

Post Audit Management Report

Kite Academy Trust

Year ended 31 August 2022

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Executive summary

Purpose of the external audit

Our work was performed with a view to expressing an opinion on the financial statements of Kite Academy Trust (the Academy Trust) for the year ended 31 August 2022 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 Paula Brooks (Director of Finance) for comment prior to finalisation.

Audit progress

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 Paula Brooks and Tracy Willing.

Our audit work took longer than anticipated as there were some delays in receipt of information. This is also reflected in the number of adjustments raised and our observations and recommendations in Appendix 1. Without timely information for the audit, there is a risk that material errors are not identified on a timely basis. We note and appreciate the challenges this year, but recommend that adequate time is allocated sufficiently in advance of the audit start by the Finance Team to prepare the statutory accounts and audit pack.

Financial statement and regularity assurance opinions

Financial statements opinion:

We 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 2021 to 2022 and supplementary bulletin (July 2021) issued by the ESFA, and Companies Act requirements.

Regularity assurance conclusion:

We 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 2022 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

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	<p>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. Schools are facing rising costs in particular in key areas including staffing, fuel and construction. The level of cost inflation exceeds the rate at which funding has increased, increasing the challenge for trusts in ensuring financial stability. Based on management accounts the Academy Trust was expected to generate an operational surplus for the year of c£55,000 against a revised budget of c£29,000. However, the cost pressures noted above are already apparent and initial forecasts for the ensuing 2022/23 financial year suggest that preparing a balanced budget may be a challenge although the Academy Trust has sufficient funds and cash reserves to run a break even budget.</p> <p>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 2023) in order to make their assessment of whether it is appropriate to prepare the financial statements on the going concern basis.</p> <p>Results: <i>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.</i></p> <p><i>The budget set for the 2022/23 year has forecasted a deficit for the year of £133,000. The forecast deficit is due to inflation being budgeted between 7% and 9% and energy costs forecasted to double in 22/23 and declining pupil numbers leading to forecasted income decreasing while costs are expected to increase. The Academy Trust, has brought forward free reserves of £1,390,000 and a strong cash</i></p>

Area

Issue and response

position at year end of £2,234,000 and the Academy Trusts' cash flow forecasts to December 2023 is expecting cash to remain above £2,000,000 throughout the year.

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.

Conversion balances

Risk: On 1 March 2021, Folly Hill infant school was transferred into the Trust by the Local Authority

As part of its conversion from a Local Authority maintained school to an academy, certain assets and liabilities previously held by the Local Authority have been transferred to the Trust, including the property used by the School, any budget surplus previously accumulated, and the deficit in the Local Government Pension Scheme. There is a risk that these assets and liabilities inherited on conversion are incomplete or recognised at an inappropriate value.

Results: We have considered the accounting entries and disclosures made in relation to the net assets transferred including substantiating the value attributed to the assets and liabilities acquired made by the Academy Trust post-acquisition. These were found to be appropriate and we have no material concerns in this regard.

A total of £1.6m net assets were acquired on conversion, comprising £1.8m attributable to the property, £76k of revenue reserves and a LGPS pension deficit of £243k. These are reported as income within the current year's Statement of Financial Activities. This has a significant impact on the reported financial results for the year and we have therefore provided information about how the financial results would look without these distorting items in the 'Financial performance and position' section below.

Area	Issue and response
Fund accounting	<p>Risk: Details of any restricted revenue funds as well as capital funds are reported within the notes to the financial statements. There is a risk that any unspent capital funds are not correctly captured within the fixed asset fund or that other restricted funds (e.g. Pupil Premium) are not correctly identified and reported within restricted revenue funds.</p> <p>If these restricted funds are not correctly reported, there is a risk that the Academy Trust’s free reserves are therefore also not correctly reported and as a result the trustees could make decisions based on incorrect information about available funds.</p> <p>There is also a requirement for multi-academy trusts to disclose the level of reserves maintained at each constituent school within their financial statements unless reserves are formally pooled. There is a risk that this may be done inaccurately owing to inconsistent record keeping and therefore the balances of each school does not agree to the balances that the management teams at the individual schools are working with. Additionally, any reserves in deficit require a narrative disclosure in the notes to the financial statements to explain how the deficit will be addressed.</p> <p>Results: <i>The Academy Trust had £847k of unspent capital funds as at 31 August 2022 and therefore the amount held within the fixed asset fund is greater than the net book value of tangible fixed assets by this amount.</i></p> <p><i>Restricted revenue funds including ESFA GAG funding are shown within the notes to the financial statements. As part of the responses to our regularity questionnaire, the Academy Trust has detailed how the use of restricted funds has been monitored.</i></p> <p><i>We have reviewed the unspent restricted funds detailed within the financial statements and confirmed that amounts are consistent with the underlying financial records of the Academy Trust.</i></p>
Accounting software	<p>Risk: We note that the Academy Trust switched its accounting software package from PSF to Access at the start of the financial year. There is a risk of inaccurate transfers of account balances / migration of data from the old system to the new system. In addition, the nominal coding structure may be different between the two software packages and therefore there is a risk that transactions and balances may be misclassified in the financial statements.</p> <p>Results: <i>Review of the opening trial balance showed that all balances, with exception of school fund bank accounts, had been accurately transferred to the new accounts package, Access. Our work, particularly on income and expenditure did not reveal any concerns over the consistency of classification of income and expenditure with the prior year. Our observations of the transfer of school fund bank accounts are included in Appendix 2.</i></p>

Area	Issue and response
Aggregation risk	<p>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.</p> <p>Results: We have reviewed the accuracy of the consolidation workings including the reconciliation of intra-Academy Trust and inter-group balances, ensuring transactions between individual schools, the central office are eliminated, and the appropriateness of other year end consolidation journals. No material concerns were noted.</p>
Income recognition	<p>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.</p> <p>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. No significant issues arose during our audit testing and sample based checks including on our work on ESFA and non-ESFA income.</p>

Area	Issue and response
Regularity	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>Results: <i>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.</i></p> <p><i>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.</i></p>
Related party transactions	<p>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.</p> <p>Results: <i>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.</i></p>

Area	Issue and response
Management override of controls	<p>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.</p> <p>Results: <i>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.</i></p>
Accounting estimates	<p>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), the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme, and the value recognised for assets and liabilities on the transfer of Folly Hill.</p> <p>Results: <i>We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated at the approved rate.</i></p> <p><i>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 3.0% reflects the recent increase in inflation during the period to 31 August 2022.</i></p> <p><i>The Academy Trust received external valuations to support the land and buildings and pension deficit on transfer and our review of the valuations did not identify any concerns.</i></p>

Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2021 to 2022 (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 2021/22 revision of the Accounts Direction.

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.

Revised auditing standards 2022/23

The audit work we perform must comply with all relevant International Standards on Auditing (UK) ('ISAs') which are set by the UK's Financial Reporting Council ('FRC'). ISA (UK) 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment*, ('ISA 315') has recently been reviewed and amended by the FRC and the revised version introduces major changes in the approach auditors must follow to risk identification and assessment in all audits. This will be applicable to your audit for the year ending 31 August 2023.

The key impacts on your audit will be as follows:

- We will ask more questions about your own risk assessment process, including how you identify business risks relevant to the preparation of the financial statements, estimate their significance, assess the likelihood of their occurrence, and decide upon actions to manage them and the results thereof.

- We will place more emphasis on the controls relevant to the audit compared to previous years, therefore we will review your internal controls in more detail during the audit. This includes, amongst other things, your controls over significant audit risk areas and controls over journal entries.
- We will look in much greater detail at your IT environment and related controls and, as a result we will need to speak to you about your systems and perform additional tests on these where appropriate.

If and when possible, we shall minimise the impact on you and the audit process of these revised and additional requirements of ISA 315, although it is likely that the revised standard will require extra work for both parties in the future. You can prepare for this by formally documenting your controls around your accounting and process (including the IT elements of the system). These notes will help the audit planning process next year.

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 Paula Brooks. 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 £176,000

Reporting threshold: £11,000

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 1.5% 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.

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	1	<ul style="list-style-type: none"> • Opening reserve balances
B	4	<ul style="list-style-type: none"> • Fixed asset register • Supporting schedules for accruals and prepayments • S106 funds* • Number of operational bank accounts*
C	-	n/a

*Items marked with an asterisk are observations which were also made and reported in our post-audit report to you last year, but which remain unresolved.

Further details in respect of the observations made and our associated recommendations are provided at Appendix 2 to this report.

We are however, pleased to report that the following observations made last year on purchase ledger debit balances and credit card use have been satisfactorily dealt with.

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, transfers of schools from local authority control 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 £264,000 (2021: £182,000 deficit), as reconciled below.

	2022 £'000	2021 £'000
Overall net movement in funds	9,976	(2,055)
Less: net income attributable to the fixed assets fund (note 1)	(2,415)	(332)
Add: Accumulated revenue surpluses and pension deficits inherited (note 2)	158	—
Less: LGPS actuarial gain (note 3)	(8,775)	1,562
Add: LGPS service cost adjustment (note 3)	1,213	773
Add: LGPS interest cost adjustment (note 3)	179	136
Operational surplus for the year excluding fixed asset purchases	336	84
Less: fixed asset purchases from revenue funds (note 4)	(72)	(266)
Operational surplus for the year	264	(182)
Reconciliation of revenue reserves		
Revenue reserves brought forward (note 5)	1,050	1,232
Operational surplus (deficit) for the year (as referred to above)	264	(182)
Add: Revenue reserves transferred into the Trust (note 2)	76	—
Revenue reserves carried forward	1,390	1,050

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. Included is the valuation placed on the Folly Hill land and buildings transferred into Kite.

Note 2: Accumulated surpluses and pension deficits inherited

For the basis of calculating the operational result, these transfers are disregarded because they relate to one off transfers of reserves to the Trust and are not part of the day-to-day operational activity. Included is the budget surplus inherited from Folly Hill and its LGPS pension deficit.

Note 3: LGPS (Local Government Pension Scheme) adjustments

The Academy Trust is one of several employing bodies included within the Surrey and Hampshire Pension Funds. The schemes’ actuaries, Hymans Robertson and Aon, have prepared a valuation of the assets and liabilities which are specific to Kite Academy Trust 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 2021 have 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 and restricted general 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 2020, 2021 and 2022 and also against the sector averages for 2020 and 2021.

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 Academy Trust compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.

Other information

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 2022.

- 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 or Stephen.

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 2021/22 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 have not been able to complete the work for Wyke School as the information requested for the TPS audit has not been provided to us yet. All other TPS returns were completed and filed by the 30 September 2022 deadline.

We recommend the Wyke return is prioritised as soon as possible.

- **ESFA Accounts Return assurance**

Our work on the Accounts Return assurance will begin in January 2023. 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 19 January 2023 deadline.

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.



Buzzacott LLP

Date: 14 December 2022

Appendix 1: Audit adjustments

Audit adjustments

	Description	Statement of financial activities		Balance sheet	
		Debits (£'000s)	Credits (£'000s)	Debits (£'000s)	Credits (£'000s)
1	DR Actuarial gain CR Income on conversion <i>Being the recognition of Folly Hill's LGPS liability as income</i>	234	234		
2	DR Debtors CR Income on conversion <i>Being the recognition of revenue funds owed by the LA in respect of Folly Hill conversion</i>		76	76	
3	DR LGPS Interest cost DR LGPS Current Service cost DR LGPS liability inherited on conversion CR LGPS Actuarial gain DR LGPS Pension liability <i>Being the posting of the LGPS pension movements</i>	179 1,213 234	8,775	7,149	
4	DR Other ESFA/DfE grants CR ESFA/DfE covid related grants <i>Being the reclassification of covid related grants</i>	109	109		

	Description	Statement of financial activities		Balance sheet	
		Debits (£'000s)	Credits (£'000s)	Debits (£'000s)	Credits (£'000s)
5	DR Prepayments CR Trade Creditors <i>Being the removal of prepayments from trade creditors</i>			162	162
6	DR Accrued income CR Accruals <i>Being the removal of accrued income from accruals</i>			168	168
7	DR Income CR Funds <i>Being the reversal of income incorrectly recognised in the prior year and incorrectly written off through funds</i>	88			88
8	DR Bank CR Funds <i>Being the recognition of school fund bank accounts which had not been recognised on transfer to the new accounting system</i>			102	102

The above adjustments increased the Academy Trust's overall reserve balances by £7.15m.

Appendix 2: Audit observations and recommendations

Observation and Implication	Recommendation	Management comment
<p>A Opening balances</p> <p>During our testing we noted that the opening funds of the Trust did not agree to the closing funds per the 2021 Financial statements by £105,000. This was due to the school fund bank accounts not being posted into the new accounting system correctly. Additionally, we noted that the Fixed asset funds and revenue funds do not agree individually to the signed financial statements.</p> <p>During our investigation it was noted that part of the differences were due to income and expenditure items being posted to directly to fund nominal codes. The only postings which should be made to funds in the year is to post a transfer from fund to fund, for example capital expenditure from revenue funds. All other postings should be made against income and expenditure codes and the closing funds on the trial balance should match the opening funds in total.</p>	<p>We recommend that upon closing of the financial year on the accounting system the opening balances brought forward in the next financial year are reconciled to the financial statements to ensure all adjustments and journals posted during the audit process are reflected in the</p> <p>We recommend postings are not made directly to fund nominal codes.</p>	<p>Person responsible: Director of Finance</p> <p>Relates to the change in finance system and delayed entry of school fund account balances. As school fund accounts are closing this year the balances will move to the main account.</p> <p>These relate to final school fund balances which have been moved to the correct nominal codes and the closure of school fund accounts will no longer generate this issue.</p> <p>Date for implementation: 31/01/2023:</p>
<p>B Fixed assets register</p> <p>We noted that the while the Academy Trust has a fixed asset register, this did not reconcile to the balances in the accounts by c£0.5m (accounts being higher than the register)</p> <p>The register should reconcile to the statutory financial statements which enables the organisation to monitor and control the assets held.</p>	<p>We recommend that the Fixed asset register is reviewed and the assets held per the register is reconciled to the Nominal Ledger with the register being updated for the differences identified. Additionally, the Fixed asset register should be reconciled periodically and at year end to ensure the balances in the accounts agree to the underlying register.</p>	<p>Person responsible: Director of Finance</p> <p>A recognised problem which has been mitigated from the purchase of a fixed asset module to run alongside Access Finance bringing in further automation of processes. The implantation date from Access is 23/01/23</p> <p>Date for implementation: 23/01/23</p>

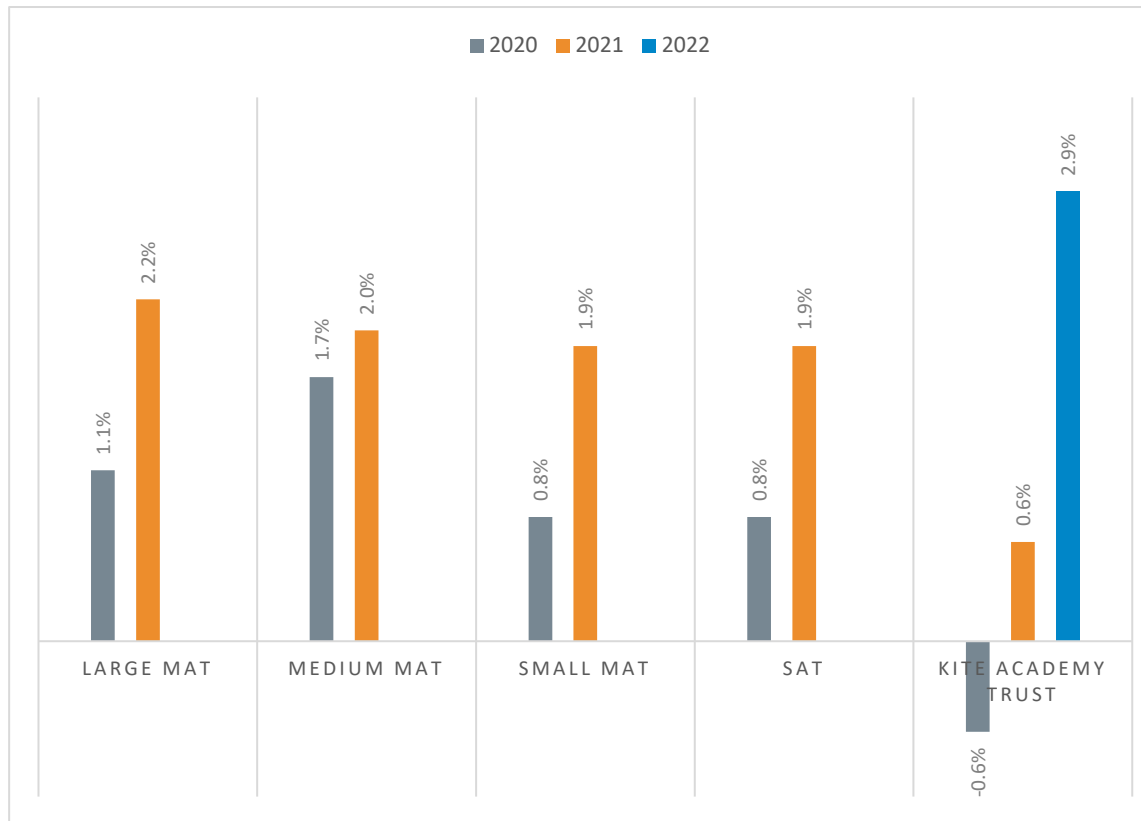
Observation and Implication	Recommendation	Management comment
<p>B Supporting schedules</p> <p>During our testing of accruals, deferred income and prepayments, it was noted that the balance per the accounts did not agree to the underlying listings and schedules.</p> <p>On further investigation, this appears to have been due to these balances being posted to incorrect nominal codes, for example prepayments were posted to trade creditors.</p> <p>During our testing it was noted that Kite Central had trade debtors totalling £87,925, however this balance did not appear on the aged debtors listing. In addition, 4 schools had trade creditors per the Nominal ledger however these balances were not reflected in their respective aged creditor listings.</p>	<p>We recommend that the year-end journals are reviewed and posted accurately to ensure the yearend figures to reflect the supporting schedules.</p> <p>We recommend that debtors listings are reviewed as part of the month end process to identify unusual or unexpected balances.</p>	<p>Person responsible: Director of Finance</p> <p>A change to the DfE chart of accounts has led to an incorrect code being used for the year-end adjustments. Training has since been provided to mitigate going forward</p> <p>Date for implementation: Already actioned</p>
<p>B Section 106 funds</p> <p>As noted in our post audit report for 2020/21, having reviewed the section 106 agreement dated 12 October 2018 relating to a residential property development on land at Waters Edge we observed that the agreement required the funds to be placed on an interest bearing account on receipt and until fully spent.</p> <p>The Academy Trust retained the funds in its day to day operational bank account(s) during 2021/22 rather than separating the money by opening a new bank account.</p>	<p>We recommend that the S106 funds is placed on a separate interest bearing bank account.</p>	<p>Person responsible: Director of Finance</p> <p>The Trust plans to opening a bank account in early 2023.</p> <p>Date for implementation: 28/02/2023</p>

Observation and Implication	Recommendation	Management comment
<p>B Number of operational bank accounts</p> <p>As noted in our post audit report for 2020/21, the Academy Trust maintains 10 operational bank accounts and a further bank accounts for “funds”. This number appears excessive and may create additional work for the Finance Team as well as expose the Trust to fraud risk.</p>	<p>We recommend that consideration is given to reducing the number of bank accounts being operated.</p>	<p>Person responsible: Director of Finance</p> <p>Work began in 2021/22 to reduce the number of bank accounts with the opening of a central bank account and we are now in the process of closing school fund accounts and have introduced new systems for the schools regarding the income and expenditure that would ordinarily have gone through school fund accounts.</p> <p>Date for implementation 31/08/2023</p>

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



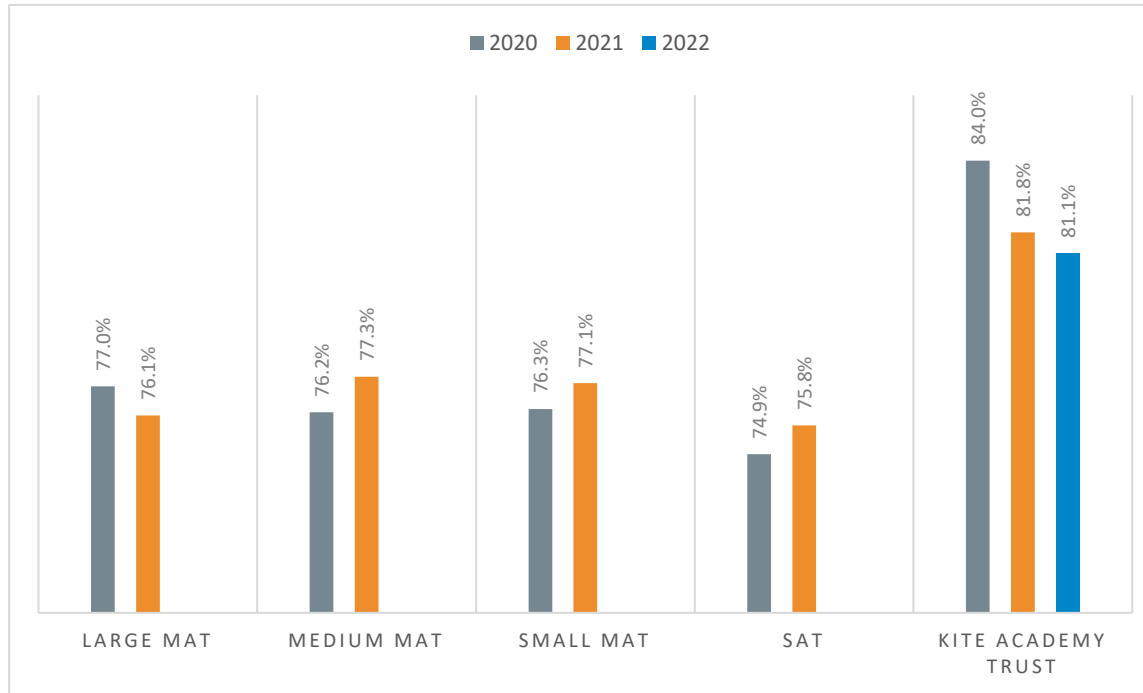
Formula: Surplus (deficit) for the year excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

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.

Although operational margins typically improved between 2020 and 2021, the impact of rising costs relative to funding levels is likely to result in a future squeeze on budgets.

Payroll as a % of operational income



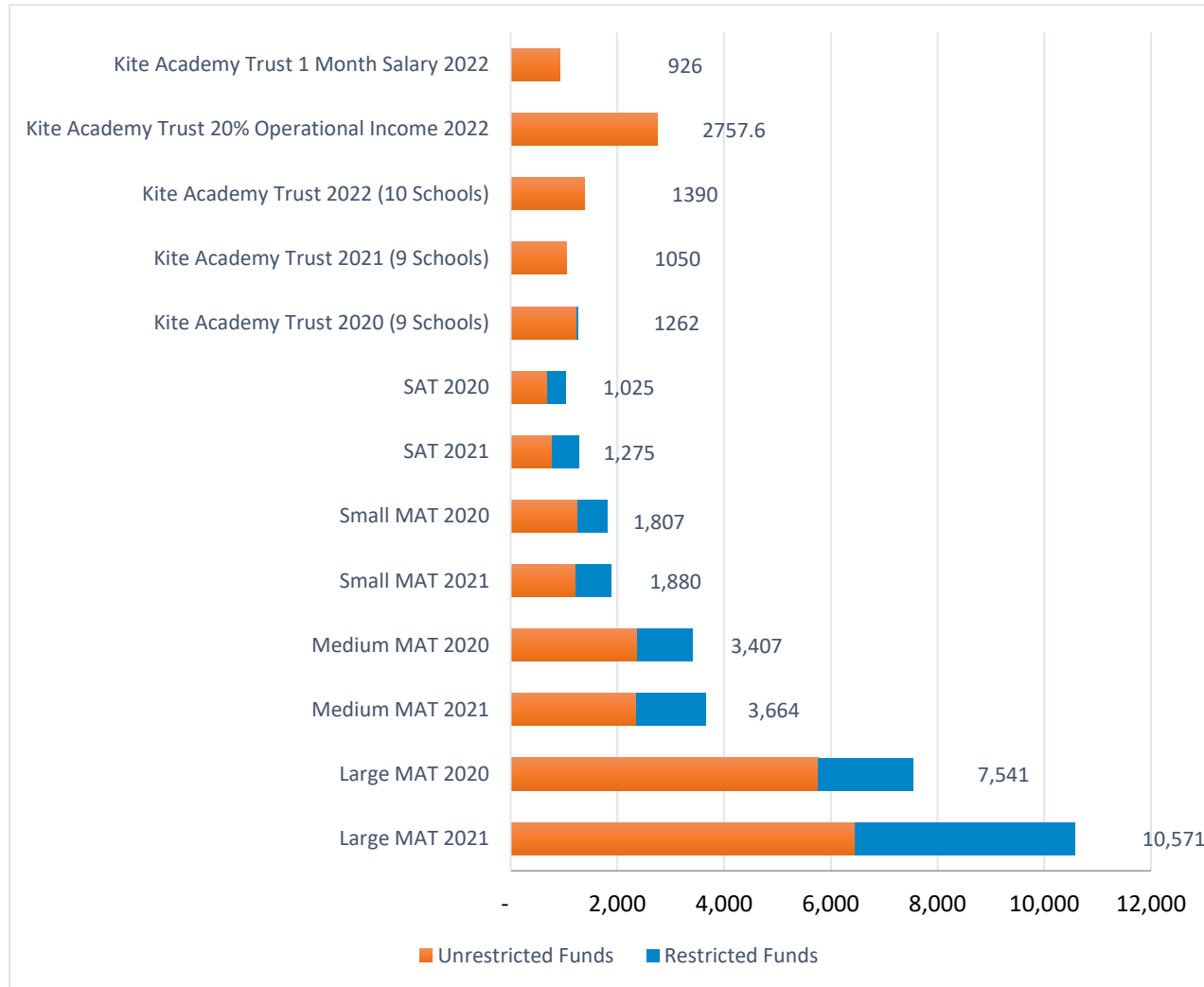
Formula: Total payroll costs (including agency costs but excluding defined benefit pension scheme adjustments and one-off severance payments) ÷ Total income (excluding capital grants, conversion balances, sponsorship and start up grants)

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 65% - 80% of both total costs and total income. As an average, across most Academy Trusts we have seen an increase in payroll costs. Despite SATs, Small MATs and Medium MATs seeing increased staff costs, cost reductions on average in other areas in 2021 meant that operational margins still reduced (as seen on the previous page).

Using the data for 2020/21, we also considered the overall payroll ratio by banding, which demonstrates a continued overall trend towards a higher payroll ratio.

Payroll banding	% Trusts 2021	% Trusts 2020
< 70%	10.0	10.6
70 – 75%	21.9	25.7
75 – 80%	41.2	41.6
80 - 85%	23.5	18.6
> 85%	3.4	3.5

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 school basis will typically be lower. In 2021 a “Large MAT” held on average around £200,000 of revenue reserves per school compared to £700,000 for a “Small MAT”.

LGPS liability as a percentage of GAG income

As for all academy trusts Kite's 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 Academy 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 Academy Trust's 2021/22 LGPS retirement benefit assumptions against those of other educational organisations.

Assumptions	Sector Average	Kite
	%	%
Price increases	3.0	3.0
Salary increases	3.8	3.9
Pension increases	3.0	3.0
Discount rate	4.2	4.2
Decrease in LGPS liability from 01/09/21 to 31/08/22	82.0	70.3
Value of LGPS liability at 31 August 2022 (£000s)	N/A	3.019m
LGPS liability as a percentage of GAG income	9.4	28.4

Appendix 4: Sector developments

Policy and compliance

Schools Bill

Introduced to Parliament in May 2022, the Schools Bill provides the legislation required to enable the Government to put into action proposed policy changes included within the Schools White Paper.

[Schools Bill \[HL\] - Parliamentary Bills - UK Parliament](#)

Although still under consultation, the draft bill includes measures in areas including:

- Support for children falling behind in English or maths, and the ambition that by 2030, 90% of children will leave primary school at the expected standard in reading, writing and maths;
- Imposing stronger measures against those suspected of criminal activity within the education sector, in particular against individuals who refuse to provide information or assistance to Ofsted inspectors;
- A requirement for local authorities to maintain a register of children not in school;
- New statutory academy standards to help make sure trusts command public confidence;
- Introducing a clear and consistent approach to dealing with failures in academy trusts.

Schools White Paper

The Schools White Paper, “Opportunity for all: strong schools with great teachers for your child” was published in March 2022. The Department for Education is consulting a range of views on the proposals outlined within the paper.

[Opportunity for all: strong schools with great teachers for your child - GOV.UK \(www.gov.uk\)](#)

Each chapter of the paper explores a key element of the paper:

- Chapter 1 An excellent teacher for every child: The intention to deliver half a million teacher training and professional development opportunities across ITT, Early Career framework and National Professional Qualifications by 2024 and consideration of how the right applicants and employees can be attracted and retained within the profession.
- Chapter 2 Delivering high standards of curriculum, behaviour and attendance: Establishing new bodies, and working more closely with existing bodies including Ofsted to ensure best practice is shared and revising behaviour, suspension and permanent exclusion guidance.
- Chapter 3 Targeted support for every child who needs it: Providing tutoring courses and intending to cement tuition as a permanent feature in the school system and equipping schools with the resources needed to routinely identify children who need support, including those with SEND.

- Chapter 4 A stronger and fairer school system: A focus on the strengthening and growth of Multi-Academy Trusts, with new powers to enable the Secretary of State to bring a local authority maintained schools in to the academy system where a local authority has requested this as part of their local strategic plan and an expectation that most trusts will be on a trajectory to serve a minimum of 7,500 pupils or run at least 10 schools.

Elements of proposed policy, designed to support these proposals will be consulted on and includes:

- Changes to the mandatory qualifications required for SEN Coordination;
- A framework to govern children’s movements so that school placements, including alternative provision, are made in the best interests of the child at all times;
- Moving schools that have received two consecutive below ‘good’ judgements from Ofsted into stronger trusts;
- Providing for circumstances in which good schools could request that the regulator allow them to move to a stronger trust;
- Powers for local authorities to direct academy trusts, and for local authority maintained specialist providers to move in to trusts, based on individual and local circumstances.

Academy Trust Handbook

In August 2022, the ESFA issued the Academy Trust Handbook 2022 (ATH 2022).

[Academy Trust Handbook - Guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/academy-trust-handbook-2022)

All academy trusts must comply with the handbook as part of the conditions of their funding agreements. ATH 2022 applies from 1 September 2022 and includes only minimal updates from the previous iteration of the ATH, these being:

Financial Reporting

The Handbook confirms withdrawal of the Budget Forecast Return Outturn (paragraph 2.15).

There will now only be a single budget forecast return (BFR). Academy trusts are no longer required to submit a separate budget forecast return outturn. The outturn information is now permanently included within the budget forecast return.

Special Payments

Clarification is included to state that prior approval of staff severance payments in line with HM Treasury’s Guidance on Public Sector Exit Payments only applies to special i.e. non-statutory or non-contractual payments. (paragraph 5.12).

Academy trusts must obtain prior 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; and/or
- the employee earns over £150,000.

Indemnities

The Handbook confirms that trusts are able to enter into indemnities under the normal course of business without seeking approval. (paragraph 5.19)

The ESFA has also published additional guidance with respect to handling contractual indemnities, which includes examples of typical contracts which may contain such indemnities, at the following location: Handling contractual indemnities - GOV.UK (www.gov.uk)

Religious Character

The scope within paragraph 5.57 which details specific services which may be provided to an academy by their religious authority while being considered to meet the “at cost” requirement has been broadened to include all religious authorities, where previously it referred to dioceses.

Employment law: Term time employees and holiday pay

The conclusion of the Harpur Trust v Brazel case deemed “the Percentage Method” for calculating holiday pay to zero-hour workers no longer appropriate and confirming that an averaging method should be adopted.

Academy trusts should review their employment practices to ensure that holiday pay provided to employees is consistent with the relevant legislation.

Further details are available at: [Harpur Trust v Brazel | Potential implications on 2022 financial statements \(buzzacott.co.uk\)](#)

New Local Government Pension Scheme Valuation

The latest Local Government Pension Scheme (LGPS) valuation was on 31 March 2022, with the outcome including revised employer contribution rates coming into effect from 31 March 2023.

The results of the LGPS triennial valuations are expected in Autumn 2022. Participating organisations can prepare for the results by ensuring Board and Finance Committees are aware that LGPS contributions could change from April 2023 as well as checking whether there have been any changes in circumstances that could mean increased contributions.

The valuation does not impact the pension liability reported in the 2021/22 financial statements for academy trusts.

Reporting

Budget Forecast Return

This year the ESFA requested additional information for any academy trust with reserves equivalent to more than 20% of their income. The calculation is a ratio of line reserves in comparison to operational income. The ESFA will utilise this information to assess the impact of financial pressures on schools at local level.

<https://www.gov.uk/government/publications/academies-budget-forecast-return-guide-to-using-the-online-form/academies-budget-forecast-guidance-for-completing-the-online-form>

If a trust has a ratio of 20% or more, they were asked some follow up questions. Trusts were required to provide more details about the minimum amount they want to keep in reserves along with a narrative. Trusts provided additional details, including the main purposes the trust is holding its reserve balance for from the following list of options:

- 'specific building/estates projects' (site development or maintenance e.g. new classrooms, sports facilities, CIF contributions)
- 'other non-building capital expenditure' (curriculum development, ICT infrastructure)
- 'staff retention and development' (planned training commitments)
- 'strategic development of the trust' (increase in schools, conversions or transfers in)
- 'growth of existing schools in the trust' (increase in pupil numbers/age range changes)
- 'future change/uncertainty' (reduce income due to decreasing pupil numbers or a future in-year deficit)
- 'other' not listed above

Automation processes

The ESFA is continuing to develop automation processes with the intention of assisting academy trusts with their financial reporting.

In addition to ongoing development of enhanced automation within the Budget Forecast Return and Academies Accounts Return

processes, in 2021/22 the ESFA is piloting automation of the trust financial statements.

This is an area in which the ESFA appear to be continuing to invest, however many of the processes require an academy trust to adopt the academies standard chart of accounts. Trusts may wish to consider mapping their chart of the accounts against the standard chart of accounts so that they are well prepared to make a switch if it materialises that the automated processes prove to be more efficient.

[Academies chart of accounts and automating the accounts return - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/111111/academies-chart-of-accounts-automating-the-accounts-return-2021-22.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 2022. The full guidance is available here: [Keeping children safe in education - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/111111/keeping-children-safe-in-education-2022.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:

- The incorporation into the guidance on the DfE's advice with respect to sexual violence and sexual harassment between children in schools and colleges;
- Prompting schools to include an online search, including of social media, on prospective employees as part of the vetting process;
- Stipulating that governing bodies and proprietors should ensure that all governors and trustees receive appropriate safeguarding child-protection training at induction and such training should be regularly updated;
- The inclusion of the safeguarding implications for schools of human rights and equality legislation;
- Providing more information on the management of low-level safeguarding concerns; and
- Reinforcing the need for parents to be aware of the safeguarding risks of allowing children access to the internet without moderation when not at school.

RPA Cyber Cover

In response to member demand, and high-profile breaches in cyber security within the sector, the RPA now includes cover for Cyber Incidents as standard from the 2022/23 membership year.

To make sure schools are covered for Cyber Incidents the DfE has reminded all RPA members that the following four conditions must be met:

- The trust must have offline backups

- All employees or Governors who have access to the trust's information technology system must undertake NCSC Cyber Security Training
- The trust must register with Police CyberAlarm
- The trust must have a Cyber Response Plan in place

More information is available within the RPA Cyber Cover note at [RPA Cyber Cover \(office.com\)](#)

Cyber security breaches in larger charities

The government's Cyber Security Breach Survey has found that 62% of charities with income over £500,000 reported having some form of cyber security attack in the year to March 2022. This increased to 76% for charities with income over £5,000,000. Whilst businesses continued to be targeted more than charities, about a quarter of charities said they faced cybercrime at least once a week in the form of phishing emails. In addition, 9% of charities said a cyber-attack had left them unable to access files temporarily. These findings are from responses from 424 charities and 1,200 business located in the UK. The detailed government report can be read at: <https://www.gov.uk/government/statistics/cyber-security-breaches-survey-2022/cyber-security-breaches-survey-2022>

Financial updates

Environmental capital financing

Phase 3b of the Public Sector Decarbonisation Scheme has been launched, with up to £635m of funding available to public sector organisations to be spent between 1 April 2023 and 31 March 2025.

The scheme provides grants for public sector bodies to fund heat decarbonisation and energy efficiency measures and is designed to help upgrade heating systems to ones often powered by cleaner, cheaper and renewable energy; most typically heat pumps.

To be eligible for the funding, applicants must have a fossil-fuelled heating system which is coming to the end of its useful life and must be able to contribute a minimum of 12% of the total project costs.

Applicants are encouraged to take a 'whole building' approach to decarbonising their heating. This is where all the factors that contribute to a building's energy consumption are considered together to identify the most cost-effective way to achieve the objective. For example, investment in improving the insulation levels of the building fabric will reduce the overall size of the low carbon heating plant required, as well as save on fuel bills. Also, investment in reducing the peak electricity consumption, such as through installation of more energy efficient lighting, can reduce the need to upgrade a building's electrical infrastructure to accommodate the installation of a heat pump

[Phase 3b Public Sector Decarbonisation Scheme | Salix Finance](#)

Energy Bill Relief Scheme

The Government has outlined plans for the new Energy Bill Relief Scheme, which will give early years settings, schools, colleges, and universities a discount on wholesale gas and electricity prices.

This will automatically be applied to bills for energy usage between 1 October 2022 and 31 March 2023, setting the price of electricity to £211 per megawatt hour, and gas to £75 per megawatt hour. These levels are a discount of the expected wholesale prices of energy. Further information on how this discount is applied, as well as

examples of how this impacts customers on variable or fixed rate agreements is available at:

[Energy Bill Relief Scheme: help for businesses and other non-domestic customers - GOV.UK \(www.gov.uk\)](#)

National Funding Formula changes

The Minister of State for School Standards set out the National Funding Formula (NFF) for 2023 to 2024 on 19 July 2022. 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 2.4% and an increase to high needs funding of 6.3%;
- An increase in the minimum per pupil funding level of 0.5%;
- A continued targeting of a greater proportion of schools NFF towards deprived pupils, with 9.8% allocated to target deprived pupils.

From 2023/24, the Schools Supplementary Grant (SSG) will also be rolled into the National Funding Formula and will therefore no longer be administered as a separate grant.

The NFF Policy document for 2023 to 2024 can be downloaded here: [National funding formula for schools and high needs - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/114121/nff-policy-2023-2024.pdf)

Funding formula tables are available here: [National funding formula tables for schools and high needs: 2023 to 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/114121/nff-policy-2023-2024.pdf)

School level allocations can be viewed here: [View national funding formula allocations for schools: 2023 to 2024 \(skillsfunding.service.gov.uk\)](https://skillsfunding.service.gov.uk/nff-2023-2024/)

Finance leases

The Department for Education continues to work with the sector to develop a new approach to leasing approval. This is linked to the implementation of IFRS 16 for central government accounts, which will require the Government to disclose all leases as finance leases in the future.

The proposed changes mean that in the future assets in the following categories will not require separate Secretary of State approval, regardless as to whether they would be considered an operating lease or finance lease from the perspective of the academy trust.

- all existing leases already in place by 1 April 2022 (maintained schools) and 1 September 2022 (academies);
- IT equipment;

- telephony;
- catering equipment;
- furniture;
- bathroom/sanitary equipment;
- gym equipment;
- grounds keeping equipment;
- minibuses and other vehicles for the use of the school; and
- temporary classrooms and equivalent structures

Leases not included on the above list (for example leases of land or buildings) will still need to be submitted for consent. We anticipate that further guidance on this will be released in the course of 2022/23 by the ESFA.