The Westgate School
#equippedforlife

# Audit Findings Report – 31 August 2022

Management Letter to Trustees following conclusion of the Audit
30 November 2022




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# 1. Introduction and Management Summary

## 1.1 Outline

This report has been prepared for the trustees Westgate School for following the audit of the financial statements for the year to 31 August 2022 and will be presented by Landau Baker Limited at the meeting of the trustees on 13 December 2022. The comments and recommendations made in this report arose as a result of our review and are for the sole use of the trustees. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

Our audit work has been carried out with the express objective to enable us to offer an opinion on the financial statements, thus ensuring that they are compliant with the prevailing regulatory requirement listed below:

- Companies Act 2006
- UK Generally Accepted Accounting Practices (including FRS 102)
- Charities Statement of Recognised Practice (2019)
- Academies Accounts Direction 2021 to 2022

We have also carried out a limited assurance engagement as to whether the expenditure disbursed, and income received by Westgate School for the year to 31 August 2022 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

The scope of the above work has been communicated to the trustees through our audit planning letter, and our terms of engagement detail the respective responsibilities both Landau Baker Limited and the trustees.

If you wish to discuss the points in this letter or indeed any other matters relating to the academy's finances and controls, please contact the Academies Audit Team.

We would like to express our thanks to Sarah MacBeth and the finance team for their assistance during the audit.

## 1.2 Nature and Scope of the Audit

We set out below an outline of the nature and scope, including where relevant, any limitations thereon, of the work we propose to undertake and the form of the report we expect to make.

We have a duty to form an opinion on the financial statements at the end of the audit. We must give an opinion on whether the financial statements give a true and fair view at the year end, whether the financial statements have been properly prepared in accordance with the Companies Acts 2006, we must also state whether all the information and explanations which we consider necessary for the purpose of the audit have been obtained, whether proper books of account have been kept by the academy and whether the information given in the Trustees' Report is consistent with the financial statements.

We will express an unqualified opinion when the financial statements give a true and fair view in accordance with the financial reporting framework. Any modification to this unqualified audit opinion will be expressed in our auditor's report.

We will conduct our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the International Auditing and Assurance Standards Board. An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the financial statements.

We will document the internal controls and the systems of the academy. We will review internal and external operational, financial, compliance and other risks facing the academy, which might affect the financial statements, including the likelihood of those risks materialising and how they are managed.

We will also document and review the control environment within the academy, including the attitude of management to controls and whether management have a process for keeping under review the effectiveness of the system of internal control and, where a review of the effectiveness of internal control has been carried out and the results of that review.

We will also review the actions that the trustees plan to take in response to matters such as developments in law, accounting standards and other developments relevant to the academy's financial statements.

### 1.3 Audit Opinion

At the date of this report, nothing has been identified which would warrant the issuing of a qualified audit opinion or modified conclusion in our regularity assurance report.

Our specific observations and recommendations have been highlighted in section 4.

## 2. Audit Approach

### 2.1 Materiality

Our audit work does not attempt to verify that the financial statements are 100% correct. We employ the concept of materiality to decipher whether any error or misstatements found during the audit process require adjustment.

When assessing materiality, we utilise our professional judgement whilst considering the following:

- Whether the omission or misstatement of an individual item would reasonably influence the reader of the financial statements; and
- Whether the adjustment or non-adjustment of individual item would impact on the true and fair view of the financial statements.

The overall level of materiality for the financial statements of Westgate School has been set at £87,640. This was set at the final stage of the audit, using the level of funding received by Westgate School, and we are satisfied that it continues to be appropriate.

Any unadjusted misstatements above the trivial level of £1,753 have been recorded on the Summary of Unadjusted Errors [Appendix 5.1].

Any adjusted misstatement above the trial level have been recorded on the Summary of Adjusted Errors [Appendix 5.3].

## 2.2 Independence and Objectivity

In accordance with the Financial Reporting Council's (FRC) Ethical Standard we as auditors must ensure that our independence and objectivity is maintained at all times. The following threat and safeguards identified at the planning stage were as follows:

**a. Non-audit services provided to the audited entity**

Landau Baker Limited is also engaged by Westgate School to provide the following non-audit services detailed immediately below.

- Preparation of Statutory Accounts
- Preparation and Submission of Corporation Tax Return
- Annual Accounts Return
- Teacher's Pension – End of Year Certificate

There may therefore be a perceived loss of independence due to self-review and a management threat (as per FRC's Ethical Standard). In order to address such threats, we applied the following safeguards. These are outlined below.

i. The non-audit services are provided by a separate team from the engagement team, and the team providing the non-audit services avoids taking any action or making any statement that compromises the independence or objectivity of the engagement team, for example, expressing any opinion about the approach that the engagement team might take or the conclusion it might reach when considering the appropriateness of accounting or other audit judgements.

ii. The audit team is satisfied that a member of management has been designated by the audited entity to receive the results of the non-audit service and has been given the authority to make any judgements and decisions that are needed.

iii. The audit team concludes that that member of management has the capability to make independent management judgements and decisions on the basis of the information provided.
iv. The perceived ethical threats are regularly reviewed.
v. A sample of our audit files are subject to review each year by an independent member of the Institute of Chartered Accountants in England and Wales, who specialises in this type of technical review. The audit files selected for review are chosen by reference to the perceived risk associated with those audit files.
vi. The Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales, who is our audit regulator, visits us from time to time and carries out, amongst other things, independent reviews of our audit files.

We confirm that, in our professional judgement and having regard to the safeguards in place, the firm is independent within the meaning of the FRC’s Ethical Standard and the objectivity of the audit engagement partner and staff has not been impaired during the course of our audit.

We have complied with the FRC's Ethical Standard and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirement of the FRC's Ethical Standard.

### 2.3 Qualitative aspects of Accounting Policies and Financial Reporting

During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We would discuss, as necessary, the following items with the trustees:

- The appropriateness of the accounting policies to the particular circumstances of the academy;
- The timing of transactions and the period in which they are recorded;
- The appropriateness of accounting estimates and judgements (e.g. in relation to provisions), including the consistency of assumptions and degree of prudence reflected in the accounting records;
- The potential effect on the financial statements of any uncertainties including significant risks and disclosures, such as pending litigation, that are required to be disclosed in the financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the academy’s ability to continue as a going concern;
- The extent to which the financial statements are affected by any unusual transactions during the period and the extent to which such transactions during

the period and the extent to which such transactions are separately disclosed in the financial statements; and

- Disagreements about the matters that, individually or in aggregate, could be significant to the academy's financial statements or in the auditor's report. These communications include consideration of whether the matters have or have not been resolved and the significance of the matters.

We trust that this more formal approach to the above matters will be helpful to you.

## 2.4 Trustees' Responsibilities

As required by the Companies Act 2006 s418 (2) the Trustees' Report is required to include a statement confirming at the date of approval of the financial statements, the trustees' have:

- taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information; and
- ensured so far as they are aware that there is no relevant audit information of which the company's auditor is unaware.

# 3. Key Audit Areas

Our audit work undertaken has been focused upon our assessment of the risk of misstatement of balances reported in the financial statements. Summarised below are the significant risks and reasonably possible risks identified at Westgate School , and a summary of the specific audit testing undertaken. Any key findings pertaining to the work undertaken are summarised in section 4.

### 3.1 Significant risks identified (ISA 315)

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special consideration. The significant risks identified by the audit team are as follows:

| Identified Audit Risk | Audit Approach & Findings |
|---|---|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper revenue recognition of revenue.<br>We will take a random sample of grant income and a sample of non-grant income from the sales ledger and trace these items back to source documentation.<br>We will also review any funding restrictions in place.<br>Walkthrough tests will be performed on all other material income streams to ensure the system is operating in line with expectations. |
| Management override of controls | Under ISA 240 there is a presumed risk of management override of controls in all entities.<br>We will review accounting estimates, judgements and decisions made by management, test journal entries and review unusual significant transactions. |

### 3.2 Medium risks identified

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is medium, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day-to-day activities of the business. The reasonably possible risk identified by the audit team is as follows:

| Identified Audit Risk | Audit Approach & Findings |
|---|---|
| Fund Allocation | Review the allocation between funds to confirm that it has been correctly undertaken in accordance with both regulation and precedence. Specifically confirm that income and expenditure allocation is accurate and any transfer between funds has the appropriate authority. |

| | |
|---|---|
| Payroll Costs | Agree the total payroll costs per the reports to the staff costs reported in the financial statements. Walkthrough of payroll process and ensure costs are in line with expectations given headcount changes and other factors Test check a sample of employees to ensure existence and that their individual deductions are correctly calculated.<br><br>Payroll cost is low risk, however we have included this in the letter as it represents circa 80% of the total cost. |
| Local Government Pension Scheme | Sense check the assumptions made by the actuaries to ensure that they are comparable with the industry standard.<br><br>Review the accuracy of the calculation made. |
| Related Parties | Enquire with management as to the existence of any related parties. Review the accounting records and any other governorships / directorships held, thus confirming that all relevant disclosures have been made within the financial statements. Review other documentation, such as board minutes and declarations made to the ESFA, to ensure these are in line with disclosure made. |
| Cash | Request bank confirmation letters from all the banks/bank accounts directly, in order to confirm all bank balances held at year end by the Trust. Inspect bank reconciliation for old un-reconciled items and determine whether these should be written off in the financial statements. |
| Accrued Income | Sample test accrued income balances and trace to third party support for example ESFA remittance advice to recalculate the amount of grant income that should be accrued for using the third-party report to gain reasonable assurance over the valuation of the balance in the financial statements. |
| Provision Contingencies and Commitments | Review the balances and disclosures made in the accounts and assess them for accuracy. We will enquire with the management regarding any other items that need to be disclosed. We will also request third party legal letters to confirm no pending litigation is due that has not been disclosed. |
| Tangible Fixed Assets Additions Valuation | Trace a sample of additions in the year per the fixed asset register to third party invoices from suppliers to ensure that the additions have been valued correctly on the fixed asset register, net of VAT, and excluding any retention if they included high value large scale projects during the period. |

| | |
|---|---|
| Creditors / Accruals Completeness | Perform a test of unrecorded liabilities by tracing any payments (including items > PM) made out of the bank post year end per the third-party bank statements to supporting documentation in order to determine whether any material payments related to a product delivered/service rendered prior to the year end and then whether it had been accrued or not within trade creditors/accruals. |
| Completeness of Tangible assets | Test a sample of operating expenditure (excluding payroll) to gain reasonable assurance that no items that are capital in nature have been allocated to the Statement of Financial Activities rather than additions to tangible fixed assets within the Statement of Financial Position. Review the physical assets on site to ensure any assets which are under construction at year end have been accrued for, if not yet invoiced at year end. |
| Going Concern Risk | The audit team will address this risk of material misstatement by reviewing budgets and three years out forecasts of the Trust which is management's assessment of the going concern assumption. The team will assess the assumptions used for reasonableness used within this three-year forecast as well as prepare sensitivity analysis on the assumptions. |
| Existence of Tangible assets | We will address this risk of material misstatement by sampling a random sample of brought forward fixed assets (at the medium risk level sample size) per the client's fixed asset register (which agrees back to the general ledger). We will trace this sample to the physical assets on the client site to gain reasonable assurance that they exist on site and that they are in use and therefore should not be written off the client's asset register or the Statement of Financial Position. |
| Ancillary income could be materially misstated | Trace a sample to supporting documentation in the form of e.g., Parent Pay source documentation (catering income) and/or bank statement copies (e.g., lettings income/after school club income) to ensure the income recognised is accurate. Through our review of third-party support on the testing sample, we will check whether the cash received, and income recognised relates to the current financial period to address the cut-off assertion. |

# 4. Audit Findings

As stipulated by the Academies Accounts Direction 2021 to 2022, all findings detailed below have been given a priority rating as follows:

High Priority – should be addressed as a matter of urgency.

Medium Priority – recommendations to be implemented as soon as practical

Low Priority – recommendations made but little risk – to be dealt with in the future

## 4.1 Matters arising from our audit work

| Findings | Recommendation | Priority | Management Response |
|---|---|---|---|
| **1. PLASC and Pupil Numbers**<br>We noted on the Census Day, the number of pupils eligible for FSM per the census was 209, whereas the internal catering records showed the number as 208 pupils and the internal register as 205 pupils. | In future, we recommend that all items on the census are reconciled to supporting information and the reconciliations are retained with the copy of the census. If any figures on the census are inaccurate, the ESFA should be informed as soon as possible. | | |
| **2. Fixed Asset Register**<br>During our review of the Fixed Asset Register, we noted that depreciation is not calculated for each class of asset. | An asset register should be fully completed for all assets held by the school, in order that it may be used as a stock check and also as the basis of an insurance register. We recommend that the register be updated as assets are acquired, sold or written-off. The following should be shown for all assets in the register:<br>• description of assets including serial numbers<br>• date of acquisition / disposal<br>• original cost<br>• replacement cost<br>• location of assets<br>• source of funding<br>• details of disposals | | |

| Findings | Recommendation | Priority | Management Response |
|---|---|---|---|
| | • depreciation rate and amount of depreciation<br>• identification as "direct" or "support". | | |
| **3. Trade creditors & Bank reconciliation**<br>a) We found a difference of £162k between the aged creditors listing at 31 August 2022 and the balance per the nominal ledger at the year end. The balance was reported as a reconciling item in the bank when it was paid on 20 September 2022.<br><br>b) We noted that the August 2022 bank reconciliation was not signed off. | Monthly reconciliations for all key control accounts should be prepared, reviewed and signed to confirm agreement. Long outstanding items should be investigated and details of any findings and/or actions taken noted. | | |
| **4. Incorrect Posting**<br>During our review of the ESFA income for the year, we noted that the May and July Recovery & National Tutoring Income of £39,450.25 was incorrectly posted to NL code 4040 instead of NL code 4010. | We suggest the finance team review posting of grant income, to ensure income is reported within the correct code. | | |

# 5. Other Issues

### 5.1 Schedule of Unadjusted Errors

There were no errors that we noted in carrying out our audit that have not already been adjusted in the financial statements.

### 5.2 Other communication requirements

- We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedure
- We are not aware of any related party transactions which have not been disclosed
- We are not aware of any significant incidences of non-compliance
- Our review of the financial statements has found no material omissions in the financial statements

### 5.3 Misstatements Identified

We will send the School Business Manager a list of audit adjustments identified once the audit has been finalised

### 5.4 Significant difficulties met

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

## 6. Topical Help Sheets

## ACADEMY TRUST HANDBOOK - 2022

The delayed Academy Trust Handbook 2022 has recently been published by the ESFA, which is effective for trusts commencing from 1 September 2022. Due to the delay in issue, the changes incorporated therein are minimal from the previous version – for expediency these are summarized below.

**Financial Reporting:** Confirming withdrawal of the Budget Forecast Return Outturn – now only the Budget Forecast Return needs to be submitted to the ESFA each July. As previously, this must also be approved by Trustees prior to submission.

**Special Payments:** Clarification that prior approval from the ESFA in relation to staff severance payments in accordance with HM Treasury's Guidance on Public Sector Exit Payments applies only to 'special' (i.e.non-statutory/non-contractual) payments where:

- an exit package which includes a special severance payment is at, or above, £100,000; and/or
- the employee earns over £150,000.

**Indemnities:** Clarification that trusts will be able to enter into indemnities which are in the normal course of business without seeking prior approval from the ESFA.

**Religious Character**: Confirming that or academies with a religious designation, the provision of services to protect and develop their religious character and ethos, which can only be provided by their religious authority, are regarded as meeting the "at cost" requirement

*Should you require any assistance regarding the above, please do not hesitate to contact either Carly Pinkus, Jake Lew, Jonny Weatherall or Lisa Durst on 0208 359 9988.*

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## ACADEMY TRUSTS WITH MORE THAN 20% REVENUE RESERVES

The ESFA has been requested by the National Audit Office and the Public Accounts Committee to provide more information on academy trusts holding revenue balances that are more than 20% of their total annual revenue income.

This recommendation aligns with the Department's work to ensure appropriate plans are in place where trusts are holding significant levels of reserves.

## HOW WILL THIS INFORMATION BE COLLECTED?

Additional questions will be asked in the budget forecast return (BFR) which will be relevant to trusts where the revenue reserves balance exceeds 20% of their annual income. This will allow the Department to glean the necessary information required by the National Audit Office.

Please see the update guide to completing the BFR below:

https://www.gov.uk/guidance/academies-budget-forecast-return?utm_source=27+April+2022&utm_medium=ESFA+update&utm_campaign=BFR

## WHAT IS THE POTENTIAL IMPACT?

The ultimate aim of the Public Accounts Committee is to ensure the efficient spending of public money within the education sector, and trusts holding significant levels of reserves without rationale, or a proper reserves policy would potentially highlight this. It is therefore recommended that if the trust holds significant levels of revenue reserves, that:

a) It is in line with the reserves policy within the accounts; and

b) Any future spend for which these reserves are earmarked, are clearly identified within the Trustees Report.

Landau Baker's template Trustees Report, which is due for issue in July, will be updated to reflect the above recommendations.

*Should you require any assistance regarding the above, please do not hesitate to contact either Carly Pinkus, Jake Lew, Jonny Weatherall or Lisa Durst on 0208 359 9988.*

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# CURRENT CHALLENGES FOR ACADEMY TRUSTS

The education sector is constantly changing – whether it is legislative changes, political decisions or macro-economic factors, academy trust leaders need to be constantly aware of the impact that these will have on their trusts. This year more than most, significant changes are underway which will impact the financial health of the trust, and we have aimed to summarise these in the help sheet below, alongside ideas as to how they may be mitigated.

## Cost of Living Crisis

Whilst the media soundbite 'cost of living crisis' is a simplified description of the anticipated economic circumstances of the UK, the consequences of the situation will have far reaching impacts for academy trusts.

1. High inflation levels will drive up the cost prices of purchases across the board, increasing the pressure on an already typically lean budget.
2. Staff salaries – if they increase in line with inflation, this will significantly increase the cost to the trust, as they typically account for 80-85% of total costs. If they do not increase in line with inflation, then there is the distinct possibility of staff leaving the profession, due to unsustainable levels of remuneration.
3. Energy costs have increased dramatically, from an average pre-covid level of £58 per pupil per year, to a forecast cost in the current year of £241 per pupil, which is more than 4x more.
4. Any increased government funding in relation to the above is unlikely to be implemented before the cost increases hit, therefore the initial cash outlay will need to be funded by the academy trust.

As a response to this, and to ensure continued improvement of governance, the Academy Trust Handbook (2022), has re-emphasised the necessity for Trustees to ensure that the annual Budget Forecast Return, has been fully scrutinised and approved by themselves. If an in year deficit is projected, this needs to be reported to the ESFA within 14 days.

If a trust is going to have any projected financial difficulty into future years, it is recommended that early engagement with the ESFA is pursued, to maximize the options available to the trust to project pupil outcomes.

## DfE Chart of Accounts

Whilst the DfE chart of accounts has been in publication for a number of years, over the past few weeks, the pressure on trusts, not using the chart of accounts has intensified, with correspondence being sent encouraging the transition. The likelihood that adoption will become mandatory over the next couple of years has also risen. As a result of this, if you do need any assistance in relation to the above, please do not hesitate to contact us.

**Local Government Pension Scheme Deficit**

By a significant margin, the Local Government Pension Scheme liability is the largest within the statutory financial statements for an academy trust. In certain instances, especially with religious trusts, where the land and buildings are held by another party, the balance sheet can appear insolvent. However, as in previous years, the government has guaranteed the deficit in the event of any academy closures.

Whilst we have seen the deficit grow over the past few years, the early indication from the actuaries is that an increase of the discount rate by c. 1.8% will lead to a significant reduction in the year end liability. A full summary of the changes in assumptions are detailed in the table below.

| | **Changes since August 2021?** | **Balance Sheet Impact** |
|---|---|---|
| Investment returns | Markets underperformed | Decrease assets by c. 5% |
| Discount rate | Up by more than 1.8% | Decrease obligations by c. 40% |
| Benefit increases (CPI) | Similar long term market review | No impact |
| Longevity assumptions | Potential update | If yes, small decrease in obligations |
| Actual PI experience | Was 3.1% at April 2022 | Small increase in obligations |
| Overall Impact | | Significant Improvement |

*Should you require any assistance regarding the above, please do not hesitate to contact either Carly Pinkus, Jake Lew, Jonny Weatherall or Lisa Durst on 0208 359 9988.*

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