

Lee Chapel Multi Academy Trust

Post-Audit Management Report
Year Ended 31 August 2022

Post-Audit Management Report – Lee Chapel Multi Academy Trust

We have completed the audit of Lee Chapel Multi Academy Trust for the year ended 31 August 2022 and we expect to issue an unqualified audit opinion.

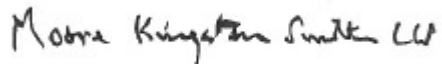
We have also completed the limited assurance regularity work for the Trust's year ended 31 August 2022 and we expect to issue an unmodified report.

This report covers the findings from our audit, the scope of which was communicated to you prior to commencing the work. It includes some recommendations for improving the accounting and internal control systems as well as highlighting some future developments that may be of interest to the board.

We hope that the recommendations are practical and are able to be implemented. We would be grateful if you could discuss the points as a board and will welcome a written response. Please extend our thanks to Ann Burrows and the finance teams at all the schools for all their help with the audit.

If you have any concerns or questions arising from this report, please contact James Cross or Steve Butler.

Yours faithfully,



Moore Kingston Smith LLP

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This report has been prepared for the sole use of the board of Lee Chapel Multi Academy Trust and must not be shown to any third parties without our prior consent. No responsibility is accepted by Moore Kingston Smith LLP towards any third party acting or refraining from action as a result of this report.

Audit Approach - Risks

As outlined in our audit scoping report dated [date] our audit approach is based on an assessment of the audit risk relevant to the individual financial statement areas. Areas of risk are categorised according to their susceptibility to material misstatement, whether through complexity of transactions or accounting treatment. For each area we calculated a level of testing and review sufficient to give comfort that the financial statements are free from material misstatement.

The following table lists any risks identified at the planning stage and during the course of the audit, our approach to mitigate the risk and our conclusions from completing this work.

Risk	Audit Approach	Results
Revenue recognition There is a risk that income has not been recognised in the correct period or correctly accounted for.	We have designed tests to ensure that the cut-off for income is correct and that we review any late adjustments to income. We will also agree income to supporting documentation on a sample basis, as well as carry out an analytical review.	From the sample selected for testing we have not identified any instances of income not being correctly recognised.
Management Override Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We will review journals posted in the year for unauthorised or unusual adjustments.	From the testing completed, no instances of management override have been noted.

Audit approach – Risks (continued)

Risk	Audit Approach	Results
<p>Fund allocation</p> <p>Income and expenditure allocation should be accurate, and any transfer of funds should have the appropriate authority.</p>	<p>We will review the allocation of funds to confirm allocations and transfers have been made in accordance with regulation and your internal policies and procedures.</p>	<p>No material misallocations were identified from our testing conducted.</p>
<p>Capital expenditure and cut-off</p> <p>There has been significant building work undertaken during the year and there is a risk that new assets could be incorrectly valued or the amounts capitalised have been incorrectly classified.</p>	<p>We will agree capital expenditure to supporting documentation and review additions to ensure the assets are disclosed within the correct asset categories.</p>	<p>No material valuation or cut-off issues have been noted from our testing performed on fixed assets.</p>

Significant findings from the audit

We are required under International Standards on Auditing to request you to correct all misstatements identified during our audit, with the exception of those that are clearly trivial.

Corrected misstatements and reclassifications

Included in this report are the corrected misstatements identified during the course of our audit work which have been discussed and agreed with you. There were no uncorrected misstatements other than those that might be considered to be trivial.

Observations concerning the operation of the accounting and control systems

We detail in the next section other matters concerning the operation of the accounting and control systems that we consider should be brought to your attention, which were identified during the course of our audit and limited assurance regularity work. Each of these observations has been given a risk rating around the potential impact of the issue identified and includes management responses.

Due to the nature of an audit and limited assurance assignment, we may not have identified all weaknesses within the accounting and internal control systems which may exist and the contents of this section of our letter and any items disclosed in this report should not therefore be taken as a comprehensive list of such weaknesses.

Management Representation Letter

A draft of our proposed management representation letter has been sent to you under separate cover. All of the matters included in this letter on which we seek the Governors' formal confirmation are in respect of routine matters, except for the following:-

- Point 14 which relates to the valuation of the pension scheme.

Regularity Conclusion

In addition to our audit opinion we are also required to perform a limited assurance engagement, reporting to both you and to the Education and Skills Funding Agency (ESFA).

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure. The work undertaken is detailed in our Independent Reporting Accountant's Assurance Report on Regularity.

Areas under review

Our regularity opinion was formed from conclusions formed under the following headings:

- Delegated authorities – consideration and review of any transactions requiring prior and written approval from the Secretary of State and disclosure in the financial statements.
- Transactions with connected parties – consideration and review of connected party transactions, ensuring they took place at no more than “cost”.
- Governance – review of budgeting procedures and consideration of instances of irregular activities.

- Internal control – review of authorisation procedures; tendering procedures; legitimacy of expense claims; compliance with grant terms.
- Procurement – identify policies, review their effectiveness and test their operation.
- Income – consider if specialist grants have been spent as the purposes intended.

Findings relating to regularity

We detail in Section 4 other matters concerning the operation of the accounting and control systems that we consider should be brought to your attention, which were identified during the course of our audit and limited assurance regularity work. Each of these observations has been given a risk rating around the potential impact of the issue identified.

Points arising which relate to regularity issues have been marked with the following icon:



Operating of the accounting and internal control system

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

We have categorised the internal deficiencies noted via a colour-scale rating system, the key to which is as follows:



HIGH

Issues where there is a risk of significant financial impact on the business that must be addressed immediately.



MEDIUM



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 should be addressed soon.





LOW

Issues that relate to minor control deficiencies or enhancements in control efficiency. These should be addressed within an agreed timescale.

Operating of the accounting and internal control system

Current year observation	Risk	Auditor Recommendation	Management Response
<u>Greensted Infants</u>			
<p>1 <u>New Supplier Checks</u> We note that no suppliers' checks were completed on a new supplier LGH Property Services. The checks were not completed as the supplier was recommended by Munday & Cramer Ltd who deal with the CIF funding.</p>		<p>We recommend that all new suppliers are appropriately authorised by relevant personnel to reduce the risk of misappropriation of the schools' funds.</p>	<p>A new supplier form was provided to all schools at the end of August to ensure that all the checks are completed including suppliers recommended by Munday & Cramer.</p>
<u>Phoenix</u>			
<p>2 <u>Bank Signatories</u> We note that Barry Mason, Lois Russell-Cornford and Julia Smith were only removed as bank signatories after our audit work had identified they were still included on the latest bank mandates.</p>		<p>We recommend that all bank signatories are reviewed in a timely manner.</p>	<p>Noted. All schools to be reminded to remove signatories when they leave.</p>

Operating of the accounting and internal control system

Current year observation	Risk	Auditor Recommendation	Management Response
All Schools			
<p>3 Depreciation Policy Although the depreciation policy in the financial statements state that furniture and equipment should be depreciated at 10-15%, there is a signed document by the board stating that they should be depreciated at 20%. We have not adjusted for the impact on depreciation as a review of the policy is to be completed in the coming months.</p>		<p>We recommend a review of the depreciation policy is completed and amended going forward.</p>	<p>Noted. Some depreciation for Furniture and Equipment calculated at 15% and some 20%. This will be confirmed as 20% going forward.</p>
<p>4 Fixed Asset Disposals The fixed asset register contains a significant number of fully written-down items acquired over 10 years ago. Discussions with accounts staff indicate that many of these items may have been disposed of in prior periods.</p>		<p>Whilst the inclusion of these items has no effect on the net carrying value of the assets disclosed within the financial statements, we would recommend that an exercise to review and confirm the fixed assets held is undertaken and updates are made to the fixed asset register accordingly.</p>	<p>Schools reminded to review all assets on the register and to ensure items disposed of where required.</p>

Impact of new auditing standards

These updated requirements **will**, unfortunately, lead to an increase in audit fees, reflecting the additional time and effort which we must exercise.

Risk assessment

The revised auditing standard ISA (UK) 315 *Identifying and Assessing the Risks of Material Misstatement* will require all audit firms to reconsider their methodologies for risk identification and assessment. The aim of the changes is to drive better audit quality, through a focused approach to auditing identified risks and promoting a greater emphasis of professional scepticism.

We will be required to obtain a greater understanding of your IT systems. Reliance on IT has increased since this standard's last major overhaul and cloud computing and processing didn't exist at that time. The standard has been brought up to date and requires auditors to obtain a greater understanding of your IT systems, including general IT controls and information processing activities, identifying potential risks that these may pose. Our current plan will require the completion of a questionnaire prior to the commencement of the audit. Your responses will be reviewed and followed up, where applicable, during the planning phase of the assignment. Where your IT systems are complex and/or bespoke, our internal IT specialists are likely to be utilised to obtain the required level of understanding mandated by the updated standard.

The amendments bring together existing requirements for us, as your auditor, to obtain an understanding of your control activities. Our existing system notes will be the starting point for our discussions with you, as we have to distinguish between direct and indirect control activities. We will be updating and extending these to include journals, any transactions/balances/disclosures which we have identified as a significant audit risk.

Fraud

ISA (UK) 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* has also been modified. The revisions were implemented to address concerns that auditors aren't doing enough to detect material fraud.

There is a greater onus on auditors to look for potential fraud, whilst exercising professional scepticism. We will be required to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative. Our audit procedures must be designed in such a way that they do not exclude audit evidence that may be contradictory. There will be changes to the audit testing we undertake on your audit.

A more interactive approach to assessing the risk of misstatement as a result of fraud will be needed. In addition to making enquiries of management, and when the composition is different, those charged with governance, the standard requires auditors to also discuss fraud with those within your organisation who respond to allegations of fraud raised by your employees or others. The scope of our discussions will extend to encompass the perceived risk of material fraud and any specific industry risks.

Sector update

Having been delayed by the machinations of government changes in mid-2022, there was the belated release of the updated version of the Academies Trust Handbook, covering changes to financial reporting and day to day operations for academies which come into force from 1 September 2022. A copy is attached and the link for downloads is [here](#).

There are a few key changes of note including:

- Financial reporting – an academy trust must submit a budget forecast return to the ESFA each July, which must be approved by the trustees before submission. The board of trustees must notify ESFA within 14 calendar days of its meeting if proposing to set a deficit revenue budget for the current financial year, which it cannot address after taking into account unspent funds from previous years. This is different from previous years and confirms the withdrawal of the Budget Forecast Return Outturn (BFRO).
- Special payments – an academy trust must obtain ESFA approval before making a special staff severance payment where an exit package (which includes a special severance payment) is at or above £100,000, or where the employee earns over £150,000. This is the only change that has been made re special severance payments.
- Indemnities – an academy trust will be able to enter into indemnities which are in the normal course of business without seeking approval.
- Other novel or contentious transactions – an academy trust must obtain ESFA's prior approval for the following transactions, unless these special payments are below the delegated limit (1% of total annual income or £45,000 (whichever is smaller) per single transaction:

- writing-off debts and losses;
- entering into guarantees or letters of comfort; and
- entering into indemnities which are not in the normal course of business.

- Religious character - changes have been introduced where services which can only be provided by a religious authority are regarded as meeting the 'at cost' requirement.

Do please remember – this updated Handbook applies to the year 2022/23, so while it is not relevant to the year our audit is reporting on (31/8/2022), it will be relevant to your operations right now.

Sector Updates

Employment Sector Updates

2022 was an important year for employment law.

Many of the employment provisions which were suspended because of the COVID-19 pandemic returned to the agenda.

Many of the new working practices that were introduced, initially in response to the pandemic, have become part of ordinary business practice, such as working from home and hybrid working, offering employees greater flexibility and creating fresh opportunities and challenges for employers. The War for Talent is likely to intensify if the current trend of mass resignations and staff shortages in some sectors continues.

The UK waits to see what changes may occur now that the UK has left the EU and case law developments will continue apace.

Holiday Pay for Part Year Workers

In a landmark case, the UK's Supreme Court ruled that, instead of pro-rating holiday entitlement and pay using a multiplier of 12.07%, employers must give part-year workers on permanent contracts the full 5.6 weeks of paid annual leave per year regardless of the number of weeks they have worked in the leave year and must calculate holiday pay for workers on irregular hours using an average of their ordinary remuneration over a 52-week reference period. This ruling largely affects schools, but all employers who use part-year workers on permanent contracts will also see increased liabilities and potential claims risks.

Employment Bill 2022

The Government intends to introduce an Employment Bill which implemented many of the unimplemented recommendations of the Good Work Plan, including:

- A change to the break in service required to break continuous service from more than one clear week to a month. Continuous service is crucial for accruing some employment rights e.g. the right to claim unfair dismissal and redundancy pay;

- A new, single labour market enforcement agency to protect vulnerable workers and support business compliance;
- Legislation to require employers to pass on all tips and gratuities to workers and to ensure that these were distributed on a fair and transparent basis, supported by a statutory Code of Practice;
- A new right for workers to request a more predictable contract after 26 weeks' service;
- An extension to the period of redundancy protection for pregnant workers from the point when an employee notifies their employer of their pregnancy until 6 months after the end of their maternity leave;
- New rights to neonatal leave and pay and a week's leave for unpaid carers;
- Making flexible working the default position unless an employer has a good reason not to allow it;

The Bill did not make it to the Queen's Speech as had been expected and there is currently no predicted date for when the Employment Bill will be introduced.

UK's withdrawal from the European Union

The Retained EU Law (Revocation and Reform) Bill 2022-2023 was introduced into the House of Commons. It aims to change the expected approach of reviewing and amending retained EU law slowly via legislation or case law deviating from EU rulings, allowing the UK to enact laws that best fit the country and its economy and setting a date of 31 December 2023 for the special legal status of EU law to come to an end. This date is subject to extension until 2026.

Sector Updates

If passed, many EU retained laws could be in scope for change. It is not known what EU retained laws government may seek to revoke or change after this 'sunset date' but there are thousands of EU retained laws potentially in scope and, if the aim is to grow the economy and make it more business friendly, the TUPE Regulations, the Working Time Regulations and the Agency Workers Regulations would appear to be possible candidates. We will keep you updated as developments occur.

Menopause Discrimination?

The government has said that it does not plan to make menopause a specific protected characteristic because their view is that it is already covered by sex, age and disability discrimination. However, a July 2022 report by the House of Commons Women and Equalities Committee has recommended that it become a protected characteristic, so we will watch out for any further developments in this area. Employers may however wish to consider drawing up menopause policies if they do not already have one.

IR35 Reforms Cancelled

IR35 is a tool used by HMRC to ensure that individuals do not disguise employment / work as contracting in order to avoid tax. The Government had planned to reverse controversial reforms, which would have led to less contractors being caught by the regime, but this was reversed following the market reaction to the government's October 2022 mini-budget.

Diversity and Inclusion

Efforts to improve diversity and inclusion are very much on the corporate agenda and are expected to remain so in 2023. The Government had consulted about whether to make ethnicity pay gap reporting compulsory in the same way as gender pay gap reporting is for companies with over 250 employees, but it was decided that this would remain voluntary, at least for the time being. The government plans to issue guidance for employers about this and therefore employers may wish to await this guidance before publishing ethnicity pay gap reports.

In the case of *Forstater v CGD Europe*, the Supreme Court decided that an employer discriminated against an employee by not renewing her fixed term contract because she had expressed her belief that individuals cannot change their biological sex. However, in the case of *Makareth v DWP*, it was decided that there was no discrimination where an employee was dismissed for expressing similar views because he had indicated that he did not intend to use peoples' preferred pronouns, thus showing that he had an intention to discriminate.

Balancing the legal rights between employees' freedom to express opinions that may be offensive with diversity and inclusion is an extremely difficult exercise and we expect cases like this to be a growth area in employment disputes in the coming years.

Employment Tribunal Claims

Tribunal statistics have not been published for some time because the data is being migrated onto a new system. However, it is being reported that the tribunals are experiencing large backlogs of cases, so it does appear that claims are rising and we would expect that trend to continue in 2023.

Statutory Code to regulate fire and rehire practice

The Government plans to publish a new statutory code on 'firing and rehiring'. This is where an employee dismisses staff with a view to offering them re-engagement on less generous terms and conditions. Whilst there is nothing unlawful about this, the government is concerned that unscrupulous employers may not be complying with the legal requirement to consult with affected staff before taking such extreme measures. There is no implementation date for this as yet, but, once implemented, Employment Tribunals will have a discretion to uplift any compensation by 25% in the event of a successful claim.

Corrected material misstatements and reclassifications

Description	Balance sheet		SoFA		Effect on Net Surplus
	Dr	Cr	Dr	Cr	(Dr)/Cr
<u>MAT</u>					
Pension cost			1,744,000		(1,744,000)
Actuarial gain on defined benefit pension scheme				10,947,000	10,947,000
Defined benefit pension scheme liability	9,203,000				
<i>Being the movement on the defined benefit pension scheme</i>					

Other matters

Engagement & Independence

Our engagement objective was the audit of Lee Chapel Multi Academy Trust, and a limited assurance report as Reporting Accountants in accordance with the regularity requirements of the ESFA.

We have implemented policies and procedures to meet the requirements of the Financial Reporting Council's (FRC) Ethical Standards. To this end we considered our independence and objectivity in respect of the audit for the period under review before commencing planning our audit and communicated with you on these matters in our audit scoping report.

No other matters have come to our attention during the audit which we are required to communicate to you.

Qualitative aspects of accounting practices, accounting policies and financial reporting

Based on our audit work performed, we believe that the Strategic Report, Trustees' Report and financial statements for the period under review comply with United Kingdom Accounting Standards and the Companies Act 2006, Charities SORP and Academies Accounts Direction 2022.

During the course of our audit of the financial statements for the period under review, we did not identify any inappropriate accounting policies or practices.

Matters specifically required by other Auditing Standards to be communicated to those charged with governance

Other than as already explained in our Engagement Letter, Audit Scoping Report and this Post-Audit Management Report, there are no other specific matters to communicate as a result of our audit of the financial statements under review.

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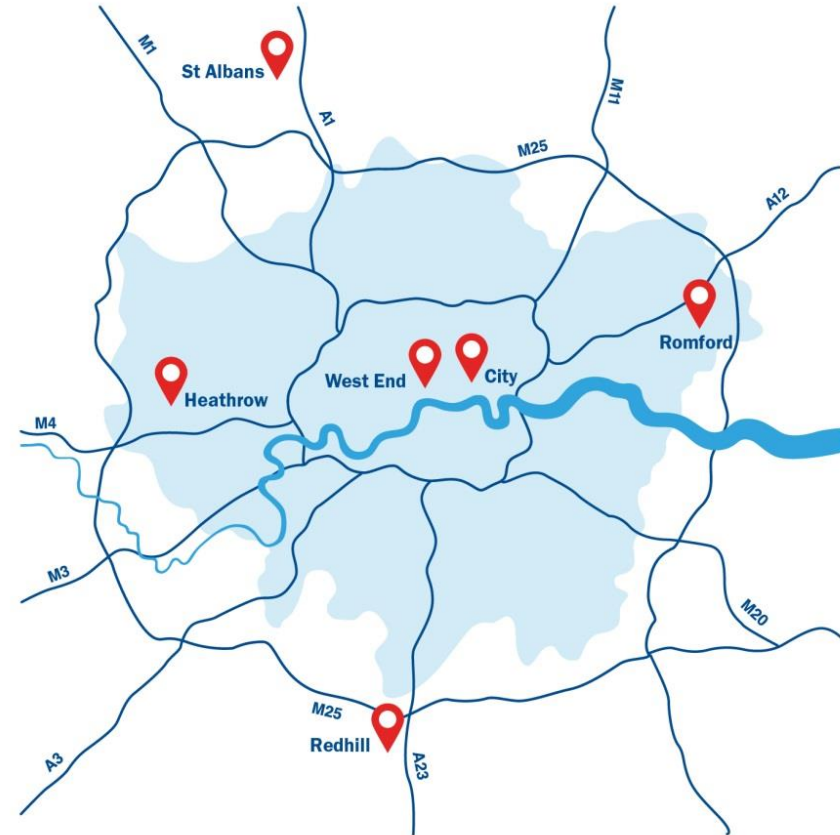
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