjustments required have been made following approval, and are listed in Appendix I to this report. We are able to treat your board of trustees, as a body, as informed management. Furthermore, an independent UHY Hacker Young reviewer, who is not otherwise involved in the audit process, has carried out a review of all journal adjustments and the financial statements.</p>
<p>Certification of the Teachers' Pension End of Year Certificates ("EOYC")</p>	<p>The certification of the Teachers' Pension EOYC does not affect our audit.</p>
<p>Completion of the Accounts Return and providing an assurance thereon;</p>	<p>The completion of the Accounts Return is largely an exercise involving the extraction of relevant items from the financial statements and supporting accounting records, and the provision of an assurance report confirming that the Return has been completed consistently with the financial statements and other supporting records. This is not considered to affect our audit.</p>

We therefore confirm that, in our professional judgement, at the date of this report:

UHY Hacker Young LLP is independent within the meaning of the applicable regulatory and professional requirements

The objectivity of the audit engagement partner and audit staff is not impaired

We are able to express an objective opinion on the financial statements



Audit status

We set out below the current status of the audit and our timetable to completion.

The audit was planned and conducted to concentrate on the high risk areas in the financial statements, as noted in our Audit Service Plan. The key audit issues arising in these areas are expanded on in the sections below.

The systems for income, costs, overheads, assets and payroll were documented and the controls over these systems evaluated. Using these assessments we designed and conducted detailed tests of transactions and balances. We have substantially completed our work, and intend to issue an unmodified audit opinion, subject to the trustees' approving the financial statements and any other minor outstanding items listed below being received and/or completed.

There have been no limitations in the scope of our audit work completed to date. There are, however, at the time of writing some outstanding unresolved audit matters which are set out below which may or may not have an impact on our audit opinion on the trust's financial statements:

- Final review and approval by you of the financial statements
- Agreement of the financial statements, including the Trustees Annual Report, to the latest draft
- Subsequent events review to the date of signing the financial statements, including review of latest minutes and management accounts
- Receipt of signed letter of audit representations

We expect to be in a position to sign our audit report as soon as practicable after clearing the outstanding matters above. The timetable for the completion and release of the financial statements and this report to the ESFA will be discussed with management.

Audit scope and other communications

Audit scope

Our terms of engagement are set out in our letter of engagement which sets out our audit responsibilities and their limitations and the responsibilities of the trustees in relation to the financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process.

It applies to monetary misstatements and also to disclosure requirements in compliance with the accountancy framework and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the trust's financial statements	£76k	Income is the most appropriate benchmark as main KPI for the trust. We have used a 1% benchmark
Materiality for specific transactions, balances or disclosures	£46k	Creditors (Liabilities and accruals, Deferred income) and income were highlighted in the ASP as high-risk areas, as such materiality has been reduced.
Related party transactions	£nil – material by nature	Lower materiality considered for related party transactions and directors remuneration. There is no quantitative limit set for these transactions as they are qualitatively material.

Changes to auditing standards

During 2021/22 there have not been any significant changes to International Standards on Auditing (UK) (ISAs) that have affected our audit approach.

Changes in accounting policies

No significant changes in accounting policies have been made during the course of the year.

Audit, accounting and fraud issues

We have obtained sufficient and appropriate evidence for the significant issues and risks identified during our audit.

Consideration of fraud

We have discussed with Mark Firmstone whether there has been instances of suspected or actual fraud, it was confirmed that:

- there have been no instances of fraud during the year; and
- those charged with governance of the company consider there to be a low risk of fraud.

During the course of our work we found no evidence of fraud and corruption. We must emphasise, however, that the responsibility for the prevention of and detection of fraud lies with management, and our work does not remove the possibility that fraud and corruption may have occurred and remain undetected.

During our limited scope assurance engagement on regularity we did not identify any instances where the trust has not been compliant with the Academy Trust Handbook.

Related parties

We are not aware of any related parties or related party transactions which have not been disclosed in the financial statements.

Laws and regulations

We are not aware of any significant incidences of non-compliance with laws and regulations during the year.

Confirmation request from third parties

Confirmations have been requested and received for all bank and loan accounts.

Disclosures

A review of disclosures has been performed as part of our review of the accounts with necessary amendments being processed.

Recommendations for improvements in controls

We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit, along with any other deficiencies identified. Please see the relevant sections below for further details.

Misstatements and adjustments to the accounts

It is considered good practice to inform you of any material misstatements within the financial statements presented for audit that have been discovered by us. A material misstatement is one where the auditors believe that the misstatement is such as to affect the reader's understanding of the accounts. Materiality is considered in relation to the value of the misstatement and also its context and nature.

During the course of the audit, adjustments were necessary in order to facilitate the preparation of the statutory financial statements, consisting of fundamental underlying transactions together with matters of presentation for statutory purposes.

A schedule of audit adjustments has been provided to you for approval. The nature of the main adjustments included the following. These are noted on Appendix II.

Unadjusted errors

We are required by Auditing Standards to inform you of any such adjustments which have not been made, other than those deemed to be clearly trivial.

A schedule of unadjusted errors has been provided to you in Appendix II. The letter of representation states that the individual amounts and aggregate total is immaterial and, accordingly, no adjustment is required.

In assessing the key areas of audit judgement we have had full regard to our assessed level of materiality. A final materiality calculation will be undertaken prior to finalisation of the accounts.

Representation letter

A draft of the proposed letter of representation is attached in Appendix II. We draw your attention to the significant representations, judgements and intentions.

Subsequent events

Our audit procedures and discussions with management carried out to date have not identified any significant post balance sheet events, either adjusting or non-adjusting events. This matter will be discussed further with the audit committee. We will complete our audit procedures in this area at the point of approval of the financial statements, at which time we will require suitable representations from the directors.



Going concern

Requirements

The trustees need to give consideration to the level of reserves maintained, current cash balances and 1-3 year forecasts, and consider going concern for the period to 31 December 2023, being at least 12 months from the approval of the accounts and ensure they agree with the assessment.

The trustees need to take into accounts Covid-19 and the possible impact on cash flows and any inherent significant uncertainties should be discussed in the financial statements.

Management's assessment

Management were to evaluate whether the trust is trading as a going concern.

Management was required to provide a cash flow projections to December 2023 which confirmed their assessment of the going concern principle.

The finance team have confirmed that they believe the academy's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the academy's needs.

Our work on going concern

We have reviewed the financial forecasts and the recent management accounts and budgets. We have assessed these in line with the confirmed pupil numbers and funding statements, and the results for the current year.

Conclusion

Our review supports the trustees' opinion that the going concern principle is appropriate.

Further audit requirements

Our audit of the financial statements is carried out in accordance with International Standards on Auditing (UK), with the aim of forming an opinion whether:

The financial statements give a true and fair view of the state of the academy trust's affairs as at 31 August 2022 and of the academy trust's result for the year then ended.

The financial statements have been properly prepared in accordance with FRS 102.

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and the Annual Academies Accounts Direction issued by the Education & Skills Funding Agency.

The information given in the Trustees' Report for the financial year is consistent with the financial statements.

We are also required to report on whether:

The trust has kept adequate accounting records.

The financial statements are in agreement with the accounting records and returns.

Other information contained in the annual report is not consistent with the audited financial statements.

Certain disclosures of trustees' remuneration specified by law are not made.

We have not received all the information and explanations we require for our audit.

Risk-based audit

We performed a risk-based audit, focussing our work on key audit areas. We began by developing further our understanding of the trust's activities and the specific risks it faces. We held an initial planning meeting with key management and finance staff to ascertain management's own view of potential audit risks, and to gain an understanding of the trust's activities.

We have also developed an in depth understanding of the accounting systems and controls so that we may ensure their adequacy as a basis for the preparation of the financial statements, and that adequate accounting records have been maintained.

Our audit procedures were carried out, and then we ensured the presentation and disclosure in the accounts meet all the necessary requirements.

Risk-based limited assurance engagement

In addition to our audit opinion, we are also required to perform a limited scope assurance engagement, reporting both to you and the Education & Skills Funding Agency ("ESFA"), considering whether the expenditure disbursed and the income received by the trust during the year ended 31 August 2022 has been applied to the purposes identified by Parliament and that the financial transactions undertaken by the trust conform to the authorities which govern them.

This latter point is concerned with looking at compliance with the requirements of the various frameworks that apply to the trust, including your Memorandum and Articles of Association, your Funding Agreements, the Academy Trust Handbook for the relevant period, the Academies Accounts Direction 2021 to 2022, the Charities Act 2011 and the Companies Act 2006.

Our approach was risk-based. We began by developing our understanding of the trust's own approach to ensuring the proper application of funds received and to ensuring compliance with relevant legal and contractual frameworks. We developed an understanding of the trust's governance arrangements and internal control procedures, planning our work accordingly to allow us to gain sufficient evidence to give the required limited assurance opinion.

Our assurance procedures included reviewing and commenting on the Accounting Officer's Statement on Regularity, Propriety and Compliance, and the trustees' report and governance statement. We also discussed with the Accounting Officer the procedures performed so that they may sign the Regularity Report.

Significant risks and other matters identified in our audit

As part of our audit procedures we are required to consider the significant risks that require special audit attention.

International Standards on Auditing require us to consider the following for audit risks:	Whether there is a risk of fraud
	Whether audit risks are related to recent significant economic, accounting or other developments and, therefore, requires specific attention
	The complexity of transactions
	Whether the risks involve significant transactions with related parties
	The degree of subjectivity in the measurement of financial information related to the risks, especially those measurements involving a wide range of measurement uncertainty
	Whether the risks involve significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

The identified significant audit risks were communicated to you in our audit planning report issued before our main fieldwork began.

We now note the work performed and conclusions drawn on the following pages:

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Revenue recognition (mandatory risk)</p>	<p>There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in an incorrect period or on an inappropriate basis. The auditor's responsibility to consider fraud in an audit of financial statements therefore is an assumption that revenue recognition is a fraud risk.</p> <p>Income from grants should be recognised when the conditions of recognition have been satisfied.</p> <p>Income from contractual arrangements should be recognised in the period in which entitlement has been earned through service delivery.</p> <p>Management exercise judgment in determining when income from grants should be recognised.</p> <p>There may also be management judgement in the classification of income between restricted and unrestricted funds.</p>	<p>We identified the income systems and carried out procedures to gain assurance over the operation of internal financial controls in place to prevent the loss of income and to ensure that income is recorded in the correct period.</p> <p>We discussed with the trustees and academy finance staff whether they are aware of any cases of fraud occurring during the year. We also reviewed Board and Committee minutes.</p> <p>Our audit testing involving sampling income balances and the associated funding agreements, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>We have reviewed relevant correspondence to ensure that grant income and expenditure has been recognised in line with the grant agreements and the Charities SORP 2019</p> <p>We also considered whether income had been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions of, for example, grant income.</p>	<p>We have not identified any reportable issues during our audit testing and sample based checks including on our work on ESFA and non-ESFA income.</p>

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Management override of controls (mandatory risk)</p>	<p>The trustees and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Trustees should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where they could override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly. We have reviewed the adjustments and journals processed in the year, and discussed them with management.</p> <p>During our audit, we considered the possibility of manipulation of the financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>We have not identified any reportable issues during our audit testing and sample based checks on journals and estimates.</p>

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Valuation and disclosure of the LGPS deficits and related disclosures required under FRS 102</p>	<p>The fair value of the Trust’s share of the LGPS pension assets and liabilities will need to be included in the financial statements. There is a risk that this will not be recorded and accounted for correctly due to the complexities of the FRS 102 requirements.</p> <p>Management do not have the appropriate expertise to value the pension liability and, therefore, a valuation needs to be obtained from the local authority which has arranged for professional valuations from actuaries.</p> <p>This is a material provision and accounting estimate to be included with complex disclosures that are subject to a high degree of judgement.</p> <p>In respect of the 2020 year end, there are specific issues such as revised mortality assumptions and the impact of the ‘McCloud case’ which will affect the closing liability.</p>	<p>We have obtained the actuarial valuations and have reviewed the assumptions applied for reasonableness and considered the assumptions in comparison with those utilised by other academies.</p> <p>We have reviewed the documentation from the actuary and ensured that the assumptions therein are valid and reasonable, paying particular attention to adjustments made (or not made) in respect of the McCloud case and updated mortality assumptions.</p> <p>We ensured that the correct provision has been made at the end of the year and that all movements and disclosures have been disclosed correctly in the financial statements.</p>	<p>You have instructed the actuary to prepare the pension valuation report using their default assumptions.</p> <p>The basis of the pension liability appears reasonable, and is in line with that used by other academies.</p>

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Regularity and propriety of income and expenditure</p>	<p>We are required to obtain limited assurance about whether the expenditure disbursed and income received by the trust during the financial year have been applied to the purposes intended by Parliament, and whether the financial transactions conform to the authorities which govern them.</p> <p>We are required to provide an opinion on regularity and, during the course of the audit, we will need to carry out additional work to understand and document how the trust and, in particular, the accounting officer ensures that funds are used for the approved purposes.</p> <p>Regularity also covers compliance with the Academy Trust Handbook which contains a significant number of ‘must’ requirement which the trust needs to adhere to.</p>	<p>We reviewed the systems to ensure that there are financial controls in place that comply with guidelines in the Academies Accounts Direction.</p> <p>We undertook an assessment of the risk of material irregularity and impropriety across all of the academy trust's activities.</p> <p>We also reviewed and assessed the adequacy of the procedures and policies in place to ensure that they meet the requirements set out by the ESFA. This included appropriate delegations and risk assessments.</p> <p>We discussed with the trustees and trust finance staff whether they are aware of any cases of fraud occurring during the year.</p> <p>We checked a sample of transactions, including purchases and salary payments, to source documentation to ensure expenditure was incurred for a valid reason and does not indicate any regularity issues.</p> <p>Our audit testing involved sampling income balances and the associated funding agreements, verifying these to supporting documentation to ensure income has been recognised in the correct period.</p>	<p>We have not been informed of any material control weaknesses or irregularity.</p> <p>Based on our review of the regularity checklist, the work undertaken to verify the responses provided, and our consideration of the regularity and propriety of transactions selected for our sample based testing, we are satisfied that the conclusion reached in our regularity assurance report is appropriate.</p> <p>Any instances of non-compliance with the Academy Trust Handbook have been included in our recommendations for the current year</p>

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Related and connected parties	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in accordance with the requirements of the Companies Act 2006 and Academies Accounts Direction. In particular, the Accounts Direction requires that:</p> <ul style="list-style-type: none"> – declarations of business interests have been completed by those in a position to influence the academy trust, including key staff; – contracts with connected parties have been procured following the academy trust’s procurement and tendering process; – where contracts are entered into or renewed, the academy trust has obtained statements of assurance (confirming no profit element was charged) and the academy trust has followed their internal processes in reviewing this; – the academy has requested, under the open book arrangement, a clear demonstration that the charges do not exceed the cost of supply; – any trustees who provide consultancy services to the academy are not receiving a profit for their services and the correct procurement and tendering process is being followed; – no connected party gains from their position by receiving payments under terms that are preferential; and 	<p>We discussed with management and reviewed trustee and other senior management declarations to ensure there are no related party transactions which have not been disclosed.</p> <p>Internal procedures in place for the identification of related party transactions were reviewed and assessed, and any relevant information concerning any such identified transactions was reviewed.</p> <p>A Companies House search was completed for each of the trustees to identify possible related parties with which the trust may have transacted.</p> <p>We have requested written management representations from you confirming the full disclosure of related party transactions.</p>	<p>No related party transactions have taken place between the trust and parties connected to the trustees during the year.</p> <p>Based on the work undertaken, we have not identified concerns over the completeness of related party transaction disclosures.</p> <p>We will obtain written representations from you also, asking the Board and to confirm their satisfaction with the completeness of the disclosures made.</p>

Other matter	Explanation of the risk	Audit work performed	Conclusion
	<ul style="list-style-type: none"> – if employees are providing external consultancy, the income is being received into the academy’s accounts only if the work was performed within the academy’s normal working hours. <p>relevant new related party contracts or other agreements entered into post 1 April 2019 have been notified to the ESFA in advance, and that pre-approval has been obtained for any such transactions in excess of £20,000 (including cumulatively in the year).</p>		
Capitalisation of property improvements-treatment and depreciation	<p>There is a risk that capital works may be expensed instead of capitalised in line with the Trust’s capitalisation policy.</p>	<p>We reviewed expenditure in the year and documentation of projects undertaken to ensure that the expenditure is complete and that where necessary, accruals have been made at the year-end.</p> <p>We ensured that the capital grant income was recognised correctly and that the costs of improvements were capitalised.</p> <p>We have recalculated depreciation and ensured the accounting policies have been correctly applied.</p>	<p>We are satisfied that capital items and depreciation have been accounted for correctly.</p>

Other matter	Explanation of the risk	Audit work performed	Conclusion
Completeness of liabilities and accruals	Owing to the timing of the year end, and the reduced operations of the trust and schools during that period, there is a risk that expenditure is not recorded in the correct period where goods and services have been supplied in the year but where an invoice has not yet been received.	We have performed a detailed review to ensure that proper cut-off procedures are in place and that a detailed search for unrecorded liabilities and costs has been carried out.	Our work has confirmed that costs have, in all material respects, been recognised in the correct period.

Status of significant issues raised in prior year

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. As the purpose of the audit is for us to express an opinion on the trust’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.



These are areas that the Board may wish to consider as part of their annual review of internal controls and in aiming to meet best practice guidelines.



These recommendations should be considered by the Board to ensure that they are in compliance with the ESFA guidelines or to enhance efficiencies.



These recommendations should be considered by the Board as a matter of urgency and steps taken to implement appropriate measures to address the deficiency.

This section updates you on the status of significant issues we brought to your attention last year, and confirms whether any further action is required.


Ref	Area	Significant issue raised in prior year	Priority prior year	Solution suggested in prior year	Follow up comments / further action required	Priority now
1	Contracts Register	<p>It has been identified that the contracts register maintained by the academy has been kept up to date. This would enable the academy to identify spend for review, to ensure value for money is being achieved.</p> <p>The contracts register would outline significant areas of spend, including:</p> <ul style="list-style-type: none"> Cleaning contract (£154k); 	L	<p>It is recommended that the academy updates the contracts register to include all significant contracts that the trust have in place. The contracts register should include:</p> <ul style="list-style-type: none"> Name of supplier; Annual contract value; Contract length; Date of last review. 	No issues to note in current year	Complete

Ref	Area	Significant issue raised in prior year	Priority prior year	Solution suggested in prior year	Follow up comments / further action required	Priority now
		<ul style="list-style-type: none"> Planned maintenance (£43k); Payroll (£7k); External Audit (£7k). 		<p>The academy should ensure that all significant contracts are reviewed at least every 3 years.</p> <p>Management Response <i>The academy has a contract register as detailed in this recommendation, although it has not been updated for 3 months. The contracts register will be updated by January 2022 and maintained thereafter.</i></p>		
2	Staff Trustees	<p>The Academies Financial Handbook para 1.16 states that 'Whilst the members can decide whether to appoint the trust's senior executive leader as a trustee, the Department's strong preference is for no other employees to serve as trustees'.</p> <p>Light Hall School currently has one employee serving as a trustee who is not the senior executive leader (SH).</p>	L	<p>It is recommended that consideration be given to whether employees should be allowed to serve as a trustee in line with ESFA guidance.</p> <p>Management Response <i>The Governing Body will review this recommendation in 2022 and give the appointment of employees as trustees due consideration in line with ESFA guidance.</i></p>	No issues to note in current year	Complete

Recommendations for the current year

We confirm that we have not identified any significant deficiencies in internal control during the 2022 audit. We did note some areas where improvements could be made and these are discussed below. We have identified the following items that we consider to be significant in internal control.

No	Risk	Area	Observation	Recommendations	Management response
1	L	Internal Scrutiny Programme	<p>Section 3 of the ATH 2021 states that: ‘Internal scrutiny must focus on:</p> <ul style="list-style-type: none"> evaluating the suitability of, and level of compliance with, financial and non-financial controls; ensuring all categories of risk are being adequately identified, reported and managed. <p>The trust must identify on a risk-basis (with reference to its risk register) the areas it will review each year, modifying its checks accordingly. ‘</p> <p>For the past 2 years, the work carried out by the internal auditor was primarily on financial controls.</p> <p>An area which is highlighted as a significant risk on the risk register is IT. Although IT support is provided by an external company (Babble), an internal control review may identify areas of weakness which can be improved.</p>	<p>It is recommended that the trust considers carrying out the 2023 internal control review on a non-financial area, such as IT.</p>	<p>Accepted – An independent Internal Control Review of the school’s IT provision will be conducted before August 2023 by a qualified IT Audit provider.</p>

No	Risk	Area	Observation	Recommendations	Management response
2		Website Disclosure	<p>Para 2.32 of the ATH 2021 states that:</p> <p>‘The trust must publish on its website in a separate readily accessible form the number of employees whose benefits exceeded £100k, in £10k bandings, for the previous year ended 31 August. Benefits for this purpose include salary, employers’ pension contributions, other taxable benefits and termination payments. Trusts may wish to display this information in a tabular form showing in each column salary, pension etc.’</p> <p>The academy website currently states that:</p> <p>‘Light Hall do not have any employees receiving benefits over £100,000 per annum’</p> <p>However, when including employers pension contributions as a benefit, as noted above, the Accounting Officer’s benefits exceed £100k.</p>	<p>It is recommended that the academy website is updated to reflect the ESFA requirement.</p>	<p>Accepted – the Accounting Officer’s benefits to be published on the school website in line with the ATH 2021. Completion by 31.12.22</p>

Appendix I – Summary of financial performance and position

Financial performance

Based on the audited financial statements, **the academy trust's total reserves increased by an amount of £3,392k** (2021: decreased by £1,674k) during the year. This total movement on funds is shown in the main statutory financial statements on the Statement of Financial Activities.

Excluding movements on tangible fixed assets, the LGPS defined benefit pension liability, and other non-recurring items, **the academy trust's "operational" surplus on revenue funds for the year was £534k** (2021: £291k surplus), as reconciled below.

		2022 (£000s)	2021 (£000s)
Overall net movement in funds for the year per SOFA		3,392	1,674
Decrease / (increase) attributable to fixed asset fund	See A	506	(2,148)
LGPS actuarial (gain)/loss	See B	(3,680)	340
LGPS service and interest costs	See B	316	397
Movement in revenue funds during the year		534	263
Add: Transfers from revenue to capital to fund fixed asset additions		-	29
Operational surplus /(deficit) on revenue funds before transfers to capital		534	291

Note A - The movement on restricted fixed asset funds comprises capital grant income received during the year less depreciation charged on capitalised assets purchased from such funds, notably the school buildings. Since these do not relate to day-to-day operational matters the movement on fixed asset funds is excluded from the operational result.

Note B - The Balance Sheet carries the trust's share of the deficit on the Local Government Pension Scheme. A detailed report has been prepared by an actuary detailing the movement in the deficit during the year. The movement is in two parts: (1) the actuarial gain relates to movement linked to the assumptions made by the actuary, (2) other movements comprising (i) net interest costs (ii) current service costs - the value of benefits accrued by members over the accounting period less contributions paid.

Appendix I – Summary of financial performance and position (cont'd)

The Balance Sheet summarises the financial position of the academy trust at 31 August 2022 and a more detailed split is contained in the Statement of funds note within the financial statements. The table below highlights the key numbers you should be aware of and the prior year comparatives:

		2022 (£000s)	2021 (£000s)
Total funds		22,172	18,780
Split between:			
Revenue income funds	Restricted funds	726	285
	Unrestricted funds	567	474
(1) Total revenue income funds		1,293	759
(2) LGPS pension reserve		(998)	(4,362)
Restricted fixed asset funds	Net book value of fixed asset	21,907	22,417
	Fixed asset loan	(46)	(53)
	Unspent capital grant money	16	19
(3) Total fixed asset funds		21,877	22,383

Appendix II – Summary of misstatements

Audit adjustments agreed with management

	£'000	£'000
Net income per client trial balance		243
LGPS FRS102 charge	(316)	
Transfer capital additions and depreciation adjustment	(113)	
Bring in accruals & accrued income	(74)	
Recognise school led tutoring clawback	(23)	
Other minor and rounding adjustments	(5)	
Total impact of adjustments		(531)
Net expenditure per audited financial statements		(288)

Unadjusted items

	£'000	£'000
Net expenditure per audited financial statements		(288)
Capital items posted to revenue	11	
Insurance claim received post year end	3	
Total impact of adjustments		14
Net expenditure if all audit adjustments processed		(274)

It has been agreed with management that the above unadjusted misstatements are immaterial, both individually and in aggregate, and therefore do not necessitate revision to the audited financial statements. Trustees' representations regarding the unadjusted misstatements, will be included in the Letter of Representation.



Appendix III – Emerging and topical issues for academies

2022 Academy Trust Handbook (ATH)

The 2022 ATH is already active, and we produced a summary of the key changes earlier this year. There were relatively few changes this time, but the updates are briefly summarised below:

Financial reporting. The Handbook confirmed the permanent withdrawal of the Budget Forecast Return Outturn (BFRO) now that this has been incorporated into the main BFR.

Special payments. Confirmation that prior approval of certain high level staff severance payments applies only to special payments. Para 5.10 of the Handbook separately continues to require trusts to obtain approval for any staff severance payments which include a non-contractual/non-statutory element of £50,000 or above.

Indemnities. The Handbook confirms that trusts will be able to enter into indemnities which are in the normal course of business without seeking approval.

The ESFA expect academy trusts to maintain a contract register of known indemnity clauses with the necessary assessments.

Religious character. The ATH has now extended the scope of 5.57, which confirms that the “at cost” requirements of the related party rules are automatically deemed to have been met for services associated with securing the trust’s religious character, from just dioceses to all religion authorities.

Consolidation of academy sector

The Government’s whitepaper published in March 2022 detailed their goal for all schools to be part of a “strong trust” by 2030 or be in the process of forming or joining one by then. A “strong trust” has been broadly defined as a trust that runs at least 10 schools, on the basis that trusts of this size have the appropriate governance arrangements and bring financial efficiencies to prove to be successful.

It is clear from this vision, and with over half of the country’s primary schools yet to convert, there is going to be a lot of expansion in the size of trusts over the next eight years, which will include the merger of many small trusts.

It is vital that any trust seeking to expand, or indeed any single academy or small trust exploring the possibility of merging with or into another trust, performs effective due diligence to ensure they are completely clear on the financial stability, culture and ethos of the other entity.

The importance of re-forecasting

With a constantly changing landscape in recent months, amid staffing cost rises and spiked energy costs, it is likely that budget forecasts approved by boards and submitted to the ESFA in July will already be out of date.

It is important that boards have up to date financial information to hand, and this is where re-forecasting can play a vital role. We would expect most trust boards to review and approved revised budgets for 2022/23 and 2023/24 before signing off on their 2021/22 financial statements.

High reserves

The 2022 BFR was amended to begin gathering information on academy trusts’ plans where their revenue reserves exceed 20% of revenue income.

It is likely that the DfE will be looking closely at trusts whose revenue reserves exceed this limit, and one can presume that they will be seeking appropriate justification.

This has been prompted following a review of trusts’ 2020 financial statements, where the DfE found that 22% of academy trusts had reserves balances of more than 20% of their annual income.

GAG pooling

GAG pooling is on the increase in MATs, but for now remains far less common than the traditional top slice model. With sector consolidation to come before 2030 we can be certain pooling will increase in popularity.

MATs should be exploring pooling if they have not already considered this. Pooled resources can enable trusts to respond quicker, and to direct resources to the schools that need them. Pooling can provide the flexibility needed to ultimately improve education.

Since all sources of income belong to the MAT, then subject to any restrictions imposed by the funder, a MAT is able to use the funds to deliver its objects. Whilst trusts which do not pool record individual academy reserves, legally any unspent reserves are the reserves of the MAT as a whole anyway, and hence pooling takes away the need for individual reserve balances to be monitored.