Post Audit Management Report

North Hampshire Educational Alliance (Queen Mary's College)

Year ended 31 August 2023

Buzzacott

Contents

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Executive summary

Purpose of the external audit

Our work was performed with a view to expressing an opinion on the consolidated financial statements of North Hampshire Educational Alliance (the Academy Trust) and its subsidiary, QM Leisure Limited, for the year ended 31 August 2023 and to draw a limited assurance conclusion concerning regularity and propriety in the application of government funding.

Our audit work also included consideration of the internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance and/or to the Education and Skills Funding Agency (ESFA) in accordance with their requirements.

We appreciate that you will already be aware of some of the matters contained in this report. However, in accordance with the ESFA's requirements and International Standards on Auditing (UK) (ISAs) we are communicating them to you formally.

This report and its contents were submitted in draft form to Mark Henderson (Chief Executive) and Amelia Nirmal (Director of Finance) for comment prior to finalisation.

Audit progress

The agreed audit start date of 9 October 2023 was delayed at the request of the finance team a few days before the main audit was due to commence. Progress was further delayed by the half term holidays from w/c 20 October 2023. As a result, audit clearance had to be pushed back to w/c 13 November ensuing time pressure to meet the deadlines for circulating documents to the Audit Committee. The delay caused inefficiencies as audit staff had to be reallocated and information was not received until late in the audit process.

We would like to take this opportunity to thank all those with whom we dealt during the audit for their assistance and co-operation, in particular Sarah Caine, Toni Baldwin and Amelia Nirmal.

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Expected opinions

Subject to the satisfactory receipt of the outstanding items and confirmations as set out below, we intend to issue the following opinions:

Financial statements opinion:

We expect to express that in our opinion the financial statements give a true and fair view and have been properly prepared in accordance with the Academies Accounts Direction 2022 to 2023 and previous supplementary bulletin (July 2021) issued by the ESFA, and Companies Act requirements.

Regularity assurance conclusion:

We intend to state that in the course of our work nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2023 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

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Outstanding items

At 10 November 2023, our work is complete with the exception of the following:

- Receipt of the letter of representation which asks the Trustees to confirm to us specific matters relating to the audit and the financial statements in line with International Standards on Auditing;
- The Academy Trust's going concern assessment as at the date of approval of the financial statements, which should be approved and signed on behalf of the Trustees; and
- Confirmation immediately prior to the financial statements being signed that no significant events have taken place since the time of our audit that would impact on the financial statements.

We will require the information above before we are able to finalise our audit.

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Key audit findings

Key audit issues and outcomes

As part of our pre-audit planning process, we identified those areas where we believe there is a higher probability that a material error may appear in the financial statements as well as areas of significant interest or concern for management and those charged with governance. In the pages which follow we have provided a brief summary of the original risks we identified as part of our initial planning discussions, as well as any changes since our initial planning, and the outcome of our audit work in relation to those areas.

Area	Issue and response
Financial climate, reserves policy and going concern assessment	**Risk:** The current financial climate is challenging for the sector, particularly in the context of cost inflation, which is increasing the importance of carefully managing reserves and financial forecasting. The high inflation environment began to impact the United Kingdom in 2022 and is continuing to be a challenge in terms of current cost control and also in relation to budgeting for future periods. The 2022/23 pay awards of up to 8.9% for teaching staff and 10.5% for non-teaching staff provide further challenges for leaders in balancing Trust budgets. When approving the financial statements, the Trustees must consider whether it is appropriate for the financial statements to be prepared on the going concern basis and whether the disclosures in connection with the financial viability of the Academy Trust are adequate. The Trustees must therefore see financial information covering a period of not less than one year from the date of approval of the financial statements (i.e. to December 2024) in order to make their assessment of whether it is appropriate to prepare the financial statements on the going concern basis. ***Results:*** *We have taken account of the impact of rising costs within the economy on the financial results as part of our analytical work on the Academy Trust's income and expenditure. The balance sheet and year end reserves position was considered in conjunction with available budgets/forecasts, our knowledge of the Academy Trust's future plans and the reserves policy determined by the Trustees.* *We are satisfied that the Trustees have given due consideration to the going concern status of the Academy Trust and we are in agreement with the conclusion made in light of the evidence provided. This is reflected within our audit report.* ***We will review disclosures when the ging concern assessment has been received***

Area	Issue and response
Aggregation risk	**Risk:** There is a risk that the aggregation process for the multi-academy trust is not accurate. Journals that are processed as part of the accounts preparation may not fully identify intra-school transactions and balances. As a result debtors, creditors, income and expenditure may potentially be misstated as a result within the aggregated figures. ***Results:*** *We reviewed the accuracy of the consolidation workings including the reconciliation of intra-Academy Trust and inter-group balances, to ensure that transactions between individual schools, the central office and the trading subsidiary were eliminated, and the appropriateness of other year end consolidation journals.* *As noted in appendix 2, we were unable to ascertain if appropriate consolidation adjustments had been made for income and expenditure transactions between the two entities, QMC and QML. However, we were able to establish an estimate of the potential financial impact and do not consider it to be a material concern for 2022/23.*
Income recognition	**Risk:** There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in the wrong period or at artificially inflated or suppressed amounts. ***Results:*** *We carried out detailed analytical review against expectations based on our understanding of the Academy Trust and against the prior year. Reasonable explanations were obtained from management and significant variances were substantiated as appropriate. One audit adjustment was proposed to recognise a capital grant as income rather than holding the funds in creditors and this is noted in appendix 1 and 2. No other significant issues arose during our audit testing and sample based checks including on our work on ESFA and non-ESFA income.*

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Area	Issue and response
Regularity	**Risk:** Regularity and the use of government funding continues to be a substantial focus of the ESFA and National Audit Office. Ensuring regularity within the Academy Trust is the responsibility of the Board and all of the current focus on regularity in the academy sector has only increased the level of responsibility for the Board to monitor and document management of risk including risk of irregularity. ESFA expects all academies to implement appropriate procedures and policies at all times, including during periods of school closure, which mitigate the risk of irregularity in (but not limited to) the following areas: • Procedures and policies in relation to risk management and ensuring that these are regularly considered; • Procedures and policies in relation to general procurement, use of credit cards and expense claims; • Procedures and policies in relation to the appropriate remuneration of payroll staff, agency staff and consultants; and • Procedures and policies in relation to the management of conflicts of interest and related party transactions. **Results:** *The regularity self-assessment was provided for audit, which was completed by the Academy Trust's finance team and reviewed by the Accounting Officer. The regularity self-assessment confirms the processes in place to ensure regularity, propriety and compliance within the Academy Trust in relation to the above areas and the other requirements set out in the Academy Trust Handbook.* *The Academy Trust has not informed us of any material control weakness or irregularity. Based on our review of the self-assessment questionnaire, 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*.

Area	Issue and response
Related party transactions	**Risk:** In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK Accounting Standards and the ESFA Academies Accounts Direction require transparent disclosure of all transactions and balances arising between the Academy Trust and its related parties. In addition, the ESFA Academy Trust Handbook places restrictions on the permissibility of certain related party transactions and required certain transactions to be reported to the ESFA in advance of being entered in to. ***Results:*** *The Academy Trust's procedures for identifying related parties and associated transactions were reviewed. This includes the requirement for each of the Trustees and member of the Academy Trust Senior Management Team to update their declaration of interests annually, and to declare any interests they have at the commencement of business meetings.* *Based on the work undertaken, we have no concerns over the completeness of related party transaction disclosures. We will obtain written representations from you also, asking the Board and management to confirm their satisfaction with the completeness of the disclosures made*.
Management override of controls	**Risk:** There is an inherent risk in all organisations that management may be in a position to override controls or agreed protocol. Such actions may be taken in order to conceal or process unauthorised or inappropriate transactions, or may occur due to weaknesses in the control environment. Such actions could lead to either deliberate or inadvertent misstatement of the results portrayed by the financial statements. ***Results:*** *Journal entries were reviewed, particularly those surrounding the year end and explanations were sought for any large or unusual items. All items tested and discussed with management were deemed appropriate.*

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Area	Issue and response
Accounting estimates	**Risk:** Certain accounting entries within the financial statements are made on the basis of an estimate and changes in the underlying assumptions could lead to a shift in the reported results. The most material estimates within the Academy Trust's financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges), and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme. ***Results:*** *We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated at the approved rate.* *The year-end liability in respect of the Local Government Pension Scheme is consistent with the estimate provided by the scheme's actuary and the assumptions used appear reasonable. In particular the CPI assumption of 3.8% reflects the recent increase in inflation during the period to 31 August 2023.*

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Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2022 to 2023 (the Accounts Direction) and the supplementary coronavirus bulletin. Compliance with the Accounts Direction also ensures that the requirements of companies and charities legislation are met. There were only a small number of changes introduced by the 2022/23 revision of the Accounts Direction. The notable changes of relevance were as follows:

i. **Trustees' report and regularity statement– Estates management**

The most notable change in the 2022/23 direction relates to clarification in respect of estates management in response to the risks affecting the safety of school buildings that have been identified by the Department for Education (DfE).

This change affects disclosures in the narrative elements of the annual report and financial statements as follows:

- The trustees' report on principal risks and uncertainties should consider those risks impacting on trustees' responsibilities to ensure the trust's estate is safe, well maintained and complies with relevant regulations.
- Clarification that the review of value for money statement encompasses estates safety and management.
- Accounting officers should consider demonstrating how they have effectively used relevant funding to ensure the trust's estate is safe, well-maintained, and complies with relevant regulations, as one of their value for money examples.
- Clarification that the statement on regularity, propriety and compliance encompasses estates safety and management.

ii. **Support staff numbers and costs**

The direction has clarified that teaching assistants are considered as support staff as opposed to teaching staff for the purpose of staff cost allocation. The AAD clarified that the number of "Teaching Assistants" should be analysed as "administration and support" category (when choosing between "teaching", "administration and support", and "management" (see para 2.137 of the AAD), and this has to be on an average headcount basis, although additionally, the numbers may also be analysed on an FTE basis.

The AAD confirms that the cost of "Teaching Assistants" should be analysed as a "direct cost" of "expenditure on charitable activities" (in the same way as teachers, education welfare supervisors, cover supervisors, librarians, lab/workshop/technical assistants and exam invigilators) – see para 2.103 of the AAD – and appear within the staff costs column. We are aware that some Academy Trusts have elected to include the cost as part of "expenditure on charitable activities / academy trust's educational operations / allocated support costs" (rather than direct costs) to ensure consistency with the categorisation of staff numbers above. We recommend that whatever approach is taken, that the analysis of the comparative is kept consistent with the current year treatment.

In all respects, the Academy Trust's annual report and financial statements have complied with the new requirements.

Accounting policies, estimates, and disclosures

Our work included a review of the adequacy of disclosures included in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Academy Trust. We believe that the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the Academy Trust and in compliance with the Accounts Direction.

Professional ethics

In accordance with our profession's ethical guidance and further to our letter to you confirming audit planning arrangements there are no further matters to bring to your attention in relation to Integrity, Objectivity and Independence.

Audit adjustments and unadjusted misstatements

Under Auditing Standards, we are required to provide you with details of any adjustments identified during the course of our audit work which have been made to the figures presented to us for audit.

Audit adjustments

Details of the adjustments which have been made to the figures presented to us for audit are provided at Appendix 1. These have all been discussed and agreed with Mark Henderson and Amelia Nirmal. We will obtain written representations from you, as Trustees, that you concur with these adjustments.

Unadjusted misstatements

Other than clearly trivial misstatements, all misstatements identified during our audit have been adjusted.

Materiality

Materiality threshold £258,000

Reporting threshold: £13,000

You will note that our report refers to ‘material misstatement’; materiality refers to the relative significance of a particular matter in the context of the financial statements as a whole. An item would be considered material if its omission or its erroneous inclusion would reasonably influence the decisions of those using the financial statements.

We are required to report corrected audit misstatements, and uncorrected audit misstatements in excess of our reporting threshold which is set at 5% of overall materiality.

Our materiality threshold is based on 2% of operational income. A lower level of materiality may be selected for specific areas of the financial statements. For many disclosure items however, materiality is an absolute and not a relative concept. This specifically applies to transactions and other financial arrangements with Trustees and their connected persons, which would usually be considered material regardless of relative value.

When considering the impact of misstatements discovered during the course of our audit and considering the implications for our report of such misstatements, we will refer to this level amongst other things. Whether a misstatement is 'material' or not is ultimately down to the auditor's judgement.

Accounting and internal controls systems

Our work during the audit included an examination of some of the Trust's transactions, procedures and controls with a view to expressing an opinion on the financial statements for the year ended 31 August 2023. This work was not directed primarily towards discovering weaknesses, other than those that would affect our audit opinion, or towards the detection of fraud. We have included in this report only matters that have come to our attention as a result of our normal audit procedures and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

For the first time this year, and in light of the revised auditing standard (ISA 315) referred to in our Audit Strategy paper, we placed increased emphasis on the Trust's IT controls and wider IT environment. Information was gathered at the planning stage in respect of access permissions to key systems storing financial data with controls over access, including password changes, being checked as part of the audit. We also gained a deeper understanding of the Trust's general IT infrastructure, its data storage and back up procedures. We have noted any significant observations and recommendations within Appendix 1, and summarised within the section below.

Our work in this area is primarily performed to aid risk assessment for external audit purposes and should not be considered a substitute for a dedicated ICT and Systems audit review. The general environmental risk in relation to systems failure and cybersecurity is high, and we recommend that the trustees ensure they continue to consider the mitigations and controls in place as part of their annual review of risk and, their cyclical programme of internal scrutiny. Further ESFA guidance on minimum cyber security standards for education establishments is available at https://www.gov.uk/guidance/meeting-digital-and-technology-standards-in-schools-and-colleges/cyber-security-standards-for-schools-and-colleges

Audit observations and recommendations

The table below provides a summary of any observations made concerning weaknesses in the Academy Trust's accounting and internal control systems including those identified as part of the work performed to provide a conclusion on the regularity of the Academy Trust's transactions within the accounting period.

Observations included in the "A" grade (red) banding indicate that, in our opinion, there is a risk of significant financial impact on the business that must be addressed immediately. "B" grade (orange) banding recommendations relate to those issues where there is a risk of moderate financial impact on the business, such as a control failure or the absence of a control in an area of moderate risk. These items should be addressed shortly. Observations included in the "C" grade (yellow) banding indicates that the matter, although important, does not warrant urgent attention and should be addressed within an agreed timeframe.

Priority	No of points	Relating to
A	**2**	• Income recognition • Cyber security
B	**3**	• Presentation of cash on balance sheet • Consortium cash • Consolidation adjustments
C	**-**	

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Financial performance and position

Audited results

The results reported within an academy trust set of financial statements include a number of non-cash movements including Local Government Pension Scheme adjustments and depreciation charges, which do not usually appear within the management accounts. The analysis below shows the financial performance reported in the financial statements excluding these items so that the results can be more easily related to figures that are being reported in-year. Excluding movements on tangible fixed assets, the defined benefit pension liability and other non-recurring items, the Academy Trust's "operational" surplus for the year was £146,000 (2022: deficit of £347,000), as reconciled below.

	2023 £'000	2022 £'000
Overall net movement in funds	646	5,519
Add: net expenditure attributable to the fixed assets fund before transfers (note 1)	679	565
Less: LGPS actuarial gain (note 2)	(1,133)	(7,402)
Add: LGPS service cost adjustment (note 2)	201	813
Add: LGPS interest cost adjustment (note 2)	50	125
Add: non-recurring repair costs relating to roof and doors	–	306
Less: Fair value adjustment to enhanced pension provision (note 3)	(136)	–
Operational surplus/(deficit) for the year excluding fixed asset purchases	307	(74)
Less: fixed asset purchases from revenue funds (note 4)	(161)	(273)
Operational surplus/(deficit) for the year	146	(347)
Reconciliation of revenue reserves		
Revenue reserves brought forward (note 5)	403	750
Operational surplus/(deficit) for the year (as referred to above)	146	(347)
Add: Fair value gain on enhanced pension scheme liabilities (note 3)	136	–
Revenue reserves carried forward	685	403

Note 1: Movement on fixed assets fund

For the purposes of determining the "operational" surplus the net income in respect of the fixed assets fund has been disregarded on the basis that the principal movements within this fund relate to capital funding received and the depreciation applied on assets purchased from such funds, and therefore are not in relation to the day-to-day operation of the Academy Trust.

Note 2: LGPS (Local Government Pension Scheme) adjustments

The Academy Trust is one of several employing bodies included within the Hampshire Pension Fund. The scheme's actuaries, Aon, have prepared a valuation of the assets and liabilities which are specific to NHEA so that the net liability may be included on the balance sheet. For the purposes of determining the "operational" surplus, the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2022 have been excluded.

Note 3: Fair value gain on enhanced pension scheme liabilities

The Academy Trust's enhanced pension scheme liability was revalued in 2022 using the purchase price of an annuity as an estimate of fair value. For the purposes of determining the "operational" surplus, the fair value change in the liability since 1 September 2022 has been excluded.

Note 4: Fixed asset purchases from the revenue fund

The purchase of fixed assets from revenue (operational) funds is shown in the accounts as a transfer from unrestricted funds to the restricted fixed asset fund. This additional investment in fixed assets is in addition to the restricted capital funding that the Academy Trust received.

Note 5: Revenue reserves

The revenue reserves of the Academy Trust exclude the tangible fixed asset fund and Local Government Pension Scheme reserve. The revenue reserves therefore represent the funds available for the day-to-day operation of the Academy Trust.

Comparison of key financial ratios

For your information, we have included at Appendix 3 to this report a comparison of the Academy Trust's key financial ratios for 2021, 2022 and 2023 and also against the sector averages for 2021 and 2022.

Note that the ratios presented in the Appendix may differ from your own ratios where a slightly different formula is used. In addition, the population is drawn from data on approximately 100 academies based in the South East of England and Greater London and whilst they may provide a guide as to how the NHEA compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.

Letter of representations

We take this opportunity to enclose a final draft of the letter of representations which we will ask the Trustees to sign at the same time as the approval and signature of the annual report and financial statements.

This includes acknowledgement of the Trustees responsibility for the design and implementation of internal controls to prevent and detect fraud.

As set out in our planning letter, we understand the following applied to the year ended 31 August 2023.

- The Board of Trustees of the Academy Trust exercised effective oversight of management's processes for identifying and responding to the risks of fraud in the Academy Trust and a system of internal controls was in place to mitigate these fraud risks.
- The key areas at most risk of fraud at the Academy Trust are:
  - The payment of unauthorised expenditure through the override of key controls; and
  - Third party fraud leading to payment being made to the incorrect recipient including cyber fraud.
- The Board of Trustees were not aware of any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets.
- There have not been any out of the ordinary transactions.

If the above information is no longer correct, please contact Shachi Blakemore or Stephen Elsworth.

Integrity, objectivity and independence

In accordance with our profession's ethical guidance and further to the External Audit Strategy document issued to you as part of the pre-audit planning process, we confirm that there are no further matters to bring to your attention in relation to our integrity, objectivity and independence as auditors.

Other work undertaken as part of the 2022/23 audit cycle

As set out in our External Audit Strategy to you we have also been engaged to provide you with the following services:

- **Teachers' Pension End of Year Certificate (EOYC) assurance**
  We can confirm that we have concluded our work on this area. Our assurance report was issued to Teachers' Pensions along with the final End of Year Certificate. Our work did not raise any significant concerns which need to be drawn to your attention.

- **ESFA Accounts Return assurance**
  Our work on the Accounts Return assurance will begin in January. We do not have any concerns at this stage and we will work with management to ensure that the Accounts Return together with our assurance report is filed ahead of the 30 January 2024 deadline.

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Use of this report

This report has been prepared for your private use only. It has been prepared on the understanding that it will not be shared with any third party, other than the ESFA, without our prior written consent and we can therefore assume no responsibility to any other party. The advice contained herein is based on the information you have provided and UK law and judicial and administrative interpretation as of the date of this report. Should the facts provided to us be incorrect or incomplete or should they change, our advice may be inappropriate. Buzzacott LLP accepts no liability for losses arising from changes in UK law, interpretation or practice or in public policy that are first published after the date of this report.

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Date:

Appendix 1: Audit adjustments and unadjusted items

Audit adjustments - Group and QMC

		Statement of financial activities		Balance sheet	
	Description	Debits (£'000s)	Credits (£'000s)	Debits (£'000s)	Credits (£'000s)
1	Dr Current asset investments Cr Cash *Being investments with a maturity date exceeding three months*			253	 253
2	Dr Expenditure – Wage costs (pension) Cr Actuarial gains *Being fair value adjustment to the enhanced pension liability: credit to be shown as part of other recognised gains and losses, not offset against wage costs*	136	 136		
3	Dr Accruals and deferred income Cr Other creditors Being reclassification of Wessex and EQR funds from accruals to other creditors			300	 300
4	Dr Current liabilities Cr Capital grants *Being recognition as income of all deferred capital funding held in balance sheet at 31 August 2023*		 52	52	
5	Dr LGPS Pension scheme liability Cr Expenditure – Wages (pension) *Being to reduce provision to £229,000 per valuation report (past service costs omitted from QMC calculation)*		 45		45

The above adjustments increase the Academy Trust's overall reserve balances by £52,000.

Audit adjustments – QM Leisure

	Description	Statement of income Debits (£)	Statement of income Credits (£)	Balance sheet Debits (£)	Balance sheet Credits (£)
1	Dr Statement of income	1,749			
	Cr Current liabilities – amounts owed to parent				1,749
	Being to correct accounting treatment for gift aid payment made by QML to QMC: payment allocated to intra group account should be taken to statement of income				
2	Dr Statement of income	1,749			
	Cr Retained profits b/fwd from 2022				1,749
	Being restatement of retained profits at 31 August 2022 (missing from QML TB) and write off opening difference				

The above items reduce the reported profit for the year by £1,749 and retained profits by £3,498 (post gift aid).

Unadjusted misstatements - Group and QMC

Description	Statement of income Debits (£000)	Statement of income Credits (£000)	Balance sheet Debits (£000)	Balance sheet Credits (£000)
Dr LGPS Pension scheme liability			45	
Cr Expenditure – Wages (pension)		45		
Being to reduce provision to £229,000 per valuation report (no unfunded benefits – see appendix 2)				

The above adjustment, if recognised in the financial statements, would increase the Academy Trust's overall reserve balances by £45,000

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Appendix 2: Audit observations and recommendations

	Observation and Implication	Recommendation	Management comment
A	**Income recognition principles** We noted one balance within current liabilities relating to the deferral of grant income: LSC Capital Grant of c£52,000. The Accounts Direction requires capital grants to be recognised in full where there is unconditional settlement. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund.	**We recommend** that the finance team apply the principles of the Accounts Direction when preparing statutory accounts.	
A	**Cyber-security** We noted that the internal auditors report on cyber security in September 2023 identified a number of areas of concern around cyber risk management, including policy and procedure, data security, including back up, recovery and physical security of IT assets, supply chain security including documentation and controls, and formal training for users in high risk roles including finance staff.	Given the high risk for the education sector and the ever evolving nature of threats to IT security, the Academy Trust may want to consider bringing forward any remedial action in these areas.	
B	**Presentation of cash with a maturity date greater than three months on acquisition** The Accounts Direction and Charity SORP FRS102 defines "cash" as short term highly liquid investments with a short term maturity date of three months or less from date of acquisition. The Trust placed c£253,000 on a six month fixed term deposit in May 2023. It doesn't meet the definition of "cash and should be presented as a "current asset investment" on the face of the balance sheet and as part of "investing activities" in the cash flow statement.	**We recommend** the balance sheet and cash flow presentation is amended.	

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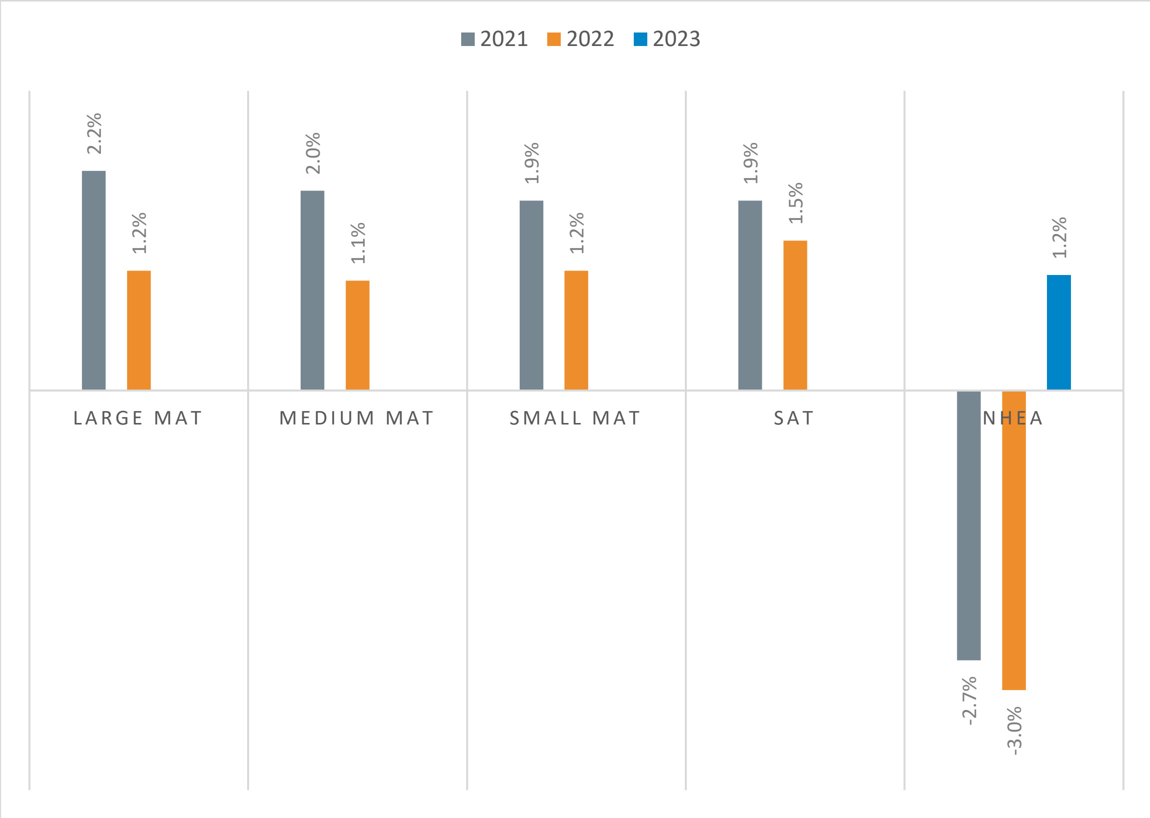
	Observation and Implication	Recommendation	Management comment
B	**Consortium liabilities and cash defined as working capital** We observed that NHEA held c£0.3m of cash as agent for the Wessex and EQR consortiums. In an agency arrangement NHEA are not deemed to have control of consortium cash. We noted that in management accounts and cash forecasts no distinction was made to the cash held on behalf of the consortium. Instead it was represented as NHEA cash reserves. If consortium cash was excluded at 31 August 2023, cash available to NHEA would be c£1.1m. The lower cash reserves should be factored into the Academy Trust's assessment of future financial solvency.	**We recommend** that management accounts and cash flow forecast distinguish between funds under NHEA control and consortium funds. This would give trustees greater visibility over the financial resilience of the Academy Trust when assessing forecasts.	
B	**Consolidation adjustments** We observed intra group charges between QMC and QML had been made in the year together with gift aid payment. We were unable to ascertain if these had been eliminated on consolidation. No adjustments appeared on the accounts preparation work book to indicate that an adjustment had been made. We estimate that the value of these transactions is less than our triviality threshold for 2022/23.	**We recommend** that intra group transactions are eliminated on consolidation and that an audit trial is provided to evidence that these transactions have been excluded.	
B	**Unfunded pension liabilities** The financial statements include a liability of £43,000 relating to unfunded pension liabilities. This liability does not appear in the LGPS valuation report prepared by the actuary (their report refers to no unfunded liabilities) and does not appear to be related to the enhanced pension provision, which is recorded separately.	**We recommend** that the Finance team investigate the unfunded pension liability during the current financial year and, based on the evidence available, make a judgment as to whether the provision should be retained or released in 2023/24.	

Appendix 3: Comparison of financial ratios

The analysis of ratios is split between Single Academy Trusts and Small (fewer than 2,500 pupils), Medium (2,501- 9,000 pupils) and Large (9,001+ pupils) MATs.

Operational margin after transfers from revenue funds



Formula: Surplus (deficit) for the year excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

The aim of an academy trust is not to generate profits on trading or capital gains, but to provide quality education and fully utilise its resources in so doing.

The most significant factor on the operations margin of trusts is payroll, the largest of a trust's costs. Though schools set their teachers' pay, these are determined by national pay scales, which along with employer pension and national insurance contributions are not within the control of an academy trust.

The impact of rising costs relative to funding levels began to be seen in 2022, with operational margins reducing across the sector.

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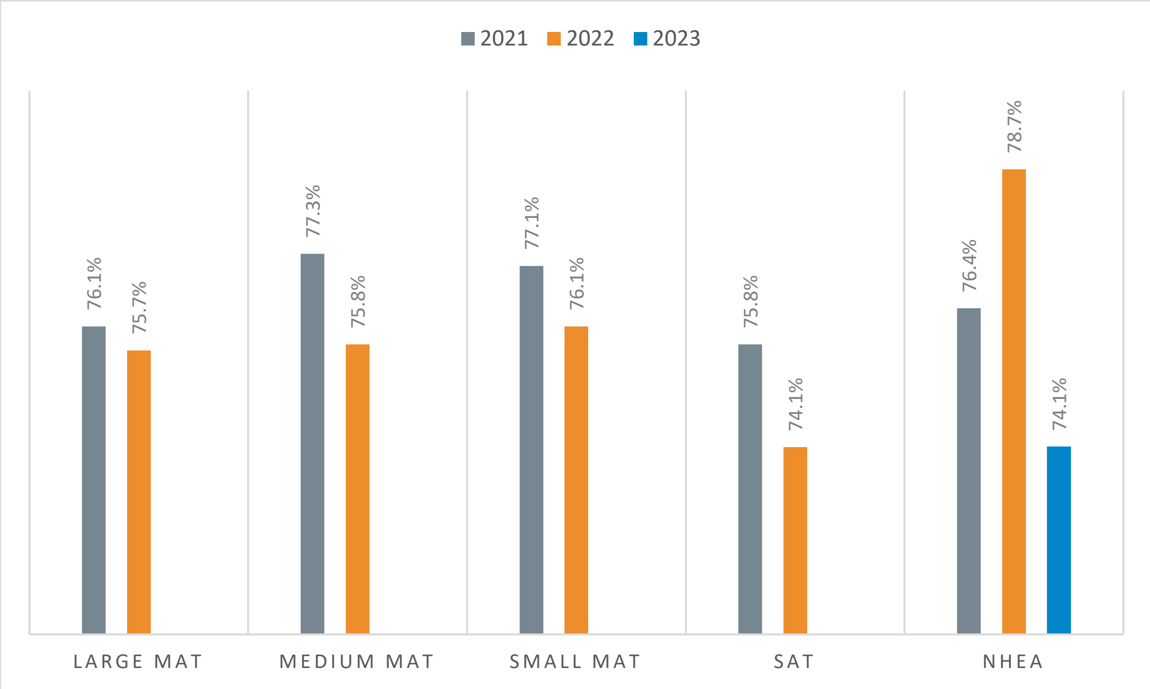
Payroll as a % of operational income



Formula: Total payroll costs (including agency costs but excluding defined benefit pension scheme adjustments and one-off severance payments) ÷ Total income (excluding capital grants, conversion balances, sponsorship and start up grants)

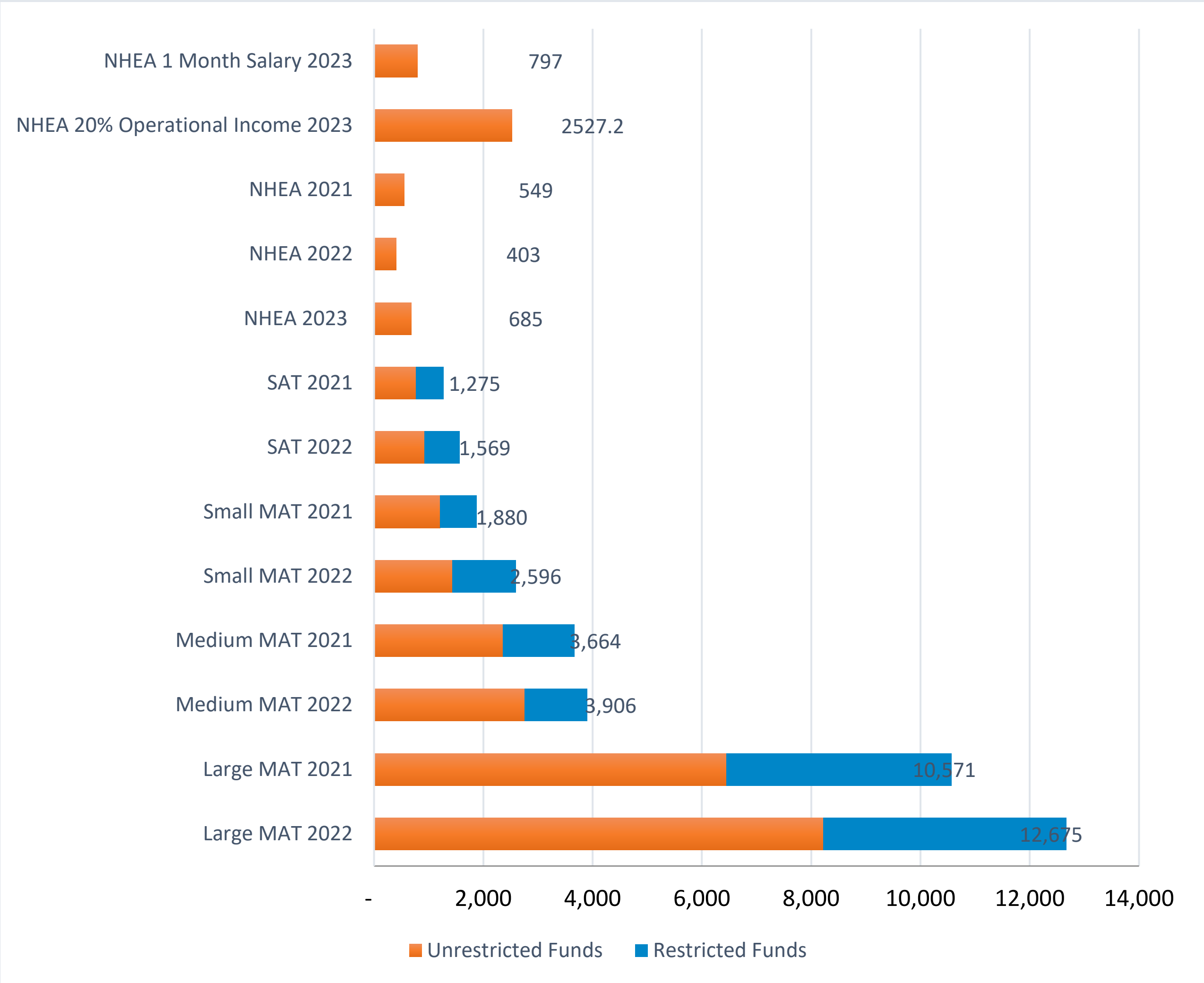
Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Typically, staff costs make up 70% - 80% of both total costs and total income. The sector has seen increases in pay costs, but at a slower rate than the increase in non-pay costs. Trusts have looked to control payroll cost increases in light of increased costs elsewhere. This has resulted in a reduction in payroll as a percentage of operational income between 2021 and 2022.

We note that 2022 benchmarking information taken from ESFA's website for sixth forms, rendered the 2022 average at 68.25%.

Using the data for 2021/22, we also considered the overall payroll ratio by banding, which demonstrates a continued overall trend towards a higher payroll ratio.

Payroll banding	% Trusts 2022	% Trusts 2021
< 70%	13.6	10.0
70 – 75%	25.5	21.9
75 – 80%	47.1	41.2
80 - 85%	12.8	23.5
> 85%	1.0	3.4

Revenue reserves



The graph to the left shows the split of the Academy Trust's reserves between unrestricted funds (including designated funds) and restricted funds (excluding the fixed assets fund and pension reserve) shown in £'000.

The government recommend that the amount an academy trust set aside is based on the type and size of the academy trust as well as the particular risks that it faces (for instance, if they are locked into a PFI contract). They encourage academy trusts to ensure that they keep at least one-month's salary cost as a revenue reserve.

When considering a reserves policy, academy trusts should consider wider financial risks and future plans to determine the appropriate level of reserves in the academy trust's own context. MATs should also consider how the reserves policy applied across constituent schools and to what extent risk can be spread across the trust. As a trust grows in size, the reserves held on a per pupil basis will typically be lower. In 2022 a "Large MAT" held on average around £600 of revenue reserves per pupil compared to £1,900 for a "Small MAT".

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LGPS liability as a percentage of GAG income

As for all academy trusts, support staff are eligible to participate in a relevant Local Government Pension Scheme, a multi-employer defined benefit scheme. In accordance with the requirements of the reporting standards, the Trust has included its share of the liability in the scheme on its balance sheet, as estimated by the scheme actuary. As slight changes in the actuarial assumptions used can have a substantial impact on the overall net pension liability, we have provided in the table below a comparison of the 2022/23 LGPS retirement benefit assumptions against those of other educational organisations.

	Sector Average	NHEA
Assumptions		
Price increases	3.0%	3.0%
Salary increases	4.0%	4.0%
Pension increases	3.0%	3.0%
Discount rate	5.2%	5.2%
Decrease in LGPS liability from 01/09/22 to 31/08/23	N/A	76%
Value of LGPS liability at 31 August 2023	N/A	£272,000*
LGPS liability as a percentage of GAG income	N/A	2.6%

*Actual liability is £229,000.

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Appendix 4: Sector developments

Policy and compliance

Commissioning high quality trusts

In July 2023, the Department for Education published the guidance document "Commissioning high-quality trusts" providing information about decisions made by Regions Group on behalf of the Secretary of State, about the creation, consolidation and growth of academy trusts.

The guidance covers decisions:

- For schools to join or form new academy trusts
- To move underperforming schools to new trusts
- To approve applications for trust transfers; and
- To approve which trusts can open new free schools.

Annex A to this guidance also provides further detail with respect to "Trust Quality Descriptions", the five pillars of High-Quality and Inclusive Education, School Improvement, Workforce, Finance and Operations, and Governance and Leadership.

https://www.gov.uk/government/publications/commissioning-high-quality-trusts

https://www.gov.uk/government/publications/academies-regulatory-and-commissioning-review

Academy Trust Handbook 2023

The Academy Trust Handbook 2023 (ATH 2023) provided relatively few changes from the previous iteration, with the primary intention of updates in 2023 being to simplify existing conditions and ensure that academies are afforded the right balance of autonomy.

The key changes applicable following the publication of the revised ATH 2023 were:

- Confirmation of the withdrawal of the Budget Forecast Return Outturn.
- Changes to related party transaction requirements, with the threshold for obtaining prior approval for entering in to a transaction increasing to £40,000.
- Clarification that prior approval of staff severance payments in accordance with HM Treasury's Guidance on Public Sector Exit Payments applies only to certain 'special' (non-statutory/non-contractual) payments.
- Confirming that trusts will be able to enter in to indemnities which are in the normal course of business without seeking approval.
- Extending the scope of religious authorities to include all faiths rather than exclusively dioceses.

Additional changes are detailed in full on page 7 of the ATH 2023 and include updates to matters with respect to roles and responsibilities, financial requirements, delegated authorities and intervention.

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https://www.gov.uk/guidance/academy-trust-handbook/academy-trust-handbook-2023

FRED 82 Exposure Draft

The Financial Reporting Council ('FRC') is currently undertaking its second triennial review of Financial Reporting Standard 102 (FRS 102), the underlying accounting framework under which the Trust prepares its accounts. During 2023, the FRC released FRED 82, which outlined the proposed revisions to the next edition of FRS 102 and the consultation period closed on 30 April 2023. The FRC is currently considering the responses to this, and we expect a final version to be released later in 2023.

For more information please visit:

https://www.frc.org.uk/getattachment/e7cf66c5-7f1b-45b1-8620-2bd754f6c97f/20221215-FRED-82-At-a-glance.pdf

One of the key changes proposed in FRED 82 is the alignment of lease accounting treatments with International Financial Reporting Standards. These changes will have a significant effect on the trust's accounts given its material leasing commitments. In summary, the proposed amendment to section 20 of FRS 102 will require all leases, not just finance leases, to be recognised as 'right of use' assets on the balance sheet, along with a corresponding liability reflecting the discounted cashflow value of all future lease payments. The exposure draft includes provisions for entities to use interest rates on deposits (or failing that gilt rates) as the discount rate instead of cost of capital which will simplify the process.

The proposed effective date for FRED 82 is for accounting periods beginning on or after 1 January 2026.

Further clarification will be available following final consultation, however the trust's accounts to 31 August 2027 *may* need to show comparative figures reflecting the changes for the period to 31 August 2026. The trust may need to consider the implications of the new requirements once guidance is clarified, in order to make the transition and preparation of comparative figures smoother when it becomes applicable.

The other change expected is in respect of income recognition whereby a five-step recognition model is planned and the impact on trusts will be clarified with respect to this once guidance is confirmed.

Development of new Charity Statement of Recommended Practice (SORP)

An exposure draft of the new SORP is expected in late 2023, with implementation expected for accounting periods commencing on or after 1 January 2025. Briefings on 15 topics with proposed changes that have been considered by the SORP Committee are available at: https://charitysorp.org/engage-briefings-to-inform-the-engagement-process-in-developing-the-next-sorp

Sustainability and reporting

Whilst many companies are including sustainability and climate change-related information in their annual reports, only the largest private and listed companies are required to provide such information, with large Multi Academy Trusts currently only required to publish Streamlined Energy Carbon Reporting disclosures. This disclosed information is not yet subject to any independent 'checking' which has resulted in the 'greenwashing' claims about some unverified information contained in annual reports.

June 2023 saw the issue of the first two international sustainability reporting standards aimed at improving trust and confidence in company disclosures about sustainability and climate change. The two IFRS Sustainability Disclosure Standards are internationally effective from 1 January 2024 though have not yet been adopted by UK standard setters. However, it is likely that compliance will become mandatory in the near future. To begin with, the obligation may only be for large companies but, the 'trickle down' process is likely to require many companies to ensure that they can provide adequate information to others in their supply chain who have the reporting obligation. As is usually the way, the reporting obligation will ultimately be extended to smaller companies.

In anticipation of the above, it is advisable to start discussions around sustainability reporting and data early and more information can be found at: https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ .

Teachers' Pension Scheme (TPS)

The results of the most recent triennial revaluation are expected to be reflected in TPS contributions rate during the year ending 30 April 2025. If the timing of the implementation of changes of rates are consistent with the last change, they would be expected to be applied from September 2024 to align with the school year.

The TPS remains in deficit, and while there is speculation of increases in employer rates, official announcement has not been made and is likely to happen in late 2023 or early 2024. Trusts should be aware of uncertainty with respect to longer term payroll costs in light of this.

HMRC challenges to VAT reclaims

Academies are entitled to claim refunds of VAT incurred on the cost of providing non-business state education. Non-VAT registered academies do this via the VAT126 form and VAT registered charities make the claims as part of their usual VAT returns.

Recently there have been instances where HMRC have refused VAT refunds where the school or MAT concerned is not listed on the Department for Education's Get Information About Schools (GIAS) database. HMRC are claiming this means they cannot verify Academy status.

It is recommended that all Academies and MATs ensure that their details are on GIAS, and that any change of status (such as becoming an Academy or joining a MAT) are recorded on GIAS to avoid delays in refunds.

Funding

National Funding Formula changes

The Minister of State for School Standards set out the National Funding Formula (NFF) for 2024 to 2025 on 17 July 2023. This announcement was followed by the publication of provisional allocation tables and the annual NFF policy document.

The document gives details of the changes to the funding regime for the next accounting year, which include:

- An overall increase to school funding of 2.7% and an increase to high needs funding of 4.3%;
- An increase in the minimum per pupil funding level of 2.4%;
- An increase to the funding floor such that each school will attract at least 0.5% more pupil-led funding per pupil compared to 2023/24.
- Increased requirements for local authorities, intending to ensure that local allocations of funding are more closely aligned with the NFF.

From 2024/25, the Mainstream Schools Additional Grant (MSAG) will also be rolled into the National Funding Formula and will therefore no longer be administered as a separate grant.

Policy document:
https://www.gov.uk/government/publications/national-funding-formula-for-schools-and-high-needs

Provisional funding:
https://www.gov.uk/government/publications/national-funding-formula-tables-for-schools-and-high-needs-2024-to-2025

Teachers' pay additional grant

Also in July 2023, the ESFA announced funding to support schools in meeting the cost associated with the September 2023 teachers' pay award. The funding was confirmed for a period up to August 2025 for academy schools, receivable in both 2023/24 and 2024/25 directly from the ESFA.

Teacher's pay additional grant funding will be based on factors used for the determination of MSAG funding:

- A basic per-pupil rate with different rates for primary, key stage 3 and key stage 4;
- A lump sum paid to all schools, regardless of pupil numbers;
- A per-pupil rate for pupils who are recorded as having been eligible for free school meals at any point in the last 6 years;

- An area cost adjustment due to geographical variations in labour costs.

School level allocations:
https://www.gov.uk/government/publications/teachers-pay-additional-grant-2023-to-2024

Conditions of grant:
https://www.gov.uk/government/publications/teachers-pay-additional-grant-2023-to-2024/teachers-pay-additional-grant-2023-to-2024-conditions-of-grant-for-local-authorities

ESFA Guidance

Digital and technology standards

In March 2023 the Department for Education provided update to its guidance document “Meeting digital and technology standards in schools and colleges”. The document provides guidance for educational establishments with respect to cyber security standards, this includes those relating to:

- Boundaries and firewalls;
- Security features;
- Access restrictions;
- Multi-factor authentication;
- Anti-malware;
- Application downloads;
- Licenses and patches;
- Data backups;
- Business continuity;
- Reporting of cyber-attacks;
- Data protection; and
- Staff training

Updates in 2023 included new guidance with respect to filtering and monitoring, cloud solutions and servers and storage.

https://www.gov.uk/guidance/meeting-digital-and-technology-standards-in-schools-and-colleges/cyber-security-standards-for-schools-and-colleges

Value for Money: School resource management

In June 2023, the Department for Education published supplementary guidance “Monitoring progress and impact of the strategy” to accompany the existing “School resource management: building a stronger system”.

These documents set out how the DfE aim to work in partnership with the sector to ensure that academy trusts are equipped with the tools they need to get the best value from all their resources. The new guidance details how the Department for Education will:

- Assess the effectiveness of resource management practices;
- Assess the engagement with school resource management tools and services;

- Measure the savings schools have made by using school resource management tools; and
- Monitor trends in schools' financial health.

The guidance is accessible at the below links:

https://www.gov.uk/government/publications/supporting-excellent-school-resource-management

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1161148/Monitoring_progress_and_impact_of_the_strategy.pdf

Value for Money: DfE commercial initiatives

The Department for Education has published a summary of the progress made by commercial initiatives in August 2023. The Department now has over 65 endorsed frameworks which all aim to ensure that schools continue to obtain good value for money when entering into significant contracts. The Department intends that increased utilisation of these frameworks will help deliver efficiency within the sector.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1180799/Schools_commercial_-_performance_of_initiatives_-_2022_to_2023.pdf

Safeguarding

Keeping Children Safe in Education

The latest version of the Keeping Children Safe in Education (KCSIE) guidance was published on, and applies from, 1 September 2023. The full guidance is available here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1161273/Keeping_children_safe_in_education_2023_-_statutory_guidance_for_schools_and_colleges.pdf

As in previous versions, the guidance emphasises that it is essential that everybody working in a school or college understands their responsibilities with respect to safeguarding. All staff at academy trusts must therefore read Section 1 of the document at the very least. The substantive changes to the guidance this year, excluding minor clarifications and presentational changes, are as follows:

- Additional clarification has been provided with respect to responsibilities education staff have in relation to filtering and monitoring.
- Highlighting that pupil absences from school can be an indication that safeguarding issues may be present.
- Information on requirements for notifying shortlisted candidates of online searches which should be performed as part of due diligence checks;
- Information on responding to safeguarding incidents reported relating to outside organisations or individuals upon school premises for example community groups, sports clubs or service providers for after school activities.