

# Peaslake Free School Limited

## Management Report

### for the Year Ended 31 August 2022



Chartered Accountants and Business Advisors

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## CONTENTS

1	Executive Summary	3
2	Significant Matters	4
3	Corrected and Uncorrected Misstatements	5
4	Update on Risks Identified at the Planning Stage	6
5	Accounting and Financial Control Systems	8
6	Technical update	12

## Page

This report is part of a continuing dialogue between the School and us and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the School. We do not accept responsibility to any Governor acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the School accounts as a whole. An audit does not examine every operating activity and accounting procedure in the School, nor does it provide a substitute for management's responsibility to maintain adequate controls over the School's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the School's systems and working practices, or of all improvements that could be made.

# 1 EXECUTIVE SUMMARY

## 1.1 Purpose

The purpose of this report is to record the overall results of our work and to assist the Governors by commenting on those matters that came to our attention during the course of the audit. These matters cover:

- Independence
- Materiality and Audit approach
- Comments on the accounting policies and practices applied when preparing the School accounts
- Summary of adjustments to draft management figures
- Suggestions for improvement to the School's accounting and financial control systems

## 1.2 Independence

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff have been identified and assessed at the planning stage of our audit.

- We have no independence issues to bring to your attention.

## 1.3 Audit approach and materiality

Our audit planning was carried out taking account of the issues highlighted through a planning meeting with you, and our knowledge and understanding of the School.

In our planning, we have taken account of the results of our own risk assessment made in accordance with the guidance set by International Standards on Auditing (UK and Ireland).

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated at £7,300.

We are required to notify you of any potential adjustments identified during the course of our audit work unless they are trivial.

- For the purposes of this report we have taken trivial as being less than £365.

## 1.4 Accounting policies and practices

In preparing the financial statements of the School, Governors are required under FRS102 to review the School's accounting policies on an annual basis to ensure they remain appropriate to the School's circumstances and are being properly applied.

- We have reviewed the accounting policies and practices selected by the School and are satisfied that the School operates acceptable accounting policies and practices.
- Section 2 of this report summarises the main accounting issues that we have discussed with management.
- Section 3 records the adjustments that have been made to the draft accounts as a result of matters arising during the course of the audit. This section also summarises the errors identified during the course of the audit which remain unadjusted.

## 1.5 Accounting and financial control systems

We found that the School had sound operational and management controls.

- We have identified some areas where we believe controls should be strengthened further. These are detailed in Section 6 together with the management's responses to our recommendations for improvement.

## 2 SIGNIFICANT MATTERS

### 2.1 Introduction

The following significant matters were discussed with management during the course of the audit. This includes the audit outcome of the key risks identified within our audit planning memorandum.

### 2.2 Pupil Numbers

We discussed the movement in student numbers this year and noted that there is a strong demand for places within the School. A review of minutes and the census indicates that student numbers are not expected to have any significant changes which would impact government funding. It was discussed with management that the recent Ofsted inspection could impact pupil numbers in future years however numbers currently remain strong.

### 2.3 School Building

We reviewed the agreement in place for the building and discussed the possibility of putting a value on the lease and building and including this into the accounts.

To allow a value to be introduced, there would need to be a valuation prepared, which would require a professional firm of chartered surveyors to advise, as there is no experience among the trustees to reliably value the building in use.

### 2.4 VAT accrued income

During our review of the accounts and the VAT debtor we noted that an amount had been included twice with a year end journal to accrue for VAT recoverable being made to adjust for this. The VAT debtor balance was already included within the VAT control account but also included within income. This was removed from income to stop the VAT being recognised twice.

### 2.5 Fixed Assets Capitalisation Limit

We noted that the fixed asset capitalisation limit was amended from £150 to £1,000 for financial year ending 2022. This means that smaller purchases can be expensed instead of being allocated as fixed assets on the balance sheet. Items with a cost of below £1,000 on the fixed asset register before the change in capitalisation policy are to remain on the fixed asset register and no adjustments are required for this.

### 2.6 Regularity

It was noted that there is no formal agreement in place between the Peaslake Schools Trust and academy.

This is a related party where resources are shared between the two entities and charges occur between the two. Advance ESFA approval will be required, if charges become greater than £20,000 in the future. Per the Academy Trust Handbook 'Trusts must obtain ESFA's prior approval, using ESFA's related party on-line form, for contracts and other agreements for the supply of goods or services to the trust by a related party agreed on or after 1 April 2019 where any of the following limits arise:

- A contract or other agreement exceeding £20,000
- A contract or other agreement of any value that would mean the cumulative value of the contracts and other agreements with the related party exceeds, or continues to exceed, £20,000 in the same financial year ending 31 August.

### 3 CORRECTED AND UNCORRECTED MISSTATEMENTS

#### 3.1 Adjusted items

The following misstatements were processed during the course of our audit:

<i>Adjusted misstatements:</i>	SOFA		Balance Sheet	
	£Dr	£Cr	£Dr	£Cr
Being pension adjustment	-	112,000	112,000	-
Disclosure Notes: Being update to KMP note for £46,314 for KMP remuneration received. Being update to RPT note for related party transactions during the year.				
<b>Total of corrected misstatements</b>	-	112,000	112,000	-
<b>Net impact of corrected misstatements</b>		<b>112,000</b>		

#### 3.2 Unadjusted items – Potential adjustments

The following immaterial misstatements were noted during our audit testing and have not been adjusted for:

<i>Unadjusted misstatements:</i>	SOFA		Balance Sheet	
	£Dr	£Cr	£Dr	£Cr
Being immaterial difference on insurance prepayment	-	2,135	2,135	-
Being immaterial difference on pupil premium recalculation	1,275	-	-	1,275
Being immaterial difference on the VAT return	1,700		-	1,700
<b>Total of uncorrected misstatements</b>	2,275	2,135	2,135	2,275
<b>Net impact of uncorrected misstatements in current year</b>		<b>140</b>		

The above misstatements, if adjusted for, would increase the deficit by £140. All uncorrected misstatements are noted in this report unless they are trivial. We have defined trivial as below £365

## 4 UPDATE ON RISKS IDENTIFIED AT THE PLANNING STAGE

At the audit planning stage we established the key risk areas for the focus of our audit work. This annex includes the outcomes of our audit work in respect of these key risks.

Issue	Audit risk	Proposed audit work	Outcome
<p><b>Income Recognition</b></p> <p>This is always considered a risk under the ISAs.</p>	<p>Risk that income could be understated or cut-off errors could occur with income recognition.</p>	<p>Reconcile in total the income per remittances to amounts recognised in the accounts.</p>	<p>Reconciliation of income determined that income was complete and no cut-off issues were noted.</p>
<p><b>Errors and Fraud due to Management Override</b></p> <p>Management is always considered to be in a position to override controls.</p>	<p>Risk of fraud as a result of failure of internal controls.</p> <p>Risk of error or fraud as a result of override of internal controls.</p>	<p>Review operation of internal systems and controls through walkthrough testing.</p> <p>Discuss with management any suspected or reported frauds in the year.</p> <p>Review of journals posted to backing rationale and documentation.</p>	<p>Controls were reviewed during walkthrough testing and no significant issues were noted.</p> <p>No fraud was suspected or reported during the year.</p> <p>Journals were reviewed and found to be suitably justified and no indications of management override were noted.</p>
<p><b>Related Party Transactions</b></p>	<p>Risk that related party transactions are not correctly disclosed in the accounts.</p>	<p>Request information on related parties from the Governors.</p> <p>Review for transactions with potential related parties</p> <p>Review systems and controls for reporting related party transactions.</p>	<p>Declarations of interest were reviewed and no additional related parties were identified.</p> <p>Further transactions were identified in relation to the Peaslake Schools Trust. Agreement between the 2 entities required and will require ESFA approval if the £20,000 threshold is breached.</p> <p>No issues noted with controls.</p>

Issue	Audit risk	Proposed audit work	Outcome
<p><b>Fall in Pupil Numbers</b></p> <p>School funding is based on lagged pupil numbers</p>	<p>Risk that changes in demographics or Ofsted rating could lead to a fall in pupil numbers which would to a fall in GAG funding.</p>	<p>Review pupil numbers expected for the coming year.</p> <p>Review for fall in income levels received by the school.</p> <p>Review budgets/forecasts and minutes of meeting for indications of fall in pupil numbers.</p>	<p>We reviewed and discussed pupil numbers for the coming year and noted that on initial figures are up overall year on year, therefore no issues are noted in this regard.</p> <p>No fall in income is noted.</p> <p>No issues to note with review of budgets for the coming year.</p>
<p><b>Going concern</b></p>	<p>Risk that changes in government funding may impact the academy's ability to continue as a going concern.</p> <p>Risk that uncertainties relating to going concern are not correctly disclosed in the financial statements.</p>	<p>Review budget funding forecast return submitted to the ESFA. Discuss any issues with management.</p> <p>Review disclosures to ensure they reflect the current position.</p>	<p>From review of minutes and census demand for places seems high. Healthy cash position in the bank.</p>
<p><b>Reliance of key members of staff</b></p>	<p>Risk that segregation of duties or other controls may be compromised should members of the finance team be absent due to ill health or leave the role at short notice.</p>	<p>Discuss with management any staff changes or issues in the year.</p> <p>Review operation of systems and controls.</p>	<p>We reviewed operation of the finance team and noted no significant issues in this regard.</p> <p>No series controls issues were identified.</p> <p>We noted that staff turnover is low and that staffing is stable.</p>

## 5 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

### 5.1 Introduction

The table below summarises our recommendations for improving the effectiveness of the academy's accounting and financial control systems in the following areas:

#	Subject	Grade
1	Issues raised in prior year audits	n/a
2	Register of interests	2
3	Expenditure invoices	3

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

- Grade 1: We believe these observations are particularly significant and that management should take prompt action.
- Grade 2: These observations are significant but of a less urgent nature than Grade 1 observations. We believe that action needs to be taken within the agreed timescale.
- Grade 3: Observations that merit attention but are less significant than Grade 1 and 2 observations.



## 5.2 Issues noted

1	Points brought forward from prior year audit	Grade: n/a
<p><b>Issue – Financial procedures document</b></p> <p>From our review of the Financial Procedures and Scheme of Delegation of Financial Powers documents we found there was no indication of when these documents were most recently approved and when they were next due for review. Item 2 below highlights a further issue surrounding the documents and we believe this will help to keep the documents up to date.</p> <p><i>We recommended that somewhere within the document it is noted when the document was most recently approved and when it is next due for review.</i></p> <p><i>RESOLVED: It was noted that this was addressed during the year with a date of review and future review placed on the documents. Issue is deemed to resolved.</i></p> <p><b>Issue – Capital expenditure process</b></p> <p>From our review of the Delegation of Financial Powers document and Financial Procedures document there were differing amounts stated for capital expenditure authorisation. The financial powers document noted the amount is £2,000 however the financial procedures document noted that the amount is £5,000. This can result in capital expenditure being approved by unauthorised personnel.</p> <p><i>We recommended that an update is made to the Scheme of Delegation of Financial Powers Document to ensure that amounts are clear and consistent within each document.</i></p> <p><i>RESOLVED: We reviewed these documents during the current audit and noted that the recommendation had been put in place. Issue is deemed to be resolved.</i></p> <p><b>Issue – Data protection act</b></p> <p>We noted during the audit that the academy is not registered with the Information Commissioner’s Office (ICO) as required under the Data Protection Act 2018 . As the School holds the data for pupils it is necessary to ensure this is obtained.</p> <p><i>We recommended that the School registers with the ICO to ensure the School is complying with the ESFA Academy Financial Handbook’s guidelines for holding pupil information securely.</i></p> <p><i>RESOLVED: It was noted that the Academy are now registered with the ICO and this point is considered to be resolved.</i></p>		

2	Register of interests	Grade: 2
<p><b>Issue</b></p> <p>As part of our related party transaction testing we review the register of interests which is published on the Academy's website.</p> <p>It was noted that there were differences between those on the register of interests and the information shown at Companies House. There were names of trustees missing from the register of interests on the school's website.</p>		
<p><b>Recommendation</b></p> <p>We recommend that the register of interests is updated to show all active trustees and to ensure that there is a review carried out to ensure the listings on both the website and Companies House are in agreement.</p>	<p><b>Management response</b></p>	<p><b>Action by whom</b></p> <p><b>Deadline</b></p>

3	Expenditure invoices		Grade: 3
<p><b>Issue</b></p> <p>During our review of expenditure testing it was noted that there was one expenditure invoice found for a staff secondment with Peaslake Free School. This invoice did not state a date on it nor was it addressed. The invoice simply stated staff secondment for June 2022.</p>			
<p><b>Recommendation</b></p> <p>It is recommended that where an invoice is received such as this that a replacement is requested from the supplier ensuring that this includes a date, an invoice number, details of the net, VAT and gross, a VAT number, where applicable, and that the supplier address is included. This will ensure there is evidence to support payment should any disputes over invoices arise and to ensure there are records that prove the validity of expenditure and accuracy of the recording of expenditure in line with the ESFA guidelines for academy expenditure.</p>	<p><b>Management response</b></p>	<p><b>Action by whom</b></p> <p><b>Deadline</b></p>	

## 6 TECHNICAL UPDATE

### Key changes in the Academy Accounts Direction 2022

Key changes for 2022 within the Academies Accounts Direction are as follows:

- (i) All severance payments need to be disclosed, both contractual/statutory and non-contractual/non-statutory.
- (ii) Where academies have opted into the new business rates payment process (where the ESFA pays the academy's business rates directly), the amount paid by the ESFA will need to be grossed up in the GAG received and a matching expense recognised.
- (iii) Organisational Structure – It has been clarified that an academy trust should, in line with the SORP, describe the organisational structure of any subsidiaries within their Governors' report. ESFA also requires them to describe the organisational structure of any joint ventures or associates.
- (iv) Governance Statement Conflicts of Interest Statement – The Direction now requires academy trusts to explain how conflicts of interest are managed.
- (v) Service Concession Arrangements – There is now an encouragement to include narrative disclosures around the numerical disclosures.
- (vi) Government building projects transferred - New guidance attempts to clarify the accounting treatment for buildings whose construction was overseen by Department for Education (DfE) or a local authority and transferred to the academy trust on completion.
- (vii) Dormant accounts - The requirement to submit dormant accounts to the ESFA has been removed.
- (viii) Teaching Schools- The requirement to produce trading accounts for teaching school (hubs) as separate notes to the financial statements has been removed. The guidance also clarifies where and how transactions relating to such activities should be shown in the rest of the financial statements. This guidance has been extended to cover other types of hub which academy trusts may operate.

### 6.2 Audit regulation changes- Revised International Standards on Auditing (ISAs)

A number of changes to auditing standards have been made which have had/ will have an impact on how audits are carried out for academy trusts and ultimately mean that trusts will spend more time and money meeting the requirements of the audit regime.

#### ISA(UK) 240 Fraud – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The revised standard applies to accounting periods starting after 15 December 2021 and tightens up the processes adopted by auditors when considering the prospect of fraud in financial statements.

Whilst it still remains that the primary responsibility for the prevention and detection of fraud rests with 'those charged with governance' and management, the enhanced processes carried out by the auditors look to obtain the reasonable assurance (not absolute assurance), required by the standard.

Whilst auditors have more things to do to comply with the revised standards, academy trusts will see the impact of these changes as there will be an enhanced risk assessment and further enquiries from the auditors, perhaps of other members of academy trust staff that do not normally deal with the audit.

### **ISA (UK) 315 Risk of Material Misstatement**

This expanded standard gives more guidance to auditors on how to identify significant risks, with a stronger emphasis on looking at internal controls within the academy trust. Trusts are likely to face additional questions from auditors about how trustees/governors assess the control environment, particularly with remote/branch operations. This standard is from accounting periods starting after 15 December 2021.

### **ISA (UK) 570 on Going Concern**

This standard was updated and now auditors have to perform additional work to conclude on whether the Trustees/Governors use of the 'Going Concern' basis of accounting is appropriate, and whether there are any material uncertainties in this regard. Auditors have to be tougher and more rigorous; consider management bias of presentation and perform a 'Stand back' test when draw conclusions –right up to the date of signing of the audit report.

### **ISA (UK) 700 on Forming an opinion and reporting on financial statements**

The update in this standard now requires that the auditor's report of all entities explain to what extent the audit was considered capable of detecting irregularities, including fraud. The auditor must also consider impact of non-compliance with laws and regulations, which can be complex for charities.

#### **a. Holiday Pay for Part-Year workers**

In the summer, the Supreme Court decision in the Harpur Trust v Brazel case around permanent staff working irregular hours, term time only, has meant that holiday entitlement and holiday pay cannot be reduced pro-rata to reflect the actual hours worked during the year.

Employers will need to review, and (if necessary) amend their contracts of employment and payroll processes for calculating holiday pay for permanent employees/workers with irregular hours of employment (such as zero hours contracts) as well as any "part year" employee/worker, even if their hours are regular but, say, they work term time only.

Employers will need to consider how to approach contract wording and payment going forward (both as to how payment is made and whether holiday is specified to be taken at particular times) as well as potential claims for previous underpayments.

If employers continue with the previous Harpur v Brazel method of paying 12.07% holiday pay per hour worked for this type of worker, they are unlikely to comply with the "Calendar Week Method" calculation and employers could face claims of unlawful deductions from wages.

Some employers could face back claims of a "series" of unlawful deductions from wages, which could go back up to two years. A review should be completed to determine the level of risk associated with such claims and a provision included within the financial statements accordingly.

Employers may want to review whether such workers should be given permanent contracts, depending on how key that individual is for part of a year's work.